

# Shelter Sector Reform Project Newly Independent States of the Former Soviet Union

An ICMA Report

Prepared for the Office of Housing and Urban Programs  
Agency for International Development



**REPORT ON  
HOUSING FINANCE TRAINING  
FOR KAZAKHSTAN AND KYRGYZSTAN**

May, 1995

Prepared for U.S. Agency for International Development  
Bureau for Europe and the Newly Independent States  
Office of Environment, Energy and Urban Development  
Urban Development and Housing Division

By

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INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION  
USAID Contract No. CCS-0008-C-00-2056-00  
Project No: 110-0008  
Task Order No. 60  
Shelter Sector Reform Project for  
the Newly Independent States of the Former Soviet Union

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## **ABSTRACT**

Bankers and government authorities in Kazakhstan and Kyrgyzstan require professional training in real estate finance to enable them to properly manage this emerging segment of the financial market. ICMA, in conjunction with the Kazakhstan International Institute of Banking (KIIB), a USAID sponsored banker training institute located in Almaty, Kazakhstan, has developed a specialized housing finance training program - the Advanced Professional Training Program in Real Estate Finance and Investment - which offers a series of five seminars in the various aspects of real estate finance. The courses are designed to provide finance professionals, educators and government officials with the analytical and problem-solving skills needed to manage and direct real estate finance activities. The first course in the Principles of Real Estate Finance and Investment was taught during the week of April 17 - 21, 1995 and the second course in the series, Construction Financing, was taught during the week of May 22 - 26, 1995. The other three seminars will be offered in July, September and October, 1995. Participants also will submit theses on specific projects, problems or issues relevant to their professional positions and responsibilities. People who complete the course and thesis requirements will receive a certificate in real estate finance. ICMA also is evaluating the potential for assisting individual banks in developing in-house training capabilities in housing finance and technical and professional institutes in designing a curriculum in real estate and real estate finance.

This report evaluates the status of the various ICMA housing finance training initiatives. The Advanced Professional Training Program has been well received in Kazakhstan and Kyrgyzstan. Eighteen people were registered for the principles course and fifteen for the construction lending course. Most of the participants have enrolled in the entire five seminar program. The participants consisted of senior officials from banks and government and educators from a professional institute in Almaty. The majority of the participants were from Kazakhstan, but there was a good representation from Kyrgyzstan. The participants were quite knowledgeable and sophisticated and demonstrated a serious commitment to improving their expertise in the principles and practices of real estate finance. They expressed a need for practical applications of western real estate finance principles to the economic, legal and institutional circumstances in their countries.

The report makes several recommendations to address housing finance training needs in Kazakhstan and Kyrgyzstan and to improve the administrative aspects of the training program. The potential for housing finance training for Kyrgyzstan and the prospects for developing housing training capabilities at KIIB, the Kazakh State Architecture-Construction Academy and within individual banks also is discussed.

## **EXECUTIVE SUMMARY**

ICMA evaluated the various housing finance training programs available in Russia, the U.S. and other countries and determined that the best approach to follow in Kazakhstan and Kyrgyzstan was to develop a comprehensive and coordinated housing finance training program for housing finance professionals, policy-makers and educators. In January, 1995, survey questionnaires soliciting expressions of interest in the training program were sent to a cross section of Kazakhstani and Kyrgyzstani institutions involved in real estate finance. ICMA received a positive response to the program from survey respondents which indicated that 20 to 25 people would enroll in the entire program or at least one of the course offerings.

Based on the positive response to the survey and discussions with bankers, ICMA implemented the training program, called the Advanced Professional Training Program in Real Estate Finance and Investment. The program consists of five courses: the principles of real estate finance, construction financing, mortgage lending, real estate lending, managing a real estate loan portfolio and risk management, offered over a period of seven months.

One of the goals of USAID-sponsored training programs is to "train trainers" so that local institutions can continue to offer training after USAID technical assistance and training programs have ended. ICMA-Kazakhstan negotiated a cooperative arrangement to offer the housing finance training program through the Kazakhstan International Institute of Banking (KIIB). KIIB is a banker training institute being organized with USAID assistance through the KPMG Peat Marwick/Barent's group. KIIB offers a full range of courses in bank management at KIMEP, the most prestigious business school in Kazakhstan. KIIB also has begun to offer banker training classes in Kyrgyzstan. It was agreed that ICMA would prepare extensive course materials in the format used in the banker training courses so that KIIB could include at least some of real estate finance courses in its regular banking curriculum.

There appear to be good prospects for developing local capability to offer real estate finance training through the Kazakhstan International Institute of Banking (KIIB) or the Kazakh State Architecture-Construction Academy (KazGASA). It would be advisable for ICMA-Kyrgyzstan to identify a similar institute in Bishkek through which housing finance training could be offered. There also appears to be potential for developing in-house training programs at the banks which have sent representatives to the seminars. These include Zhilstroibank, Turan Bank and Kazcommertzbank in Kazakhstan and Kurulusbank and KyrgyzPromStroiBank in Kyrgyzstan. Consultant recommends that ICMA prepare a manual

with specific instructions, forms and procedures for managing a housing finance training program and instructors' manuals for each of the courses offered to assist the local institutes and individual banks in implementing their own housing finance training programs.

The Advanced Professional Training Program in Real Estate Finance and Investment currently being offered by ICMA appears to be making a valuable contribution to improving the knowledge and expertise of the participants from Kazakhstan and Kyrgyzstan. The first two courses have been well received. The participants have found the written materials prepared for the courses of particular value.

The participants displayed high levels of expertise and sophistication in real estate issues and commitment to the training program. All of the participants intend to incorporate the principles and practices learned during the training program to their individual areas of responsibility. The courses included in the Advanced Professional Training Program address the major areas of concern for the participants. The value of the courses will be enhanced if the principal focus is on the application of financial and managerial principles to practical situations relevant to local conditions. The use of computer applications or calculations using the financial calculators provided is of particular value since financial analytics are comparatively new to the participants.

## I. HOUSING FINANCE TRAINING FOR KAZAKHSTAN AND KYRGYZSTAN

### A. BACKGROUND

Real estate finance and investment will play a central role in the development of modern financial markets in Kazakhstan and Kyrgyzstan. Bankers, investors and real estate developers need knowledge and expertise to profit from the opportunities available in this emerging segment of the capital market. Government authorities, central bankers and regulators must have an understanding of the special issues of real estate finance and investment to formulate sound housing finance policies and regulations. Representatives from financial institutions and government expressed their need for training in housing finance in order to develop a market-based housing finance system. Their greatest interest was in the practical application of Western principles of financial analysis and management in the context of the legal, economic and institutional conditions in Kazakhstan and Kyrgyzstan.

ICMA evaluated the various housing finance training programs available in Russia, the U.S. and other countries and determined that the best approach to follow in Kazakhstan and Kyrgyzstan was to develop a comprehensive and coordinated housing finance training program for housing finance professionals, policy-makers and educators. In October 1994, ICMA sponsored eight Kazakhstanis to attend the Mortgage Lending course in St. Petersburg offered by the Russian Mortgage Bankers Association in conjunction with USAID consultants The Urban Institute and Fannie Mae. The participants in this training program reported that while they found the program valuable, particularly interaction with their Russian counterparts, they believed that a similar training program should be developed specifically for Kazakhstan.

In late 1994 and early 1995, ICMA responded to this request by developing a coordinated program of courses in housing finance designed for housing finance professionals. The program was expanded to include participants from Kyrgyzstan when ICMA opened its resident office in that country. Survey questionnaires soliciting expressions of interest in the training program (See Annex A) were sent to a cross section of Kazakhstani and Kyrgyzstani institutions involved in real estate finance. ICMA received a positive response to the program from survey respondents which indicated that 20 to 25 people would enroll in the entire program or at least one of the course offerings.

Based on the positive response to the survey and discussions with bankers, ICMA implemented the training program called the Advanced Professional Training Program in Real Estate Finance and Investment. The program consists of five courses: the principles of real estate finance, construction financing, mortgage lending, real estate lending, managing a real estate loan portfolio and risk management, offered over a period of seven months.

One of the goals of USAID-sponsored training programs is to "train trainers" so that local institutions can continue to offer training after USAID technical assistance and training programs have ended. ICMA-Kazakhstan negotiated a cooperative arrangement to offer the housing finance training program through the Kazakhstan International Institute of Banking (KIIB). KIIB is a banker training institute being organized with USAID assistance through the KPMG Peat Marwick/Barent's group. KIIB offers a full range of courses in bank management at KIMEP, the most prestigious business school in Kazakhstan. KIIB also has begun to offer banker training classes in Kyrgyzstan. It was agreed that ICMA would prepare extensive course materials in the format used in the banker training courses so that KIIB could include at least some of real estate finance courses in its regular banking curriculum.

## **B. SUMMARY AND CONCLUSIONS**

The Advanced Professional Training Program in Real Estate Finance and Investment currently being offered by ICMA in conjunction with KIIB appears to be making a valuable contribution to improving the knowledge and expertise of the participants from Kazakhstan and Kyrgyzstan. The first two courses have been well received. The participants have found the written materials prepared for the courses of particular value. They have requested, however, that written materials and presentations address the specific economic, financial and legal conditions in Kazakhstan and Kyrgyzstan. In order to meet this need, instructors will have to become familiar with the problems of real estate finance in these two countries through detailed briefing materials provided by ICMA well in advance to enable instructors to prepare course materials relevant to the participants.

The participants displayed high levels of expertise and sophistication in real estate issues and commitment to the training program. All of the participants intend to incorporate the principles and practices learned during the training program to their individual areas of responsibility. The courses included in the Advanced Professional Training Program address the major areas of concern for the participants. The value of the courses will be enhanced if the principal focus is on the application of financial and managerial principles to practical situations relevant to local conditions. The use of computer applications or calculations using the financial calculators provided is of particular value since financial analytics are comparatively new to the participants.

There are some administrative procedures which could be clarified. Consultant recommends that ICMA establish a clear policy regarding payment of registration fees, particularly by government, educational and non-profit institutions, since the cost of the program may have discouraged enrollment to some extent. Consultant also recommends that the registration fees collected be used to purchase and translate texts, documents and other real estate finance materials to be maintained and made available in a central library facility.

ICMA should consider offering a concentrated two-week course in real estate finance in Kyrgyzstan. Course materials taken from the course manuals prepared for the full training program would be utilized. The course should focus on the financial analytics of real estate lending, organization of real estate finance operations, loan underwriting and servicing and loan portfolio management. Kyrgyzstani participants who have completed the full training program could team-teach the course with U.S. instructors. This course could be offered in the fall of 1995 or spring of 1996.

