

INTRODUCING NEW LENDING SYSTEMS TO PROVIDE HOUSING TO PEOPLE WITH INFORMAL INCOME

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Abstract:

This article talks about the reforms that are being implemented in our country today in order to provide affordable and high-quality housing for the purpose of social protection of the population.

Keywords: Loan, mortgage loan, mortgage portfolio, mortgage market, "CLARA" software.

In recent years, large-scale works on providing housing to the population have been carried out in our country, and now these works are continuing at a rapid pace. Because providing the population with housing and improving living conditions is one of the urgent issues facing our country.

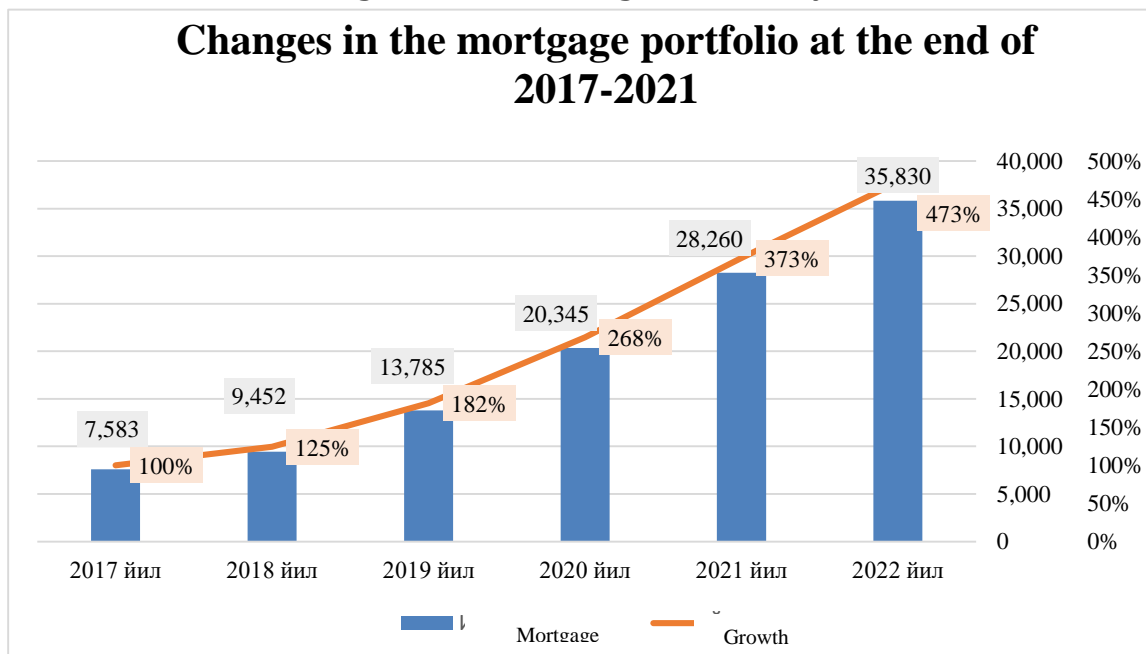


Figure 1. Growth of the balance of mortgage loans in commercial banks during 2017-2021¹

¹ Prepared on the basis of information obtained from the official website of the Central Bank.

In order to solve the housing issue of the population, the Presidential Decree No.PQ-2660 "On Housing Construction in Cities" and PQ-2639 "On Housing Construction in Rural Areas" decisions have been made. accumulated over the years. As a result of the implementation of these decisions, about 150,000 housing units were built and allocated to the population at the expense of preferential mortgage loans during 2017-2020. At the same time, the mortgage portfolio of commercial banks has also increased significantly, the mortgage portfolio, which was 7.6 trillion soums as of January 1, 2017, reached 38.6 trillion soums as of January 1, 2022, or The mortgage portfolio of banks increased 5 times in a short period of time.

.Based on these figures, the share of the mortgage portfolio in relation to the country's GDP is increasing.

