



საზოგადოება და ბანკები
SOCIETY AND BANKS

REVIEW ON FORECLOSED REAL PROPERTY



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Review on Foreclosed Real Property

Presently, bank managers and government officials pay great attention to the issue of problem loans. One of the major reasons causing the world economic crisis in 2008 was exactly problem loans (Issuing of large amount of subprime (high risk customers) loans by commercial banks in USA caused insolvency of leading financial institutions, that consequentially initiated world economic crisis).

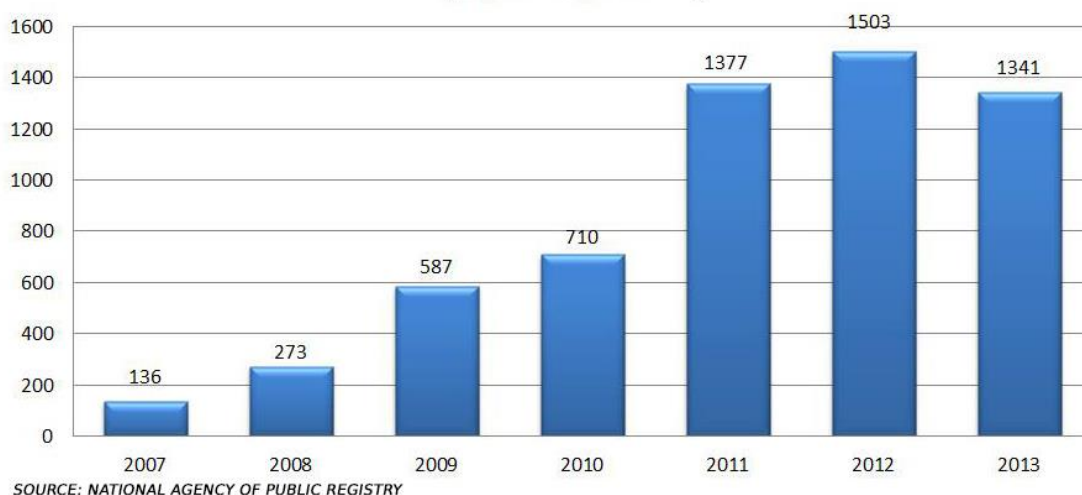
10% of the loans issued by the banks in our country is problem loans, thus setting Georgia on 52nd place among 124 countries of world bank list (this data is better than average). In fact, amount of problem loan issued by the commercial banks is not as small, they are far larger as individuals take the loans from private entities at unofficial market. One of the hardest moment of problem loans are the cases of losing the houses and become homeless because of non-payment of the loan. Share of the loans secured with real property is increased, thus more and more people are under the risk of losing the property. After 2008 (The Russo-Georgian War and World Economic Crisis), number of foreclosed properties sold by the commercial banks, financial or non-financial institutions significantly increased.

As full data of problem loans in Georgia is unavailable and number of foreclosed property for such non-payment increases (which makes difficult financial condition of the population more complicated), "Society and Banks" inquired the case and reviewed the data about properties foreclosed by the commercial banks, micro financial organizations and private entities (money-lenders).



Schedule 1.

**REGISTERING OF TITLE ON REAL PROPERTY VIA ENFORCEMENT
NUMBER OF REAL PROPERTY TITLE REGISTRATION VIA ENFORCEMENT
(2007-2013 YY)**