There appear to be good prospects for developing local capability to offer real estate finance training through the Kazakhstan International Institute of Banking (KIIB) or the Kazakh State Architecture-Construction Academy (KazGASA). It would be advisable for ICMA-Kyrgyzstan to identify a similar institute in Bishkek through which housing finance training could be offered. There also appears to be potential for developing in-house training programs at the banks which have sent representatives to the seminars. These include Zhilstroibank, Turan Bank and Kazcommertzbank in Kazakhstan and Kurulushbank and KyrgyzPromStroiBank in Kyrgyzstan. Consultant recommends that ICMA prepare a manual with specific instructions, forms and procedures for managing a housing finance training program and instructors' manuals for each of the courses offered to assist the local institutes and individual banks in implementing their own housing finance training programs.

## **C. ADVANCED PROFESSIONAL TRAINING PROGRAM IN REAL ESTATE FINANCE AND INVESTMENT**

### **1. Objectives of the Training Program**

The Advanced Professional Training Program in Real Estate Finance and Investment was designed to provide people who successfully complete the program with a strong technical foundation and the analytical and problem-solving skills needed to implement strategic decisions and develop real estate finance capabilities within their own institutions. The goal of the training program is to equip private and public sector officials involved in banking and real estate finance and development with the knowledge and expertise needed to effectively manage their institutions and agencies in the emerging financial markets in Kazakhstan and Kyrgyzstan. Unlike some other training programs, the ICMA training program in housing finance would apply western principles and practices to the economic, legal and institutional environment in Kazakhstan and Kyrgyzstan.

## **2. Structure of the Program**

The program consists of a series of five one-week seminars taught over a seven month period beginning in April 1995. Prospective participants were invited to enroll in the entire program or selected classes. The majority of people have registered for the entire series. Participants who have enrolled in the entire program will be required to submit a written thesis on a program or problem directly related to their own institutions and management responsibilities. Theses will be graded by the participant's supervisor and a program instructor. All course materials and the best these will be placed in the KIIB banking library and a similar institute, yet to be determined, in Kyrgyzstan. Graduates who successfully complete the program will be awarded a diploma in real estate finance and investment. A study tour and practicum to the U.S. is being considered for people who successfully complete the course work and thesis requirements.

## **3. Intended Audience**

The Advanced Professional Training Program in Real Estate Finance and Investment was designed for officials and professionals who are:

- Bank officers or employees involved in lending, investment or planning
- Real estate developers, investors or managers of investment funds
- Attorneys and accountants
- Government authorities involved in formulating law, regulation and policy on housing finance, development, privatization of housing, housing subsidies and taxation
- Central bankers responsible for credit policy and programs
- Bank regulators

## **4. Program Curriculum**

The following courses constitute the curriculum for the Advanced Professional Training Program. One course will be taught each month from April through October, 1995, except for the month of August. Courses will be taught by the U.S. experts indicated.

April 17-21, 1995

## PRINCIPLES OF REAL ESTATE FINANCE AND INVESTMENT

*Instructor: Elaine B. Weis, ICMA Consultant*

- Real Estate Finance and the Capital Markets
- The Role of Government and the Central Bank
- Resource Mobilization and Mechanisms
- Real Estate Finance Instruments
- The Mathematics of Real Estate Finance and Investment
- Determining Interest Rates and Cash Flows
- Introduction to Real Estate Appraisal
- Evaluating Credit Risk
- Managing the Real Estate Lending Function

May 22-26, 1995

## CONSTRUCTION LENDING

*Instructor: Marilyn Brody, ICMA Consultant*

- Construction Loan Underwriting and Administration
- Loan Policy
- Underwriting the Borrower and the Project
- Structuring the Loan
- Managing the Construction Loan Function
- Work-outs and Restructuring
- Case Studies for Kazakhstan and Kyrgyzstan

July 3-7 1995

## MORTGAGE LENDING

*Instructor: Thomas J. Healy, Director - Mortgage Banking Strategies and Secondary Market Operations, Meridian Capital Markets Group*

- Organizing the Mortgage Lending Function
- Credit Policy and Loan Approval Procedures
- Marketing Real Estate Loan and Investment Products
- Financial Analysis of Types of Mortgages
- Underwriting the Borrower and the Property
- Managing a Mortgage Loan Portfolio

September TBD, 1995

## MANAGING THE REAL ESTATE LOAN/INVESTMENT PORTFOLIO

*Instructor: TBD*

Operations

- Organization and Management of Real Estate Finance Operations
- Integration with Other Banking Functions
- Accounting, Monitoring and Reporting
- Loan Servicing
- Current Status of Systems and Technology
- Developments in Real Estate Finance Systems
- Loan Underwriting and Servicing Systems
- Budgeting, Planning and Performance Measurement

October TBD, 1995	<b>RISK MANAGEMENT FOR REAL ESTATE LENDERS AND INVESTORS</b> <i>Instructor: Elaine B. Weis, ICMA Consultant</i> - Principles of Risk Management - Types of Risks in Real Estate Lending and Investment - Credit Risk Management - Detecting and Preventing Mortgage Fraud - Essentials of Interest Rate Risk Management - Funding and Liquidity Risk - Asset and Liability Management
October, 1995	Deadline for Thesis Topic Approval
December, 1995	Deadline for Thesis Submission
January, 1996	Awarding of Diplomas

## 5. Registration Fees

ICMA determined that a registration fee of \$250.00 for the entire five-course program and \$60.00 for an individual class would be assessed to screen out people who were not committed to the program. These registration fees were lower than those charged by KIIB for its banker training courses and by the Russian Mortgage Bankers Association (RMBA) for the real estate lending seminars offered in Russia. KIIB and the RMBA charge fees for their training courses because they are trying to raise money to fund their respective organizations.

The registration fee created difficulties for some participants and there is some evidence that the registration fee discouraged enrollment, particularly for prospective participants from government, educational institutions and non-governmental organizations (NGO). In the consultant's experience in managing conferences and seminars, it has been typical to waive or charge a lower registration fee for government, education and NGO attendees. Corporate participants do not object to a lower fee or a fee waiver for government, education and NGO participants. Consultant believes it is more important to provide the training to the people who need it than to enforce an arbitrary registration fee. Consultant recommends that ICMA adopt a policy that the registration fee be waived or reduced to \$25 per course if payment of the fee will prevent a government, education or NGO official from registering for a class and that a lower registration fee be set. ICMA also should consider lowering or eliminating the registration fee if the program is offered again.

Consultant estimates that ICMA will generate over \$3,000 in registration fees for the Advanced Professional Training Program. It is recommended that ICMA use the registration fees to purchase and translate texts, professional materials, training films and software on real estate finance and investment for the KIIB library in Kazakhstan and for a similar institute in Kyrgyzstan and that the use of the registration fees be stated in all promotional materials used for the training program. Participants expressed a strong interest in obtaining model real estate loan and investment policies, procedures and documents and requested that ICMA maintain a library of such materials, either at the ICMA offices in Kazakhstan and Kyrgyzstan or at KIIB and similar institutes.

## **6. Program Management and Administration**

a. Administrative Matters: Course enrollment may have been lower than expected because about the payment of registration fees, travel arrangements for participants from outside Almaty and Kyrgyzstan and other administrative matters. Consultant recommends that ICMA prepare a manual with specific instructions, forms and procedures for managing a training program. Such a manual would be particularly useful to the local institutes which will assume responsibility for real estate finance training in the future.

b. Translation and Interpretation: Where possible, materials translated into Russian for other training programs should be utilized to reduce the expense and time required for course preparation. The difficulty in having U.S. materials translated is that most professional translators have little, if any, knowledge of the subject matter and few people with knowledge of the subject matter are skilled in written translation. ICMA should arrange for a qualified translator to translate all of the training materials prepared so that there will be consistency of translation.

The practice of preparing written materials so that the English material and Russian translation are on facing pages should be continued. Having the English handy enables those participants who have a working knowledge of English to read both the English and the Russian translation. ICMA also should give consideration to having a comprehensive glossary of housing finance terminology prepared. This glossary would be beneficial to course participants as well as translators and interpreters and would help to assure consistency of translation.

c. Clarification of Relationship with KIIB: ICMA's objective is to be able to turn real estate finance training over to a Kazakhstani institution. Therefore, ICMA has coordinated the real estate finance training program with KPMG Peat Marwick/Barent's, the USAID contractor responsible for banker training in Kazakhstan and Kyrgyzstan. KPMG Peat Marwick/Barent's is organizing the Kazakhstan International Institute of Banking (KIIB) as a banker training institute. As of April, 1995, KIIB did not have its own management. There

was no local director and the KPMG/Barent's consultant was managing the program. However, by summer, 1995, KIIB is expected to have local management. When the new KIIB director is installed, the cooperative arrangement between ICMA-Kazakhstan, KIIB and KPMG Peat Marwick/Barent's should be clarified.

#### **D. EVALUATION OF THE PRINCIPLES OF REAL ESTATE FINANCE AND INVESTMENT COURSE**

The consultant taught the first course in the Advanced Professional Training Program - Principles of Real Estate Finance and Investment - during the week of April 17 to 21, 1995. Eighteen representatives of banks, government and educational institutions were enrolled in the course. Thirteen participants were from Kazakhstan and five from Kyrgyzstan.

##### **1. Characteristics of Course Participants**

The names, titles, affiliations and characteristics of the participants are provided in Annex B. The participants were senior level officers and managers from their respective organizations. Eleven of the participants were from banks, 5 from a university or institute and two from a ministry (Minstroy). Nine participants were involved in lending, finance and planning, one was an appraiser, one a lawyer and the balance were educators or researchers. The subjects taught by the educators were the economy of construction, financing and construction management. On average, the participants had more than ten years of experience in their professional fields.

##### **2. Practical Applications of Western Housing Finance Principles**

Course participants were quite sophisticated and knowledgeable. They were very interested in receiving written policies, procedures and documents on different lending and investment programs. They expressed a need for practical information about programs which would be relevant to the situation in Kazakhstan and Kyrgyzstan. They found U.S. and other western examples of limited use unless the potential applicability in their countries was explained. The following comments from the course evaluations reflect the need for practical, specific applications within the context of the economic, financial and institutional environment in Kazakhstan and Kyrgyzstan:

*"There should be concrete examples applied to our economic standard."*

*"We should pay more attention to the practical application in our country."*

*"There should be more practical studies and discussions of problems."*

### **3. Course Evaluation**

The principles course was well received. The course evaluation questionnaire used by KIIB was given to the participants. Thirteen course evaluation forms were returned. A copy of the course evaluation form and the average scores on each of the measures are included in Annex B. The only general complaint was about the quality of the meals provided at KIMEP.