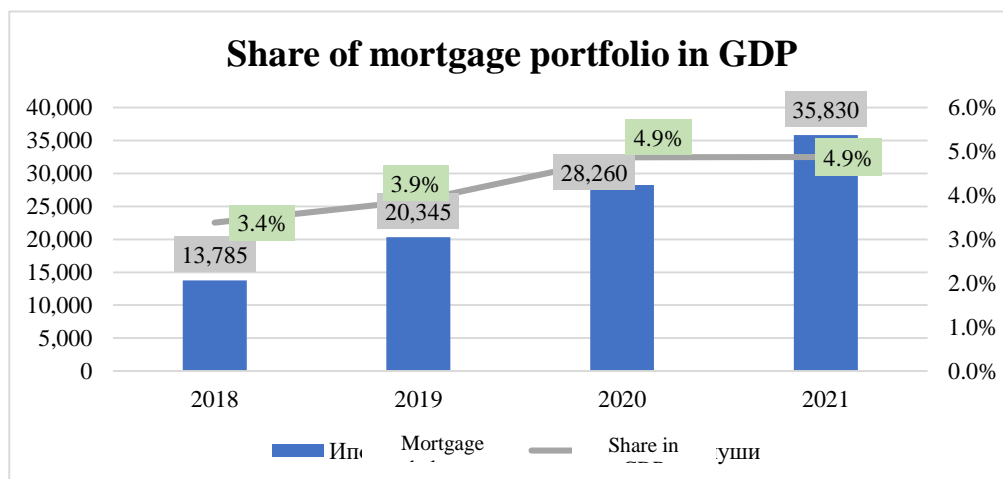


Figure 2. Dynamics of the share of the mortgage portfolio in GDP²

As a result of the development of the mortgage market, in 2018, the share of mortgage loans in our country was 3.4 percent, and by 2021, this figure was 4.9 percent. To reach this level in such a short period of time is quite an achievement. For information, the balance of mortgage loans allocated to the population in the neighboring Republic of Kazakhstan amounted to 8 billion dollars as of the end of 2021, its share in the GDP is 4.5 percent.

Such an indicator can be considered as an achievement achieved as a result of large-scale efforts to provide housing and develop the mortgage market in Uzbekistan in the last 5 years.

² Prepared on the basis of information obtained from the official website of the Central Bank.



In conclusion, it can be said that the development of the mortgage market in Uzbekistan began in 1996, but the high inflation rate in the country and the lack of long-term reserve funds in commercial banks had a negative impact on the development of mortgage credit market. Even if a separate bank was later established, it did not produce significant results. Because it is important that the sources of funding for any project are clear and continuous.

In its place, it should be said that the government's work on the development of the mortgage market in the last 5 years is commendable, and in neighboring countries, such a figure has been achieved for at least 15 years. However, as a continuation of these works, it is considered appropriate to increase the sources of financing mortgage loans, that is, to increase their diversification.

The past period has shown that construction has developed slightly during the period of financial opportunities, long-term resources have been reduced due to the decrease of funds, in a word, the future of the industry has not developed stably. Today, a large amount of investment is made in the construction market, new jobs are created and employment is inextricably linked with the continuation of these works and the sources of financing the mortgage market tomorrow.

Also, today's demand for housing will increase even more in the future. One of the biggest issues facing the state is creating conditions for each family to have suitable housing based on their income.

It is necessary to create such a system for providing the population with housing, that every family should have the housing it deserves and should think about the housing issue from today and accumulate its investments by making efforts for tomorrow.

In the last 5 years, work has been carried out to provide housing to only the segment of the population that has formal income, people with informal income do not have the opportunity to get loans through commercial banks. As a result, people belonging to this class are forced to buy housing through construction organizations on the basis of term payment. In practice, commercial banks do not have a lending system for providing mortgage loans to the population with informal income. In this case, only the strata of the population with informal income who have good financial opportunities are buying housing from construction organizations on the basis of term payment.

Most of the income of houses sold through construction organizations on the basis of installment payments is circulated outside the bank, and these



circulations are not included in the tax base. Failure to establish a mortgage system for people who do not have an official income at the same time leads to an increase in non-bank transactions in the construction sector.

Most of the population with informal income is considered to be of medium and low income, and they cannot afford housing on a short-term payment basis. As a result, the housing issues of people with informal income have been accumulating for years without being resolved.

Most of the working population has informal income, it is advisable to introduce new mechanisms and programs of state lending in several directions to provide the population with housing. Failure to introduce the new mechanism in the short term will lead to accumulation of problems related to informal income.

It is necessary to approach the population on the issue of housing and create confidence in the future, in this direction the state should be the main reformer and regulate the mortgage market. The following is suggested in this matter:

1. Introduction of a mortgage loan allocation system for people with informal income.

Today, banks evaluate the solvency of a borrower based on his past income and allocate a loan based on that.