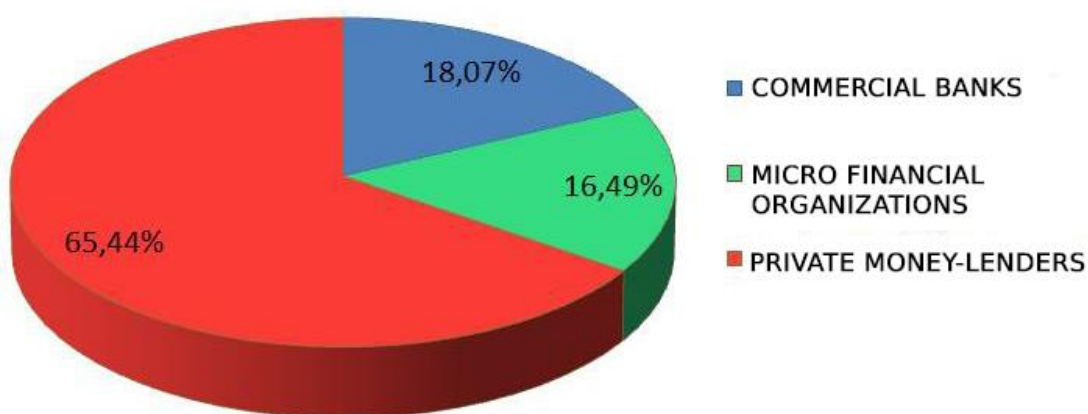


As #1 schedule shows, enforcement transactions (title registering via enforcement) are growing from 2007 to 2013 and shows its maximum in 2013, with 1503 transactions. This tendency shows that number of problem loans are increasing, which may be caused by different reasons: ineffective expenditure of financial resources of the borrower, simplified issuance of loans by the banks, micro financial organizations and private creditors (money - lenders) (improper evaluation of the risks and absence of risk management), unstable economic condition in the country (slow economic growth, high level of poverty, social inequality), etc.

For informational purposes, it is important to notify that, National Bureau of Enforcement provides the auctions on property since 2011, where the reason of property realization is not indicated. Thereby, until October of 2013, there is no information about the proceedings accomplished in favour of commercial banks and micro financial organizations.



Schedule 2.

**AUCTION REALIZATION OF MORTGAGED
REAL PROPERTY (PERCENTAGE)**

SOURCE: NATIONAL BUREAU OF ENFORCEMENT

The data from October 2013 to May of 2014 inclusive, is as follows: 952 real properties were realized in this period. 172 were sold in favour of the commercial banks, which is 18,07% of the total number; 157 properties were sold in favour of micro financial organizations (16.49%) and the rest 623 (65.44%) is sold in favour of private entities i.e. money-lenders. We see that from October 2013 to May of 2014 inclusive, 65.44% - the largest part of the property is sold in favour of private money-lenders from the total mortgaged property, which is a huge index, being a matter of huge concern.

Conclusion:

Based on the above given analysis, we see that number of enforcement transactions are growing from 2007 to 2013, though it decreased a little in 2013 (with 162). Thereby, the largest part of the property - 65.44% is sold in favour of private money-lenders from the total mortgaged property. Money-lending business is legal in Georgia, though it is not regulated. Some regulations were launched since 2014. Since March 1 of this year, they are obliged to notarize mortgage agreement. Thereby, maximum limit of interest rate was fixed, which is 3.68% per month. Though,



we think that these regulations are not sufficient and legislation should be more specific and strict in this field.

This data shows that society is seriously damaged from the side of private money-lenders (proved by the largest 65.44% share from the total mortgaged property), thus it is clear that registration and control system of private money-lending field is extremely necessary. In long-term period, this will support to decrease the number of foreclosed properties, which will definably improve difficult financial condition of the citizens.

Data shows that, share of auctioned properties of the commercial banks and micro financial organizations is far smaller, respectively 18.07% and 16.49%; this can be explained by the fact that realization of the properties is the final level of loan coverage for the commercial banks and micro financial organizations, which can be applied only in case of extreme situation.

Recommendations:

For solving above given problems, non-governmental organization "Society and Banks" consider the following is appropriate to accomplish:

- developing of financial education of borrowers and lenders;
- improvement of risk management and loan issuance criteria;
- refining of the correspondence coefficients of the incomes and liabilities;
- developing of assets management companies in the country, which will support the banks to manage the problem loans;
- establishing registration system of the private money-lenders;
- adapting of the financial legislation to the interests of the customers;
- improvement of the economic condition of the country;
- decreasing / cutting off the interest rates on loans.