### **4. Participant Papers**

Consultant did not administer an examination as part of the Principles course. Instead she requested that each participant prepare a two to five page paper applying one of the principles discussed during the course to a practical issue or problem related to the person's job. English translations of the twelve participant papers submitted prior to the consultant's departure from Kazakhstan are included as Annex C.

The papers demonstrated the participants' understanding of the issues involved in creating a housing finance system under the current adverse economic and financial conditions in Kazakhstan and Kyrgyzstan. Despite the difficulties they face, the participants believe that it is important to lay the foundation for a mortgage market today rather than waiting until conditions improve. The participants from banks also indicated that their institutions were broadening the range of financial services offered to include consumer financial services and that residential construction and mortgage lending were being considered as line of business which their institutions would offer their customers.

## **E. LESSONS LEARNED**

The experience with the participants in the Principles of Real Estate Finance and Investment course has shown that the level of knowledge, expertise and sophistication was higher than expected. Instructors who prepare the balance of the courses offered in the Advanced Professional Training Program should gear their materials and presentations towards professionals who already understand the fundamentals of real estate and banking markets. Each course should include a segment on financial analysis, with actual problems which the participants can compute, since this is an area where the participants do need more exposure and experience in order to apply the analytical principles introduced.

The participants will use the written materials provided to develop the management and operating documents needed to establish their own real estate finance operations. It would be particularly useful if the documents used in countries with high inflation and economic instability could be provided.

#### **F. OFFERING SELECTED TRAINING COURSES IN KYRGYZSTAN**

There may be sufficient demand in Kyrgyzstan to offer one or more housing finance courses in Bishkek. Consultant discussed this prospect with the Kyrgyzstani participants and they indicated that there would be a high level of interest in having the principles class offered in Bishkek. There also would be interest in the construction lending and mortgage lending classes. ICMA should consider the possibility of offering a concentrated two-week course in Bishkek taught by consultants Weis and Brody which would include financial analytics, construction and mortgage underwriting and servicing and real estate loan portfolio management for bankers and other finance professionals. The course materials would be taken from the materials which have already been prepared for the full Advanced Professional Training Program. Kyrgyzstani bankers who have completed the full training program could team-teach the course with U.S. instructors. This course could be offered in the fall of 1995 or spring of 1996.

#### **G. TRAINING THE TRAINERS**

The ultimate goal of the ICMA housing finance training program is to turn professional training over to local training institutions. Four of the participants in the Principles course were members of the faculty or graduate students at the Kazakh State Architecture-Construction Academy (KazGASA). The KazGASA faculty members enrolled in the housing finance training program to enable them to develop their own curriculum in housing finance and investment. It may be that the Kazakh State Architecture-Construction Academy is a more appropriate home for the housing finance training program than KIIB. ICMA-Kazakhstan should initiate discussions with both institutions to determine what housing finance training programs they are considering offering as part of their curriculum. ICMA-Kyrgyzstan should identify a similar institute in Kyrgyzstan which could offer the housing finance training seminars.

There also is potential for the development of in-house training programs at the various banks represented in the class. Zhilstroi, Turan Bank and Kurulusbank have expressed some interest in ICMA working with them develop in-house training programs. Alternatively, the bankers' associations in Kazakhstan and Kyrgyzstan may be interested in offering professional courses to their members. ICMA should determine the interest in and

level of commitment to in-house training in housing finance at individual banks and the bankers' associations in Kazakhstan and Kyrgyzstan.

Technical assistance could be provided to educational or training institutions and to individual banks to prepare instructors' manuals for the courses offered in the Advanced Professional Training Program. If there appears to be sufficient demand, ICMA could offer a special course to prepare trainers to teach classes in housing finance and investment.

ANNEX A

SURVEY QUESTIONNAIRE TO DETERMINE INTEREST IN THE  
ADVANCED PROFESSIONAL TRAINING PROGRAM FOR  
REAL ESTATE FINANCE AND INVESTMENT

Dear :

Enclosed is a description of the Advanced Professional Training Program in Real Estate Finance and Investment which ICMA is proposing to the U.S. Agency for International Development (USAID). Your support of this program and participation by you and your colleagues will be essential to its success. In order to assure that the training program will meet your needs for training in real estate finance and investment, we need your response to the proposed program curriculum and schedule. Please review the enclosed preliminary materials and provide us with your comments and suggestions on the program content and schedule and an indication of how many of your staff you would expect to enroll in the entire program or in specific courses. We would also appreciate you providing us with the names and addresses of people you think would be interested in enrolling in the training program. We greatly appreciate your assistance in planning what we hope will be a valuable contribution to the development of expertise in real estate finance and investment within your organization. Please complete and return the enclosed response form to the ICMA offices on or before January 31, 1995. Thank you very much for your cooperation in this effort.

**ADVANCED PROFESSIONAL TRAINING PROGRAM  
IN REAL ESTATE FINANCE AND INVESTMENT**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Organization: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_

We would like your comments about the enclosed proposed Advanced Professional Training Program in Real Estate Finance and Investment. Please take a few minutes to complete the following questionnaire and return it to:

Lena Manayeva  
ICMA  
Almaty, Kazakhstan  
Tel/Fax: 61-65-11

I. Would your organization enroll one or more people in the Advanced Professional Training Program in Real Estate Finance and Investment?

If No: Could you tell us why you have no interest in the Program?

If Yes: How many people would you expect to enroll in:

\_\_\_\_\_ the complete program

or if not the complete program, in which of the following courses:

- \_\_\_\_\_ Principles of Real Estate Finance and Investment
- \_\_\_\_\_ Construction Lending
- \_\_\_\_\_ Mortgage Lending
- \_\_\_\_\_ Managing the Real Estate Loan/Investment Portfolio
- \_\_\_\_\_ Risk Management for Real Estate Lenders and Investors

II. Which of the following levels of people in your organization would find the Advanced Professional Training program most useful? (Please indicate as many categories as appropriate)

- \_\_\_\_\_ Senior Management                      \_\_\_\_\_ Department Heads
- \_\_\_\_\_ Deputy Department Heads                      \_\_\_\_\_ Senior Technical Staff
- \_\_\_\_\_ Other (please specify) \_\_\_\_\_

III. Do the courses offered cover the areas which are most valuable to your organization?

Yes \_\_\_\_\_ No \_\_\_\_\_

What other topics should be included in the courses offered?

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IV. The program includes five one-week courses, held from 9:00 a.m. to 3:00 p.m. each day. One course will be offered approximately monthly from April, 1995 to October, 1995. Is this course format:

\_\_\_\_\_ About Right \_\_\_\_\_ Too Many Hours in Each Day

\_\_\_\_\_ Too Many Days \_\_\_\_\_ Too Few Days

V. The proposed registration fee is \$250.00 for the complete course and \$60.00 for a single course. How important is the registration fee in your organization's decision to enroll people in the Advanced Professional Training program or in individual courses?

\_\_\_\_\_ Very Important \_\_\_\_\_ Quite Important \_\_\_\_\_ Not Very Important

VI. Does your organization plan to provide in-house training to its employees in real estate finance and investment?

\_\_\_\_\_ Yes \_\_\_\_\_ No

If Yes: Would your organization like to receive assistance in organizing in-house training and preparation of training materials?

\_\_\_\_\_ Yes \_\_\_\_\_ No

VII. Should registration materials be sent to you? \_\_\_\_\_ Yes \_\_\_\_\_ No

If No: Please give us the name, title, address and telephone number of the person in your organization to whom registration materials should be sent

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Organization: \_\_\_\_\_

Address: \_\_\_\_\_

Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_

IX. If there are people outside your organization you think would be interested in receiving information about the Advanced Professional Training Program in Real Estate Finance and Investment, would you give us their names and addresses:

Name: -----

Title: -----

Organization: -----

Address: -----

Telephone: ----- Fax: -----

## ANNEX B

### LIST OF PARTICIPANTS

#### A. KAZAKHSTAN

1. Zh. Abdildina, Post-graduate, Kazakh Architecture Academy
2. M. Abdrazakov, Chief Specialist, Turan Bank
3. Ermolayeva, Zhilstroibank
4. T. Ilyasov, Lecturer, Kazakh Architecture Academy
5. Kairzhanov, Zhilstroibank
6. B. Kopbosynov, Head of Department, Kazkommertzbank
7. N. Kostenko, Kazakh Architecture Academy
8. S. Kozhakmetov, General Director of "Goscompany". Administration for Coordination of Real Estate Appraisal Practices, Minstroj
9. Masalimov, Zhilstroibank
10. B. Morozov, Deputy Head of Department, Turan Bank
11. B.S. Mukhamedzhanov, Director, Main Administration for Construction Economics, Minstroj
12. G. Mukhtarova, Department Chairperson, Kazakh Architecture Academy
13. Muturganov, Zhilstroibank

#### B. KYRGYZSTAN

14. Ch. Moldabayeva, Leading Specialist, Kurulushbank
15. A. Nasyrov, Senior Specialist, Kurulushbank
16. S. Uranova, Kyrgyz Design Institute
17. D. Yusupova, Head of Marketing Department, Kyrgyzpromstroibank
18. E. Zemlyanskaya, Leading Lawyer, Kurulushbank

## II. CHARACTERISTICS OF COURSE PARTICIPANTS

1. Total Enrollment: 18
2. Country: Kazakhstan: 13 (72%) Kyrgyzstan: 5 (28%)
3. Organizational Affiliation:

Bank:	11	(61%)
University or Research Institute:	5	(28%)
Ministry of Housing:	2	(11%)
4. Names of Organizations Represented:

Kazakhstan:

Turan Bank	2	(11%)
Zhilstroibank	4	(22%)
Kazcommertzbank	1	(6%)
Minstroj	2	(11%)
Construction University	4	(22%)

Kyrgyzstan:

Kurulushbank	3	(17%)
Kyrgyzpromstroibank	1	(6%)
Research Institute of Construction	1	(6%)
5. Positions/Areas of Responsibility:

Credits/Loans	5	(28%)
Educator	4	(22%)
Finance/Planning	2	(11%)
Economy of Construction	2	(11%)
Appraisal	1	(6%)
Marketing	1	(6%)
Management of Innovation	1	(6%)
Lawyer	1	(6%)
Research Laboratory	1	(6%)

### III. COURSE EVALUATION

Each item is rated on a scale from 1 to 5 where 5 is the highest and 1 is the lowest. Thirteen participants responded.