In the proposed project, a citizen who receives a mortgage loan signs a deposit/credit contract with a commercial bank, deposits at least 25 percent of the housing value in a bank deposit account every month for 12 months, and through this, after 12 months, his solvency (payment discipline) A mortgage loan is allocated based on the assessment.

For example, an artisan, merchant or other self-employed person signs a contract with the bank for 300 million soms to buy a house. According to the notice, the citizen will save 25 percent of the housing price, that is, 75 million soms, out of 6.2 million soms per month for the next 12 months. After the savings period is over, the bank can assess his solvency and thereby allocate him a mortgage loan.

This system allows to attract self-employed people without formal income into the banking system, provide housing and attract new customers. This, in turn, contributes to the growth of GDP in the economy, the creation of new jobs, in short, the further development of the economy.



Today, within the framework of the state program, subsidy payments are allocated only to people with official income. People with informal income cannot use this opportunity at all, and in the proposed system, people with informal income will also have the opportunity to receive subsidies.

In Uzbekistan, 70% of the working population has informal income, and this class mainly includes artisans, migrants working temporarily abroad, merchants, and other self-employed people. The failure of people belonging to this class to think about housing issues now will cause many social problems in the future.

2. Funding of housing construction based on contribution.

As we all know, financing of housing construction is carried out in 2 different ways today. This is done by allocating credit to the traditional system building organization and channeling the accumulated contribution and mortgage loan funds on behalf of the citizens buying houses.

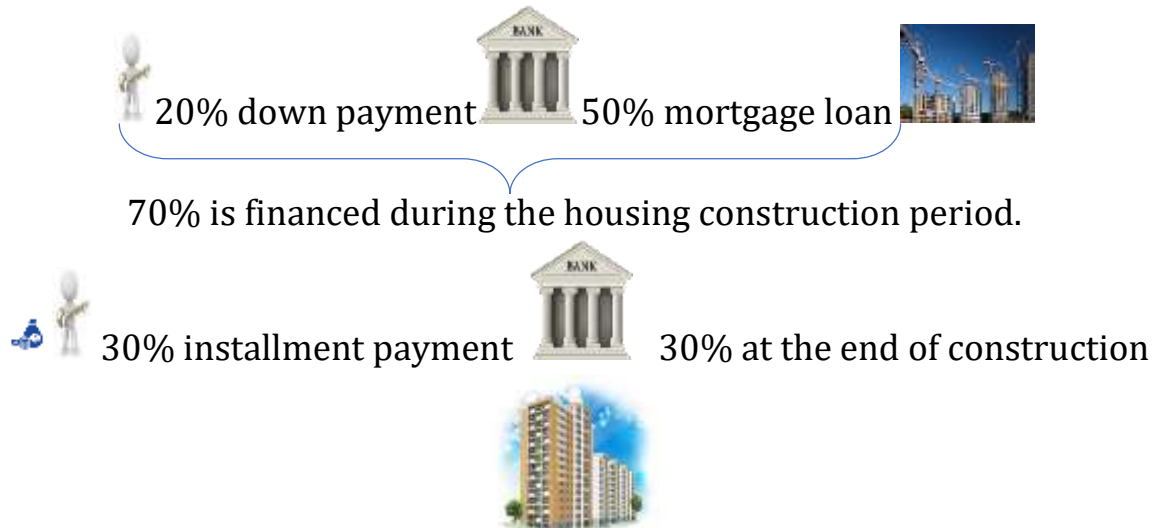
Today, in the housing construction market, the volume of housing sales is increasing, not at the expense of credit funds, but on the basis of installment payments. Also, most of these turnovers are not included in the tax base. These houses are sold with a 35-40% increase in price after the end of the other price during the construction period.

In order to regulate the housing construction market and to satisfy (finance) the housing construction period of the population, the housing construction system was put into practice on the basis of a share, and this project was reflected in paragraph 18 of the Decree of the President of the Republic of Uzbekistan №DP-6186.

As a result of the introduced innovation, a system was introduced to ensure the circulation of funds in the housing construction market based on term payment through the bank, and first of all, the system of allocating mortgage loans to people who do not have an official income, but have a permanent income.

