

Implementation of a Guaranteed Mechanism for Citizens to Purchase Housing

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Abstract:

This article examines the introduction of a housing purchase guarantee mechanism, designed to mitigate financial risk and enhance market liquidity. By securing mortgage transactions and reducing default rates, the system aims to improve citizens' access to sustainable homeownership, fostering greater economic stability and equitable housing opportunities.

Keywords: Home purchase guarantee, ownership, financial security, real estate, finance, housing policy.

In today's economic situation, securing home ownership is one of the most important financial milestones for citizens. However, buying a home often comes with significant financial risks and hurdles. To address this, introducing a home purchase guarantee mechanism can provide much-needed security and confidence for both buyers and financial institutions. This system ensures that citizens are less vulnerable to housing risk, increases confidence in real estate markets, and enables more people to achieve sustainable home ownership. By showing the benefits and operational structure of such a mechanism, this article explores how it can empower citizens and increase financial security in the housing market.

1. According to the analysis, in recent years in our country, the number of cases considered in court on disputes arising from the contract on participation in construction is increasing year by year (responsibility of "Aziya Invest Favorit" in Yashnabad as in the limited company "Yer" LLC. Lemon farm in Kibra).

In particular, 5 in 2020, 29 in 2021, 76 in 2022,

Until June 1, 2023, 58 such disputes were considered in court.

At the same time, citizens who paid money to participate in the actions will be left homeless and without money due to the following circumstances:

- a) does not belong to the developer, but is also sold to other persons or sell something that doesn't exist at all;
- b) arbitrary construction, including on or outside agricultural land (illegal construction);
- c) pledging the sold object as loan collateral;
- d) use of the funds raised for other purposes;
- e) bankruptcy of the developer.

At the same time, the mechanisms introduced by Resolution No. PQ-4732 of May 27, 2020 (Registration of Construction Organizations and Conclusion of Contracts at the Ministry of Construction) do not allow sufficient protection of consumer rights.

So far only 124 objects have been registered in this system).

SOLUTION:

1. It is proposed to introduce a new modern mechanism of attracting funds for construction - a system of depositing funds (also called escrow, "project financing").

This system was first introduced in the mid-1970s in the United States. Later, it was introduced in countries such as Austria, Italy, the UAE, the Czech Republic and Latvia, and from July 1, 2018, in the Russian Federation.

2. Basic terms of the Escrow system:

- a) an escrow account is opened for each construction object based on the contract concluded between the builder and the commercial bank;
- b) a person who wants to buy a residential or non-residential place from an object whose construction has not been started or whose construction has not been completed, deposits the amount agreed with the builder into the deposit account;
- c) a commercial bank provides a low-cost loan (at a rate of up to 7%) to the producer from the funds in the "escrow account";
- d) after the completion of the construction, the money in the escrow account is transferred to the name of the buyer for the purchase of the relevant object or payment of its initial cost (at this time, the loan term also expires);
- e) the money in the escrow account is not subject to taxation (also, if the manufacturer does not fulfill its obligations, this money is returned to the owner);

3. It is proposed to introduce an "escrow" system parallel to the current system (direct participation) in order to develop the definitions of these services in commercial banks in order not to have a negative impact on the housing market. will:

4. In order to pledge the object under construction or its part with the help of escrow accounts, it is required to obtain the consent of all shareholders.

Decree No. PF-198 of August 24, 2022 of the President of the Republic of Uzbekistan "On measures to reliably protect the inviolability of property rights, prevent unreasonable interference in property relations, and increase the level of capitalization of private property" in order to ensure openness and transparency in the use and disposal of the state housing fund, as well as to improve the system of providing public services in the sector allocation and provision of accommodation;

provision of service accommodation located in the houses of the municipal, departmental housing fund or specific purpose communal housing fund;

privatization of the state housing fund;

formation of the regional register of state bodies' housing and posting on their official websites.

Home purchase guarantee mechanisms are based on the theory of financial security, particularly risk reduction and market stabilization. These systems protect lenders from defaults, which boosts confidence in housing markets. Countries like Denmark and the US have government-backed mortgage guarantee programs that reduce default rates by 30%-50%. In South Korea, the state's mortgage insurance system has increased home ownership by 10 percent over the past decade. Meanwhile, Help to Buy programs in the UK have reduced loan-to-value risk and encouraged more first-time buyers. These mechanisms reflect Keynesian economic theory in which government intervention stabilizes housing markets and stimulates demand, thereby reducing systemic financial risks while allowing greater access to home ownership.

Current issues in home purchase guarantee mechanisms include:

1. **Affordability Challenges:** High real estate prices and rising interest rates are making homeownership increasingly difficult for many citizens, particularly low- and moderate-income families.

Solution: The introduction of tiered guarantee structures will help prioritize support for disadvantaged populations and ensure that financial assistance is targeted to those most in need.

2. **Limited Awareness:** Many potential home buyers are not aware of the warranty programs available, leading to underutilization.

Solution: Strengthening advocacy through public seminars and digital platforms can educate citizens about their capabilities and increase participation in insurance schemes.

3. **Regulatory challenges:** Complex regulations can hinder the effectiveness of assurance mechanisms, causing delays and increased costs.

Solution: Simplifying regulations and adopting standardized procedures can simplify the use of guarantees for buyers and lenders.

4. **Market Volatility:** Economic downturns can lead to increased defaults and tightening of guarantee programs and the institutions that support them.

Solution: The establishment of reserve funds and the use of actuarial valuations can increase the financial stability of guarantee programs and ensure that they can withstand market fluctuations.

5. **Inadequate Funding:** Many programs are underfunded, which limits their impact and effectiveness.

Solution: Increasing public-private partnerships can expand funding sources, allowing for more robust guarantee mechanisms to meet diverse housing needs. By addressing these issues through targeted solutions, housing affordability mechanisms can be more effective in promoting homeownership and stabilizing the housing market.

In conclusion, the introduction of the housing purchase guarantee mechanism is an important step towards increasing the access to housing ownership and financial security of citizens. By addressing pressing issues such as affordability, limited awareness, regulatory complexity, market volatility, and insufficient funding, these mechanisms can be fine-tuned to better serve diverse populations. The introduction of tiered support structures, simplification of regulations and development of public-private partnerships can significantly increase the effectiveness and sustainability of such

programs. Ultimately, a well-designed home purchase guarantee system not only empowers individuals in their pursuit of home ownership, but also contributes to a more stable and fair housing market. As we move forward, adopting these positive solutions will be critical to ensuring that more citizens achieve their dreams of home ownership.

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