<u>ITEM</u>	<u>AVERAGE SCORE</u>
1. Course is interesting and useful	4.92
2. Course is related to your job	5.00
3. Course met your expectations	4.92
4. Presentation of instructor	5.00
5. Quality of course materials	5.00
6. Complexity and difficulty of course	4.67
7. Quality of interpretation	5.00
8. Quality of dormitory (Kyrgyzstan only)	4.00
9. Quality of meals	3.38
10. Comments:	

"There should be more practical studies and discussions of problems."

"Related to our job especialiy in mortgage lending."

"The course is very interesting both in theory and practice, but we should pay more attention to the practical application in our country."

"It should relate more to our conditions."

"There should be concrete examples applied to out economic standards."

"It should be longer."

"It is very good that texts are given in English too. They are detailed and easy to understand."

"We should have more practical course materials. One or two examples which would show real estate finance in detail from the beginning to the end."

"The seminar should be held for two weeks."

"It related to our problems we are interested in now."

"It is advisable to hold a seminar in project feasibility of foreign investments on materials having practical application."

"It is desirable to hold a seminar in urban construction and system of its introduction based on the experience of the USA."

"About mathematics in estimating - with very good instructions and explanation so that practically all students understood the principles of estimating. We liked that the main aim of the estimating explanation was to tell about the meaning with examples, and this topic was very useful because we have no similar methods yet for credit calculations (many persons used calculators for their financial calculations, so it was easy to understand the examples)."

"The common opinion of all students was that this class was very useful. The most interesting questions were how to estimate immovable property, about mortgages and about systems of credits. In spite of our different conditions in comparison with USA (and Russia too) these basic methods are very useful and employees from banks want to apply these methods."

ANNEX C  
PARTICIPANT PAPERS

The participants in the Principles of Real Estate Finance and Investment course were asked to prepare a two to five page paper discussing a practical application related to their own work of one or more of the principles discussed in the class. The educators from the Architecture academy submitted a joint paper. Following are English translations of the papers submitted by eleven of the participants prior to the consultants departure from Kazakhstan. Other papers may have been submitted subsequently, but, if so, they have not been sent to the consultant. Forms and other documents which were included as appendices to the papers have not been translated, but a key has been provided.

The papers demonstrated the participants' understanding of the issues involved in creating a housing finance system under the current adverse economic and financial conditions in Kazakhstan and Kyrgyzstan. Despite the difficulties they face, the participants believe that it is important to lay the foundation for a mortgage market today rather than waiting until conditions improve. The participants from banks also indicated that their institutions were broadening the range of financial services offered to include consumer financial services and that residential construction and mortgage lending would be considered as a line of business which their institutions would offer their customers.

## REAL ESTATE FINANCING AND INVESTING

**B. K. Kopbosynov, Head of Department, AB Kazcommertzbank**

1. About Banks. At the current time, the banking system of Kazakhstan has to deal with the problem managing the risk of investing in a declining economy. There are no instruments which would enable the banks to minimize investment risks. In addition, the legal infrastructure necessary to provide sound relationships between creditor and borrower, is not in place.

The time of high interest rates and large returns has passed. Recently, almost all commercial banks started to work in the area of servicing private people. Banks which are larger and have greater financial resources, although there are only a few in Kazakhstan, are trying to work with promising projects, investing money in ventures which do not promise a fast return. Real estate financing and investing is one of these projects.

The best way of housing financing has always been considered to be a mortgage. However even now we don't have satisfactory mortgage legislation. Because of that, in general, banks have only indirect means of financing housing. Either the bank collects resources from the population, and then invests these resources into housing construction, or it builds houses from its own resources and then sells them to the people through its sister commercial structures. But, current prices on real estate in Kazakhstan and the rate of inflation do not allow banks to follow the second path.

Russian banks have some experience with housing financing in a similar economical and legal situation. We are familiar with schemes for giving loans to buy an apartment (flat), being offered by the Capital bank of savings, Bank Menatep, Sberbank RF and Promstroybank of Russia.

A slowing of the increase in real estate prices (Appendix 1), lowering of inflation in the last year (Appendix 2) and establishing normal legislative base some day will make it possible to use standard schemes of mortgage lending in Kazakhstan. Also, the beginning of a functioning market for securities and acceleration of the process of privatization of leading Kazakh enterprises with a participation of foreign investors, should stimulate greater economic activity in the country.

2. Commercial development. Two or three years ago, many companies in Kazakhstan were getting deposits of people or firms for house construction or purchasing. And this was a profitable business. But now, there are almost no companies engaged in this business. The major cause is that today the cost to build a housing complex is higher than its market price.

3. Zhilstroibank. This government bank was created to provide discounted housing lending for population. But the government cannot allocate resources for it yet. And the conditions of Zhilstroibank servicing through the system of loan-saving accounts do not interest people.

4. Problem of insuring. Many of the insurance companies existing now do not have resources to accomplish insurance activity.

5. About real estate appraisal. Development of a real estate market and the process of privatization require quality appraisal of real estate. Methods of appraisal which are used by the different government and private organizations at present time are very different from each other, and very often can result a very large variation in the appraised value of the same project. In Appendix 3, there is a form by which real estate is appraised under the criteria for appraisal of real estate of the Almaty regional administration. Not long ago, an association of real estate professionals, which is a coordinating center of real estate specialists, was established.

6. I would like to participate in developing effective schemes of real estate financing and investing in conditions of Kazakhstan.

Some of the major principles for establishing real estate prices: allocation, planning, conditions of the apartment (flat), age of the structure, political stability, economic situation. Then they discuss these principles in details and give Kazakhstan real estate statistics and trends.



A graph showing the annual rate of inflation from July, 1994 and through March, 1995

## Снижается инфляция - стабилизируется экономика

Предоставлено Госкомстатом РК

УРОВЕНЬ инфляции в марте, по оперативным данным Госкомстата, составил в республике 5,1 процента, что в 3,2 раза ниже этого показателя за тот же месяц в прошлом году и в 4,8 раза ниже среднего уровня инфляции за период после

перехода на свободное ценообразование.

С 1 августа прошлого года по март текущего цены в общем выросли в 2,3 раза, тогда как за предыдущие восемь месяцев - с 1 декабря 1993 года по июль 1994-го - они поднялись

более чем в девять раз.

Таким образом, последние восемь месяцев можно назвать периодом преобладания стабилизирующих факторов в экономике страны. И итоги нынешнего марта еще раз подтверждают такой вывод.



BEST AVAILABLE COPY

C-6

BEST AVAILABLE COPY

This is the standard real estate appraisal form used by the Almaty regional administration. The following are the headings for each information item included in the appraisal form.

**Project:** Address, City, Owner, Sale Price, Date of sale, Real estate taxes, Information about credit (creditor, amount of credit, interest rate, loan term)

---

Location  
Development of the district  
Change in price  
Housing demand  
Liquidity

---

Type of the region  
Using land for other purposes  
Price of the similar house

**Lot:** Telephone, Electricity, Water, Gas, Sewer, Heating, Street, Drainage, sidewalk, street lighting, topography, # of the topographical map, form, drainage, landscape, highway, natural disasters.

**Improvements:** General description (age, construction type, how many levels), Outside description (outside finishes, foundation, walls, roof, windows, sills, drainage, design), Footing, Foundation, Basement, Ventilation, Equipment, Walls, Partitions, Interior finish, Doors, Slabs, Floors, Roofs, Attic, Extra improvements.

**Description:** Rooms, Hallway, Kitchen, Bedrooms, Living Room, Bathroom, Toilet, Total sq. ft. in the basement, first floor, second floor, total.

**Interior:** Finishes (floors, walls, floor in bathroom, fireplace), kitchen (stove, garbage collection, sink, return air, build-in cabinets), garage (type, entrance, doors, electricity, heat, carport), evaluation.

**Comments:**

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КАЗАКСТАН РЕСПУБЛИКАСЫ  
РЕСПУБЛИКА КАЗАХСТАН

АЛМАТЫ ОБЛЫСТЫҚ ӘКІМШІЛІГІНІҢ  
ТАПЖЫЛМАЙТЫН МҮЛІКТІ БАҒАМДАУ  
ЖӘНІНДЕГІ БАСҚАРМАСЫ

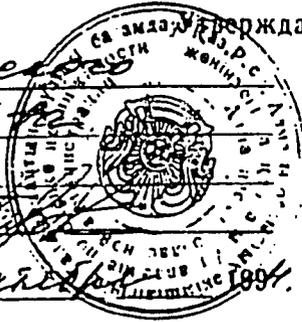
УПРАВЛЕНИЕ ПО ОЦЕНКЕ НЕДВИЖИМОСТИ  
АЛМАТИНСКОЙ ОБЛАСТНОЙ АДМИНИСТРАЦИИ

Бекітемін

Қол қоямын

*Начальник Отдела  
районного управления  
Каримбаев Н. С.*

*Н. Октябрь 1994 г.*



# А К Т

## оценки объекта недвижимости

№ III от 11 октября 1994 г.

в Тури-Алматы ул. Француз  
атауы, наименование

Отделенского района  
искен жайы, местонахождение

Оценочная стоимость объекта недвижимости

по состоянию на 5 октября 1994 г.

30252228,0

составила Жидайымшова Әсетіштің  
созбен жүзетін Әрадіалы Әсетіштің

Приложение на двух листах

г. Алматы

# ОТЧЕТ ОЦЕНКИ ЖИЛЬЯ

Утверждено Алмаатинским областным управлением  
(Постановление коллегии № 6 по статистике и анализу от 20 июня 1991 г.)