What this system will provide - this system will reduce the funds circulating in the non-bank housing market, increase bank turnover and increase tax revenues. Today, one of the main reasons for the development of housing construction on the basis of equity and term payment in the housing construction market is that commercial banks allocate mortgage loans only to the segment of the population with official income.

In order to solve this problem and to reduce illegal transactions in the housing construction market by providing mortgage loans to the part of the population with informal income, the following scheme is proposed to finance housing construction.



In this system, at the beginning of the housing construction period, a tripartite contract is concluded between the civil construction organization, the bank and the citizen. According to the contract, the construction company is responsible for the quality, price and completion of the construction within the specified time. The citizen undertakes to collect the remaining 30% of the housing cost (contribution funds) within 12 months. A commercial bank issues a mortgage loan during the construction period, after the housing construction is completed and the contribution funds are distributed, it undertakes the obligation to re-regulate the mortgage loan allocated to the citizen to the funds of the Ministry of Finance.

At this point, a question arises, why should a citizen accumulate 20 percent of his contribution funds at first, and then accumulate 30 percent contribution for another 12 months. First, it is the most favorable mechanism for assessing the solvency of a citizen with informal income. Second, the allocation of a mortgage loan to the remaining 50 percent of the citizen's contribution funds leads to a reduction in monthly loan payments.

For example, a self-employed citizen with no official income wants to buy a house worth 420 million soums at the initial stage of housing construction by investing a share, in which the citizen will make a contribution of 84 million soums and during the construction period will pay from 890 thousand to 4,440



thousand soums per month. the mortgage loan for housing construction will be allocated step by step while making the loan payment.

Also, during the construction period, the citizen collects contributions from 9,900 thousand soums per month, and after the construction of the house is completed, the remaining 30 percent of the contribution funds are transferred to the construction company.

The proposed project will allow citizens to acquire housing at the beginning of the construction period, and will help reduce hidden turnover in the housing construction market and increase tax payments. Citizens with modest incomes will be able to get a mortgage loan for 20 years with a 20 percent down payment.

3. The system of allocating mortgage loans to residents for construction and reconstruction of housing on their own land.

In order to develop market mechanisms for providing mortgage loans to the population, as well as to provide state support to families with the need to improve housing conditions, it is necessary to introduce a simplified procedure for allocating mortgage loans to residents with informal income in rural areas for the construction of individual housing on existing plots of land.

This system allows residents to build housing and improve living conditions on their land plot without spending a lot of money.

Within the framework of this procedure, commercial banks assess the solvency of citizens who do not have official income, taking into account their sources of income:

- Income related to self-employment activity, where a self-employment state letter is required;
- Incomes from land areas leased for 10 years and agricultural products grown in the estate for the purpose of establishing a farm (**for reference.** "clara" software determines the net profit obtained based on the calculation of income and expenses for each type of agricultural products.);
- Money transfers sent by close relatives from abroad;
- Income received on bank cards from the sale of certain services or products.

The payment capacity of the citizen is evaluated based on the availability of other additional income and the analysis of payment discipline by forming the funds necessary for the initial contribution in the bank account for 6 months.



The income of a citizen who has contribution funds for housing construction is evaluated based on the above criteria, in cases where it is not possible to determine the income, the citizen is offered to accumulate contribution funds in a bank account for 6 months.

Based on the above, the maximum amount of mortgage loans is determined in accordance with the real monthly income of the population. (According to initial account books, it is appropriate to give loans of up to 125 million soums to citizens with informal income).

The specified loan amount must be changed every year based on the change in the price of construction materials.

A mortgage loan of up to 327.2 million soums is allocated according to the current regulations when the real monthly income of the citizen is high and the monthly loan is sufficient to pay the payments.

When a citizen receives a mortgage loan for the construction of an individual house, he must first carry out 15 percent of the construction work at his own expense. A mortgage loan is allocated for a period of 20 years with a grace period of 6 months for no more than 85% of the housing to be built.

Loans are given to cover the costs of purchasing construction materials and construction (reconstruction) of individual housing.

In this case, construction works can be carried out by the borrower's own power, involving private contracting organizations or hired workers registered as self-employed persons in accordance with the law.

Today, the population of our country is 35.6 million people, and the number of families being built annually is 310,000 on average. It is appropriate to expand the range of mortgage loans offered to the population in order to solve their housing issues.

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