Адрес недвижимости ул. Фрунзе  
 Город С. Душанбе  
 Владелец/арендатор Исмаилов Абдул

Сведения о кредите  
 Кредитор \_\_\_\_\_  
 Сумма кредита \_\_\_\_\_ р.  
 Ставка процента \_\_\_\_\_  
 Срок кредита \_\_\_\_\_  
 Дата выдачи \_\_\_\_\_  
 Дисконтный пункт \_\_\_\_\_

Цена продажи \_\_\_\_\_ тенге  
 Дата продажи \_\_\_\_\_ 199 г.  
 Ответственность за кредит \_\_\_\_\_ т.  
 Налог с недвижимости \_\_\_\_\_ т. за \_\_\_\_\_

Право собственности  
 государствен.  
 частная  
 аренда

Месторасположение  
 Гориз.  
 Свыше 75%  
 Быстрое  
 Возрастает  
 Повышенный  
 До 1 месяца

Пригород  
 25-75%  
 Постоянное  
 Постоянная  
 Средний  
 От 1 до 3 месяцев

Село  
 Менее 25%  
 Медленное  
 Уменьшается  
 Пониженный  
 Свыше 3-х месяцев

Тип района  
 Промышлен.  
 Жилый массив  
 Администр.  
 Новостройка  
 Престижный

Использование  
 земли для других целей  
 Возможно  
 Невозмож.

Характер использов.  
 Владение  
 Аренда  
 Вакансия

Аналогичное жилье  
 Стоим. возр. \_\_\_\_\_  
 min \_\_\_\_\_  
 max \_\_\_\_\_  
 сред. \_\_\_\_\_

СИТУС  
 хор. сред. плох.  
 Рынок труда     
 Сфера услуг     
 Сфера образования     
 Общ. транспорт     
 Санитар. условия     
 Охрана и безопасн.     
 Культура и отдых     
 Экология     
 Основные признаки собственности

Комментарий: \_\_\_\_\_

Размеры \_\_\_\_\_ площадь участка  
 Бонитет \_\_\_\_\_ участок

Наилучшее и оптимальное использование в данное время: настоящее исп. \_\_\_\_\_ плюс \_\_\_\_\_

Улучшения

Общее инв.	Усовершенств. тип	общее частн.
Телефон <input type="checkbox"/>	Улицы <input type="checkbox"/>	<input type="checkbox"/>
Электрич. <input type="checkbox"/>	Внешн. сток <input type="checkbox"/>	<input type="checkbox"/>
Вода <input type="checkbox"/>	Тротуар <input type="checkbox"/>	<input type="checkbox"/>
Газ <input type="checkbox"/>	Улиц. освещ. <input type="checkbox"/>	<input type="checkbox"/>
Канализ. <input type="checkbox"/>	Аллея <input type="checkbox"/>	<input type="checkbox"/>
Теплосн. <input type="checkbox"/>		

Комментарий: неблагопр. условия, дополнит. условия

Топография \_\_\_\_\_  
 № топогр. карты \_\_\_\_\_  
 Форма \_\_\_\_\_  
 Дренаж \_\_\_\_\_  
 Ландшафт \_\_\_\_\_  
 Шоссе \_\_\_\_\_  
 Преимущества \_\_\_\_\_  
 Опасные природные явления \_\_\_\_\_

Общее описание	Внешнее описание	Основаие	Стены	Полы
Кол-во <u>7</u>	Наружная отделка _____	<u>каменит</u>	<u>кирпич</u>	<u>бетон</u>
Этажность <u>1</u>	Фундамент <u>бетон</u>	Фундаменты _____	Перегородки _____	Кровля <u>недел</u>
Тип здания <u>мн.эт.</u>	Стены <u>кирпич</u>	<u>бетон</u>	Внутр. отделка _____	Мансарда <input type="checkbox"/> да <input checked="" type="checkbox"/> нет
Способ постройки <u>б/кв.</u>	Кровля <u>недел</u>	Подвал _____	<u>шт.ко</u>	Дополн. улучшения _____
Возраст <u>5</u>	Окна <u>бетон</u>	Вентиляция _____	Двери <u>недел</u>	
Эфф. возраст <u>0</u>	Ставни _____	Оборудование _____	Перекрытие <u>недел.бетон</u>	
	Водосток _____			
	Дизайн _____			

Комнаты	Фойе	Кухня	Спальня	Общ. комната	Ванна	Туалет	Общ. площадь
Подвал							
1 уровень							
2 уровень							
Итого:							

Интерьер	Кухня	Гараж	Анализ улучшений
Покрытие <u>недел</u>	Плита _____	Тип _____	хор. сред. плох.
Полы <u>недел</u>	Мусоропровод _____	Вход _____	Качество строит <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Стены <u>кирп.</u>	Мойка _____	Ворота _____	Тип планировки <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>
Отделка <u>шт.ко</u>	Вытяжн. устр-во _____	Электр. _____	Энергообеспеч. <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Пол ванной <u>слан.</u>	Встроен. шкафы _____	Теплос. _____	Качество трубоприв. <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>
Отделка ванной _____		Навес _____	Вытяжная вентиляц. <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>
Камни _____		<input type="checkbox"/> да <input type="checkbox"/> нет	Совместимость с районом <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>
			Прилекательность <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>

Дополнительные характеристики \_\_\_\_\_

Недостатки (физические, функциональные, экологические) \_\_\_\_\_

**ЦЕЛЬ ОЦЕНКИ — ОПРЕДЕЛИТЬ РЫНОЧНУЮ СТОИМОСТЬ ОБЪЕКТА**

**ЗАТРАТНЫЙ МЕТОД**

Общая площадь _____ кв. м	Наимен. _____ (тенге)	Физич.	Функци	Внешний
Жилая площадь _____ кв. м		Общий износ _____ тенге		
Стоимость 1 кв. м общей площади _____ т.	Стоимость реконструкций с			
Общая стоимость <u>30252228,0</u> тенге.	учетом износа _____ тенге			
Дополнения	Оценка стоимости			
— Веранда _____ тенге	месторасположения			
— Гараж _____ тенге	(район) _____ тенге			
— Баня _____ тенге	Оценка расположения			
— Бассейн _____ тенге	(подъезд, ландшафт) _____ тенге			
— Хозпостройки _____ тенге	Итого стоимость по затратному методу <u>30252228</u> тенге			
Всего стоимость реконстр. <u>30252228,0</u> т.				

Наличие технического паспорта \_\_\_\_\_  да  нет  
 Если нет, объяснить \_\_\_\_\_

Наличие страхового свидетельства \_\_\_\_\_  да  нет  
 Страховая фирма \_\_\_\_\_  
 Срок окончания страхования \_\_\_\_\_

**МЕТОД СРАВНИТЕЛЬНОГО АНАЛИЗА ПРОДАЖ**

Наименование	Объект	Сравниваемый № 1	Сравниваемый № 2	Сравниваемый № 3
Адрес				
Близость к объекту				
Цена продажи		т.	т.	т.
Дата исследован.				
Дата продажи				
Месторасполож.				
Внешний вид				
Качество констр.				
Возраст				
Состояние				
Кол-во комнат				
общ. площадь кв. м				
Подвал				
Гараж/стоянка				
Баня; бассейн				
Веранда				
Хоз. постройки				
Водоснабжение				
Электроснабжение				
Газоснабжение				
Теплоснабжение				
Канализация				
Телефон				
Итого реконстр.	+, -	т.	т.	т.
Стоимость в сравнении		т.	т.	т.

Комментарий к сопоставлению \_\_\_\_\_

Полученная стоимость в результате сопоставления \_\_\_\_\_ тенге

Стоимость по доходу составляет (если применимо) \_\_\_\_\_ тенге

стоимость аренды \_\_\_\_\_ тенге/мес. X общ. рентный коэфф. \_\_\_\_\_

Итого по доходному методу \_\_\_\_\_ тенге.

Эта оценка сделана:  как есть,  с учетом ремонта, переделок, указанных ниже,  по планам и спецификациям.

Примечания \_\_\_\_\_

Я (мы) подтверждаю(ем) рыночную стоимость объекта 11 октября 1996 г.  
 в сумме 30252228 тенге \_\_\_\_\_ USD

Оценщик Байтурсеитов Б.К. Оценщик обзора Каримбаев Р.С.

Подпись \_\_\_\_\_ Подпись \_\_\_\_\_  да  нет

## **DISTINCTIVENESS OF PROJECT APPRAISAL IN KAZAKHSTAN**

**S. Kozhakhmetov, General Director of "Goscompany", Minstroj**

The social-political and economic situation in Kazakhstan is not the best for rapid growth and development in area of real investments. It is necessary to distinguish the aspects of the environment for development which most strongly affect investment activity in general and which make it more difficult to appraise investment projects. More specifically:

- general instability and unpredictability of developments in all areas of life in the country;
- specificity of financial resources market, which is characterized by the negative real cost of the monetary (cash) capital;
- imperfect legislation, which doesn't fully allow to take in consideration negative influence of inflation rate (although it is going down).

Each one of the points listed above limit the applicability of the standard methods of appraisal used in the West and other countries with developed market economies.

General instability, which results in the inability to accurately predict the dynamic development of the parallel and interdependent political, economical and financial processes, makes it questionable whether it is suitable to attempt to apply objective appraisal procedures and methods to a project.

In a situation where an error in the subjective forecasts of market prices, interest rates and other variable would result in much larger variances in the value of the project than the accuracy of calculations, greater attention will be given to intuitive and informal methods of appraisal. The commercial success of the project appears as only one of the criteria which banks consider when they are making a decision about granting credit. In more than half of the cases, credits are given on the basis of a personal relationship between the banker and the businessman.

However, as we can see, during the stage of preparing a proposal for granting credit, when receiving warranties from other financial institutions, when insuring a business, in a case of appraisal of real estate property, and also when creating a strategy of development of the establishment, it is necessary to use special methods of analysis of value of the investment. Because of this, the first problem to solve is making sure that sound and consistent procedures are used in the preparation of final information received to analyze a project and interpretation of the results of this analysis.

The following is a description of recommendations about using standard methods of project appraisal in the Kazakh Republic:

1. The initial calculations always should be in constant prices. This requirement is based on admitting one fact: to forecast the development of macro economical situation in Kazakhstan is not possible for any one expert (it doesn't matter how far he can foresee).

There can be many working hypotheses of trends in inflation and interest rates, and all of them should be taken in consideration and checked. However, the one starting point for all the systems of developing inflationary processes should be an assumption about maintaining an established relationship between prices on product market (inflation) and the level of interest rates on capital market.

The most important requirement for realistic appraisal of investment projects is to verify the data which are used in the computations to determine market value. This requirement can be done only if all starting information which is used in calculations exists in reality, or in other words, prices on all the elements of expenses can be taken either from true level or from the closest similar example on the market for similar products and services.

2. Calculations in current prices should be done as a part of analyzing a project risk in addition to the base calculations in constant prices.
3. The refinancing rate of the National Bank of Kazakhstan should be used as an objective measurement of the cost of the capital in the existing economic and financial conditions.
4. The starting hypothesis about the monthly rate of inflation, when defining the real interest rate, should use the National Bank's refinancing rate recalculated for calendar month.

If, by the end of the year, government will be able to lower inflation to 1 percent per month, then the rate charged for bank credits will be automatically. And because of that enterprises will have a chance to improve their economic situation.

Using the U.S. dollar as a cash value of 1 with a constant buying ability is justified only in the case of projects which are directly connected with import-export operations or with sources of foreign financing.

The appraisal of the commercial value of investment projects, which takes into consideration the four recommendations listed above, will provide objective results. The second important benefit of applying these principles is assurance of consistency of project appraisal, which can be especially important to the investment and financial institutions and organizations (even the government ones) which have a large volume of work in evaluating offers which are submitted to them.

**THESES AND SUGGESTIONS  
ON SEMINAR PROBLEMS OF  
REAL ESTATE FINANCING AND INVESTING  
17-21 of April 1995**

**B. Morozov, Deputy Head of Department, Turan Bank**

With the economic difficulties in the present time, financing the market of private housing has not been able to even begin. When economic stabilization is achieved, banks will have millions of potential clients for long term credits, and work with them will demand very careful preparation in mortgage financing. Because of that, the knowledge about real estate financing and investing, received during the seminar, will help the banks' workers in the future. I would like to use the knowledge and examples of the documents, which we received, in financing of housing construction.

Historically (starting from 1924) construction of houses was done almost totally on the account of factories and government, through credits granted by the banks. This was intended to create housing where the most necessary workers of the plants would live.

In the present time, in our bank, probably because of our tradition of supplying credit for construction projects, the major clients-developers of housing are plants, firms, auction societies, and so on.

Such a situation will continue probably for quite a long time, because the general plans of development of the cities and suburbs were developed by project institutions under those existing standards, with subdividing blocks, districts and separate objects of development, taking in consideration infrastructure in these cities and suburbs (centralized heat, electricity, gas, water, sewer supplies, communication, roads and so on).

Businessmen, which come to the bank to receive credit for housing construction, will offer to the bank collateral of real estate property of their firms or plants (for example, office building, warehouse, restaurant, manufacturing facility).

To make such financing possible, it will be necessary to develop standard agreements about loans for construction and the forms of collateral, which will be different from ones described during the seminar, because the collateral will be real estate of the firm rather than the housing project being built. However, the most important requirement is to rework the standard form of appraisal of real estate of the firm, plant, auction societies, taking into consideration their financial activity. Real estate appraisal will be necessary for underwriting of collateral, and appraisal of financial activity for evaluation of possibility of return of credit.

In appraisal of financial activity, the knowledge which we received during the seminar about using financial calculator, on which we can analyze cash flows of income and expenses during defined periods of time will be very helpful. Today, workers of our bank who analyze financial activity use a package of computer programs COMFAR, PROJECT EXPERT and ALT-INVEST. However all these systems have a limited ability to take specific risks into consideration, and don't have visual (graphical), analytical resources to compare different situations (projects). During one of the next seminars, I would like to receive information about the computer programs used by U.S. banks to appraise a firm's financial activity.

## **GOVERNMENT MEASURES TO DECREASE ACCOUNT BALANCES IN MORTGAGE CREDITS**

**B.S. Mukhametdzanov, Head of Department of Administration for Construction Economics, Minstroj**

The "State Program on New Housing Policy and Methods of Its Realization" was adopted according to the Decree of the President of the Republic of Kazakhstan of September 6, 1993 #1344 "On New housing Policy" in order to create the legal and institutional structure for housing finance, to encourage the development of housing construction and to further the reform of housing relations. At the same time the former State Committee of the Republic Kazakhstan on Architecture and Construction which had created on the basis of "Gostroi" was transformed into the Department (Ministry) of Construction, Housing and Development of the Territories of the Republic of Kazakhstan (Construction Ministry or Minstroj) with delegation to the Ministry of all earlier functions of the Committee.

Since the time of creation of the Ministry several reorganizations have been made, including:

- The State Bank of Housing Construction ("Zhilstroibank") was founded. At the first stage of its development the bank is to perform the functions of three financial institutions: housing construction finance, mortgage finance, and savings and loans system. It has branches (subsidiaries) in regional centers;
- Departments were created to license the construction business, to supervise the quality of the construction, and to evaluate projects;
- State-owned companies of commercial contractors and appraisers of residential property were organized;
- Regional committees of the Construction Ministry were established in all regional centers;
- Proposals have been submitted to the Government to reform the structure of the holding companies which perform contractor work and manufacture construction materials or belong to construction industry.

We can say that the infrastructure necessary to serve the residential construction process as defined by the Presidential decree now exists. All the necessary laws and regulations encouraging the normal functioning of the housing program have been prepared. The methods of housing finance and credits have been tested.

Mortgage financing plays a special role. The foundation for mortgage crediting was created after adoption of such laws as the law on "The Individual Housing Construction" and "The Civil Code". "The Mortgage Law" and "The Housing Code" are close to completion today.

Mortgage financing has three main features. First, the loans are given for a long period of time, usually for 10-30 years. Such a long period extends the loan amortization

(repayment), decreasing the size of monthly payments. Second, most of the loans are given to buy residential housing, where its owners will live. Third, the purchased housing serves as the loan collateral. If the loan defaults banks can use the foreclosure procedure and sell the property to cover the credit losses.

Four participants operate in the mortgage market: borrower, bank-creditor, investor, and the government. The more persistent they are in pursuing their own goals, the greater is their input. The key issue for the government now is to create the conditions which would allow a bank to work with mortgage financing without taking unjustified risk.

In general, issuing long-term mortgages assumes several types of risks. In Kazakhstan, the credit risks are higher, because of the economic instability in the country and problems associated foreclosure procedures in the case of credit default and the impossibility of eviction. However, the risks can be reduced significantly without paying too high price, if the Government takes adequate measures. These measures should be the following:

**1. The credit risk**, i.e., the risk of credit default:

- create the conditions, which would allow the secured creditor to use the foreclosure procedure to realize on its collateral in the case of credit default;
- create a judicial and court system to hear rapidly the cases about housing credit defaults;
- create government and commercial mortgage insurance, encouraging insurance companies to provide such service;
- develop the clause requiring a down payment using borrower's own money, which will increase his/her responsibility in loan repayment;
- increase the creditor's responsibility for a significant portion of risk and losses in the case of credit default, which will provide more prudent approach to underwriting and closing the loans;
- require banks to make an initial evaluation of risk in order to qualify for mortgage insurance. The banks giving credits with high default rates should not get insurance in the future;
- create a reliable registration system for property titles, mortgages, and other types of liens and property claims, in order to reduce the credit risks associated with questionable rights.

**2. Interest rate risk**, i.e., the risk that the rate of interest the bank pays for its funds will become higher than the lending rate. It is necessary to create methods encouraging implementation of indexed loan instruments, which would take into account the rate of inflation. It is also necessary to allow and encourage the use of obligations, similar to the indexation instruments of mortgages.

### **3. Intermediator's risk (liquidity risk)**

- A system of incentives encouraging the purchase of the secondary mortgage market securities by government funds (e.g., the State Pension Fund), should be implemented;
- A special agency should be established which would help to solve liquidity problems in emergency situations. The agency should advance its funds at market rates, terms and conditions;
- A special institution should be created to buy back "the negative amortization" of the indexed mortgages (such as the mortgage corrected by the price level and the mortgage with double indexation).

Speaking about the role of the government in housing finance, we should clearly distinguish its actions directed to (1) the credit risk reduction, and (2) helping people to purchase housing. These two subjects are cross-related, indeed, because effective risk distribution would decrease the mortgage interest rates, making credits cheaper for borrowers.

The Construction Ministry has following main options of providing help to the households in purchasing housing through the banking system:

1. Encourage the government to grant an income tax exemption on individual investors' deposits on savings and loans accounts and deposits of enterprises on the savings and loans accounts of their employees.
2. Encourage the government to allow a mortgage interest deduction from the taxable income.
3. Provide subsidies for the down payment directed to certain groups of the population, in order to increase the size of the down payment.

Finally, it is necessary for the government to address the problems of reducing or managing the problem of the risk of mortgage finance risks associated with:

1. Creating the conditions for operations of a unified mortgage finance system, which later would include the entire financial market of Kazakhstan;
2. Educating people about mortgage finance instruments;
3. Determining the necessity of organizing new institutions and agencies, and providing their normal operation;
4. Creating conditions, which reduce unjustified risks, decrease construction costs and provide security to potential borrowers.

**RATIONALE  
FOR THE SEMINAR LECTURE "THE THEORY OF REAL PROPERTY FINANCE AND  
INVESTMENT"**

**Ms. Zhanar Abdildina, Post-Graduate Student of the Kazakh State  
Architecture-Construction Academy**

Steady development of the market economy in the Republic of Kazakhstan and the processes of denationalization and privatization of property presume involvement of real estate into the sphere of product-monetary (market) relations. Real estate includes land and objects located on it, such as industrial enterprises, offices, stores, hotels and residential complexes, which had not been available for sale under the former system. In this respect, the real estate transactions will become significant market segment. In its turn, development of this sector requires proper appraisal.

To make an investment decision an investor considers investment options and performs financial analysis. The property appraisal becomes the deciding factor in investment decision. The basic requirement for investment into real estate is that it should provide return which is equal to or greater than other forms of investment.

Several types of appraisal value exist depending on the goals and functions of the real estate transactions. For example, the market value is important for purchasing purposes, the investment value is necessary for investment projects, the replacement value for property insurance, the collateral value for credits and the salvage value for project termination.

In the Republic today, the housing market is more well-developed than other segments of the real estate market. Other types of the real estate market will be developing with privatization and further development of the securities market in the future. In this respect the study of the stock market of companies and their market price evaluation has special importance.

In spite of the fact that residential property and offices are being openly sold and leased in many cities in Kazakhstan, the other types of competitive real estate markets have not formed yet. Moreover, because the Kazakh market are mostly still forming, sometimes buyers and sellers (borrowers and creditors) base their quite fuzzy knowledge of them on distorted or incorrect data. There is a lack of reliable market data, even for the previous years, about lending rates and maintenance costs, occupancy factors for different types of property etc. Therefore, appraisers and creditors do not have sufficient data about real sales contracts involving real estate.

Foreign experience demonstrates that practically all purchase contracts of real estate are involve borrowed money, including mortgages. An investor makes money using leverage. The real estate serves as collateral and becomes the source of loan repayment in the case of default. The type of financing does not affect the real estate cost value. But financing, favorable or insufficient, strongly affects the price of real estate. Higher price includes the property cost value plus the cost of favorable financing. Four factors are considered when a credit is originated: the loan amount, duration, interest rate and payment

schedule. When three factors are known the fourth can be determined. Calculations using financial calculators give us comparable estimation of different types and are an important step in developing a system of sound investment analysis of real estate.

Real estate appraisal, finance and investment practices vary widely from institution to institution in Kazakhstan and we have a long way to go to establish generally accepted practices. Nevertheless, we have strong demand for its intensive development. The reasons, hindering development of the real estate market are:

- the lack of legislation, which would reflect today's and future demands;
- the lack of licensing the activities of market participants - contractors, appraisers, financial agencies;
- The lack of experts in appraisal and mortgage finance.

In the process of development of the real estate market and the finance market in the Republic of Kazakhstan real estate practices will obviously come closer to international standards. In this respect, it is necessary to take into account the methods and experience of other countries as well as local specifics, when performing appraisal, financing and investment in real estate.

I am Zhanar Abdildina and I am a post-graduate student of the Kazakh State Architecture-Construction Academy (KazGASA). The topic of my research is the privatization process in the republic, specifically - real estate appraisal. I have finished the course of real estate appraisal and received the certificate of the American Society of Appraisers and the World Bank Institute of Economic Development. I participated in the seminar on the theory of real estate finance and investment. I hope that the classes taken will be useful, helping to learn foreign experience of the theory of real estate finance and investment and allow me to use this experience in my scientific research and development of recommendations for development of the real estate market in the Republic of Kazakhstan.

**SUMMARY  
ON THE TOPIC  
"APPLICATION OF E. WEIS SEMINAR ON REAL ESTATE FINANCE  
ALMATY, APRIL 17-21 1995"**

**by the Group of Instructors of the Kazakh State  
Architecture-Construction Academy**

- I. N.G. Kostenko, Candidate for Ph.D. in Technical Sciences, Assistant Professor, Construction Management Department, Kazakh State Architecture-Construction Academy

Speaking about the usefulness and current necessity of the seminar - there is no doubt that it is very timely and, indeed, useful, because I teach now the course "Construction Management" and I am going to use virtually every topic of the seminar for my classes. The most important for me were the topics "Mortgage Credit" and subtopic "Analysis of mortgage instruments for high inflationary economies." Different mortgage types (DIM, DPM, PLAM, and ARM) were very well explained, demonstrated and compared. It is possible to compare our conditions with the conditions of such countries, as Turkey, Mexico, Hungary, Israel etc., where these mortgages are used. Probably, using these countries' experience and comparative analysis, it is possible to predict the mortgage type, which would be optimal for our conditions. From consumers' point of view the most favorable is the dual indexing method, or DIM, but from the government's and banks' point of view, this method probably is unacceptable. But we are dealing with a very important factor here - social protection. It is very hard to calculate the economic benefit of the fact that a person can quietly work, take care of a family and raise children (who are the future of a country). Social stability becomes more possible if housing problems are no longer an issue. At the same time, uncertainty created by the absence of permanent housing leads to certain tension, which, undoubtedly, will reveal itself at the work place. In addition, people, who have residential property are stable citizens, therefore these social factors should be taken into consideration when analyzing possible approaches. Definitely I will use the seminar topics for my classes, because we have studied different types of mortgage financing. Enterprises can also participate in mortgage financing, and we are practically teaching future enterprise leaders.

The topic "The Principles of Providing Credits in Construction" is also very useful. Construction firms want to know what factors are important in convincing banks to originate a loan and decrease the risk factors; bank employees (some of our students will become them) can use it as an initial push forward to develop their own norms of evaluation of various items when originating a loan. In this case a contractor (borrower) and a bank (lender) act more as partners than adversaries because they have a common goal - to construct with minimum risk and costs. Having the knowledge mentioned above, they can better understand each other and work together.

Finally, I would like to note that I have highlighted the topics which are most important now for teaching my classes, while the whole seminar was undoubtedly very useful and interesting.

II. G.V. Muktarova, Candidate for PhD in Economics, Assistant Professor, Chair of Construction Economics Department, Kazakh State Architecture-Construction Academy

My activities are not in banking. I am teaching at the Department of Management and Business in Construction Industry, Architecture-Construction Academy. I will try to review briefly the theoretical aspect of the problem, which has interested me at the seminar. This is the problem of creating the ways of resource mobilization (attracting funds) for housing finance, more specifically - creating the secondary mortgage market, which is very important for increasing the political stability of the Republic of Kazakhstan.

Practically, the securities market in Kazakhstan does not yet exist. Several days ago the President issued the decree about stock exchanges. The information field, required for their normal operation, has not been created yet. It is well known that the secondary mortgage market significantly increases the efficiency of residential construction and cash flow into residential construction.

Undoubtedly, the creditors will have lower risk, because they will get their income selling mortgages. Securitization will give the opportunity to establish standard loan underwriting and closing procedures, i.e., the documentation support. The secondary market will create competition in housing finance, which will stimulate more activity in capital construction. The cash flow circle will significantly increase involvement of the banks.

All these advantages can be realized in practice in our country. For example, creation of a Construction Ministry department, similar to the American "Fannie Mae", backed by the government, could guarantee principal and interest payments on securities issued to repurchase government insured mortgages. As a part of the government, the department would enjoy the credibility. Undoubtedly, we should increase the number of potential investors - insurance companies, pension funds, private mutual and investment funds. Our government just started the creation of the securities markets, which have existed for more than 200 years in the world history. However, the further development of market economy is impossible without this financial instrument, improving the capital market.

III. T.A. Il'yasov, Instructor of the "Entrepreneurship and Business" Department, Kazakh State Architecture-Construction Academy

I think that the seminar on the real estate finance and investment was very interesting. For me, as a young instructor with the teaching experience of about one year, it was very useful to learn about the foreign experience in construction finance and investment, in particular in the United States. For our republic, which is transforming to the market economy, it is very important to get acquainted with the experience of developed countries in construction finance, creation of primary and secondary markets, mortgages, estate appraisal.

The analysis of reforms in India, where economic conditions are similar to ours, was very important to help us avoid mistakes in conducting government programs. The section "Mortgage credits," was very interesting for me. These materials show that the United States has extensive experience in this field.

The adoption of mortgage policy is possible here even now. To implement it successfully, enactment of two laws is necessary - I. The law "On Land Property" and the law "On collateral rights and collateral." Without these laws the desired results will not be achievable.

It is acceptable here to organize private or state-owned societies or associations of estate appraisers, which will lead to learning the different opinions about estate appraisal. The dangerous issue is the creation of new bureaucratic institutions and their potential for corruption.

We have a huge gap in construction credit financing, because high interest rates make the business unprofitable. The banking sector also has not developed an appropriate perspective and attitude towards construction and housing finance. The greatest minuses of banking industry are:

- I. Pursuing of short-term goals, without planning long-term future profits
- II. Small variety of the services offered to bank customers (western banks offer more than a hundred services, we offer slightly more than ten).

I want to use the materials learned for my course "Construction Finance," in order to show the students the experience of real estate finance and investment in the United States and other countries. We will discuss these materials more deeply, in order to decide what finance instruments are most feasible, on their opinion, in our republic, taking into account its national specifics.

## **PROBLEMS WITH FINANCING CONSTRUCTION**

**Moldobaeva U.A.  
AKB Kurulush-Bank, City of Bishkek**

The current condition of Kyrgyzstan economy is characterized by the slowing down of the production (practically, it stopped) and as a result, decreasing construction of housing. The major investors in and customers for housing construction used to be government, and later large industrial organizations. Neither government nor the large state enterprises have the financial ability today to invest in housing construction.

The major problems of housing construction today are: (1) a large number of uncompleted projects, because customers do not have sufficient resources to complete them; and (2) lack of effective demand, i.e. not having customers or buyers who are able immediately to pay all costs of the project or find necessary resources, which could be allocated during entire period of construction.

In this situation, everybody looks to the banks to receive credit. However, at the current time, if banks seriously want to finance construction or any mortgage, they have to solve problems which are confronting them:

- 1) finding long term and cheap resources;
- 2) standards of banking regulations, which limit amount of the loan on one borrower;
- 3) no or weak legislation in the areas of regulating ownership rights on property and rights of default, and also, not having a special law about collateral of the property.

However, these are specific banking problems, which can be solved by passing corresponding laws and standards, finding long term sources--in a form of foreign loans or by issuing long term bonds (which will be possible in the future). However, the basic problem remains the same: the instability of the economy; a high level of inflation, which is hard to predict for a long period of time; and a decline in the standard of living for the majority of the population which are potential borrowers.

In this connection, participation of the banks in long term financing is not very likely, although there is one possibility--establishing specialized organizations of finance, which would do only mortgage financing, which would have tax-exempt and regulation-exempt treatment and which would have the necessary resources and qualified personnel. During the start-up period for such institutions, government help will be necessary to secure long term financial resources and maintain interest rates on mortgage loans at a level affordable to the low and moderate income families.

As we can see, in unstable economic conditions, the most realistic way to develop mortgage financing is support from the government in solving key problems.

## **PROBLEMS WITH INDIVIDUAL HOME CONSTRUCTION MORTGAGES**

**S. K. Uranova, Kyrgyz SRDI of Construction**

The Science-Research and Design Institute of Construction of Gosstroi (Government Construction) of Kyrgyz Republic is a specialized institution established to solve problems in area of construction in Kyrgyz Republic. The activity of the Institute covers the main elements of the construction industry and trades: building materials, building construction, earthquake proofing of buildings and houses, development of standards of design, liquidating the earthquake damages, engineer communication (water supply and sewer). The Institute has highly qualified specialists and the necessary technical support to perform these tasks. Besides its research activities, the Institute participates in developing programs in the area of construction (by the request of Gostroi of Kyrgyz Republic). Financing of the institute is comes from the package of contracts with Gostroi and construction organizations and enterprises producing building materials.

In the current conditions of a large decline in the economy, when the construction industry has practically stopped, the Institute needs to develop new clients and find new sources of financing. The theoretical bases of financing and lending for construction and real estate which were received during the current seminar will be used:

1. During the development of the program of future work of construction complexes and utilizing expert's appraisal;
1. To find new resources for institute financing;
1. To develop the structure and principles of financing of housing construction; and
4. To perform a function of a coordinator during the organization of construction.

One of the requirements of successful solution of the listed problems is teamwork with international organizations which can share the experience of economically developed countries and offer other forms of help. The Institute contacts with the Resident Advisor of the International Association of City/County Management (ICMA), Duane K. Beard in the city Bishkek. ICMA has offered assistance to the Institute to prepare specialists to work in the conditions of the new economy (preparing professional appraisers during seminar in the city Bishkek and current seminar), and also to provide programmed information on questions which are connected with the completion of Institute's works.

Housing construction in the Kyrgyz Republic can be classified by different qualities: the type of construction organization which executes construction (government, big auction companies, union organizations, small enterprises, small private organizations); by the type of the property -- for houses, commercial buildings, etc.; by the ownership of the organization, government, district, unions, private; by the type of development -- low or high density; by the level of completion and so on. The structure of housing construction is always changing.

One of the biggest problems in housing construction is individual housing construction, which is done by the young families which received lots for construction near the city of Bishkek. Government loans were allocated for construction of these families' houses. The level of completion of the houses at the present time varies. The majority of the owners do not have the necessary resources to finish construction. In those districts, there are no engineering developments or building for social purposes, for example, schools and medical facilities.

Factors which define the interest of the Institute in addressing the problem of individual housing construction are: amount of construction, support of the developers by the government, growing part of individual housing construction by the families with a stable financial position, many possibilities for construction solution for the building and because of the possibility of controlling construction costs and the direction of market demand.

A comprehensive plan for financing of individual housing construction probably should include:

- suppliers of funds
- intermediaries
- users of funds

Government is the primary supplier of funds, but resources of enterprises and private companies also may be involved. Intermediaries are organizations which include management, financial center, information services, design department, coordination services. A financial center accumulates the incoming funds, defines the necessary amount of loans, organizes a secondary market of securities and coordinates with the banks and insurance companies. The implementation of a mortgage financing process is impeded by the following problems:

1. In practice, the legislative base is not utilized.
1. There is no trust to the guaranties of the government.
1. There is no demand for securities.
1. High level of risk for the construction companies.
1. Non-payment the loans.
1. Not possible to take the property as collateral.
1. Unbelievably large difficulties in giving long term loans or credits.
1. Loans are not affordable to the majority of the population because the level of wages and salaries very often is too low to cover even the minimum living expenses of the family, much less a mortgage payment.

When we study the requirements for construction financing in greater detail, additional problems become obvious. To develop a system of mortgage financing, which would be applicable to individual housing construction in the conditions of Kyrgyz Republic, it will be necessary to analyze alternative possibilities, which we may be able to do after completion of the all seminars in this program.

## **PROBLEMS IN ORGANIZING MORTGAGE LENDING IN KYRGYZPROMSTROIBANK**

**Yusupova D.E., Marketing Department, KyrgyzPromStroiBank, City of Bishkek**

KyrgyzPromStroiBank was founded from the former StroyBank of USSR and PromStroiBank of USSR and reformed into a commercial/industrial-construction bank in 1992. At the present time, the bank has regulatory capital in the sum of 20 million som. The financial situation of the bank is very complicated because of the large volume of delinquent credits. The bank has accumulated a large volume of overdue loans for many reasons, one of which is the worsening financial situation of many of the bank's borrowers. The bank also lacks any possibility of realizing on the objects of collateral which were given to secure the credits. And as a consequence, the bank's profitability and financial soundness have suffered.

To improve the situation, KyrgyzPromStroiBank has to find new clients, widen the range of services offered to the clients and create its own credit portfolio. The traditional form of giving commercial credits cannot be used today because of the difficulty of finding good and sound borrowers.

During the present transitional period of establishing market economy in the Kyrgyz Republic, housing construction has slowed down. This lack of activity in the construction sector has been due to many factors, not the least of which has been the rapid escalation of the prices of construction materials. However, housing cannot be ignored because the housing problem in the republic is very serious. The government of the Republic has allocated large parcels of land for the construction of houses as well as significant monetary resources from the budget. But the problem is not being resolved as fast as we would like. Because of the demand for housing, sooner or later housing developers will come to the bank to receive credit for construction or purchase of houses. Especially, as was discussed during the seminar, when the bank's return from mortgage lending improves.

It seems that mortgage lending does not differ significantly from regular commercial credit. The same terms of giving a credit are applied: availability of credit resources in a bank, good financial condition of the borrower, his/her ability to pay interest and principal, stable collateral to service a credit. However, problems and difficulties immediately arise.

First, when a borrower receives credit and gives real estate as collateral for the credit, then the law "About Collateral in Kyrgyz Republic" by which the ownership rights on real estate are transferred to the bank when default happens becomes applicable. However, it doesn't mean, that bank has the right to sell the collateral and repay the debt of the borrower or perform any other operations to realize on the collateral, because immediately another law, "About Banks and Banking Activity" is applied. This law prohibits banks from having any auction operations. So what rights in the collateral do we banks have? The real estate is transferred to the bank, but the bank cannot sell it and has to wait until the borrower sells the real estate himself and repays the amount due. Naturally, the borrower is not in any hurry to do so. And the bank has to sell the real estate from borrower's name and wait until the tax inspection shows up.

When an apartment or house is given as collateral we have even greater difficulties. When default occurs and the bank sells the apartment or house, the bank has to provide the defaulting borrower another place to live with a minimum living standards (living area (min. square footage), water, sewer, etc.). Besides that, for a transfer of collateral property, it is necessary to notarize a collateral contract. This costs up to 10% of property price.

Second, financing a deal, the realization of which happens over long period of time, is not profitable to the bank, because with the high level of inflation, the bank would sustain large losses. It is not effective to give a credit for more than 2 or 3 years, because this leads to the lower return on credit and a lower value of the cash resources invested in the transaction because of the higher risk. The bank is not able to predict the future situation of the borrower for more than a few years. But mortgage lending typically involves repayment of the loan and payment of interest on it for a term of 10 years or more. Mortgage lending is not yet a profitable line of banking business for Kyrgyz banks.

Third, the rapid rise in the cost of the construction material has led to a sharp increase in housing construction costs. As a result, the following situation occurs: the time for payment of construction comes due, but the amount of the credit is not large enough to complete the construction. What options does the bank have? If the bank does not advance additional funds to complete construction, the bank cannot recover the money it has already invested in construction. But, if the bank makes a larger amount of the credit available, it is uncertain whether the borrower will be able to repay the addition such a big amount of credit advanced.

Fourth, housing construction costs in the Republic are very high, but the income of the population is lower. Borrowers cannot qualify for loans because there is no possibility that they will be able to make timely and regular payments on the loan and pay interest.

Fifth, there are no professional appraisal or real estate services companies in the Republic.

Resolving these problems on the Republic level is possible only with the participation of the government, because government has to take some of the commitment to provide housing finance. The following steps are necessary to stimulate banks to give credits for construction or purchasing a house:

1. Lower taxes on the revenue received from mortgage lending;
2. Enact uniform laws about collateral and private property rights;
1. Compensate the banks for the difference between the mortgage interest rates which would be affordable to the population and the commercial interest rates which are profitable to the banks.

The goals of sending specialists from KyrgyzPromStroiBank to the seminar on lending and financing real estate are to define the major principles of organizing mortgage lending, evaluate the possibility of organizing a real estate finance department in KyrgyzPromStroiBank and learn methods of real estate cost appraisal. As was expected, the seminar offered a lot of interesting and useful information about organizing mortgage lending. After completion of the whole program on real estate financing and lending, we will do a full analysis of the possibility of organizing mortgage lending in KyrgyzPromStroiBank.

## **APPRAISAL OF MORTGAGED REAL ESTATE AND EVALUATION OF CREDIT RISK**

**A.S. Nasyrov, Senior Expert, Kurulushbank**

First of all, I would like to thank the organizers of the programs and especially Ms. Elaine Weis for a useful and helpful class. I am most interested in the topics related to the appraisal of mortgaged real estate and the evaluation of credit risk because they are related to my responsibilities at the bank. My duties include:

1. To evaluate the credit risk in each case and manage the risk if necessary;
2. To make an accurate evaluation of the collateral;
3. To register the property according to the established procedures;
4. To monitor the use of the mortgage funds;
5. In case of default, to sell the collateral on the market.

As present, the credit risk is very high in Kyrgyzstan due to economic instability and flawed legislation. In 1991-1992, 100% of the loans were repaid, whereas in 1993-1994, 50% to 60% of the loans are in default. This happened because the credit risk had not been properly analyzed and the pledge of a mortgage on the collateral had not been practiced. Loans were insured by the so-called insurance companies or guaranteed by letters of warranty from a third party, usually an enterprise, kolkhoz, sovkhov, etc. In the course of time, many of the companies failed to cover the insurance for several reasons, mainly because of the recession in all branches of industry and the break-up of the outdated, but still functioning, banking system. State enterprises reduced the rate of production and went bankrupt. Thus, the responsibility to cover the credit risk shifted to the banks. The borrowers did not prove credit worthy.

At present, our bank uses only the pledge of collateral as a guarantee of loan repayment. This practice creates new problems, such as:

- new experts are required to evaluate the collateral, e.g. engineers-builders, mechanics, agronomics experts, etc.;
- it is necessary to evaluate the collateral for the full period of the loan, not only at the time the loan is granted;
- it is necessary to evaluate the credit risk to provide for the possibility of selling the collateral.

Currently, there are no professional appraisers in Kyrgyzstan. It is the responsibility of the experts from the State Property Committee to evaluate property, but the value they report is either higher or lower than the market value. The bank cannot afford to keep full-time appraisers on staff. It prefers to hire independent experienced appraisers on a contractual basis.

Today many people from small towns and villages are moving to Bishkek and looking for housing there. They are mainly young families who have neither homes nor jobs. At the same time, the purchasing capacity of the population is very low. The housing market offers single-family buildings and apartments, but the low income groups of the population cannot afford the prices. There is no new construction in the city because the construction industry is on the decline. Under the circumstances, it seems logical to consider the following proposal for funding the housing sector.

The bank purchases a single family house for \$10,000. The borrower pays \$5,000 up front and repays the remaining part of the principal and interest during five years in equal monthly payments. If the interest rate is 12%, the borrower has to pay \$111 every month. The borrower becomes the owner of the house after full repayment of the loan. Thus, the bank can make a profit by using the interest on the loans and, on the other hand, by using the initial \$5,000 payment from the borrower.

In my opinion, the banking institutions should be actively engaged in financing housing construction and, thus, provide more financial services such as mortgage lending.