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Real estates market gave rise to loans to foreigners

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Sofia. Deals in real estates in Bulgaria have reached a total of BGN5BN and a considerable part of that amount is due to foreigners' willingness to buy, land, villas, or housing in this country. In fact, business in real estates is one of the most quickly developing ones in Bulgaria and has become the main source of attracting foreign capitals into the country. Some banks' heads already tell about people whose monthly incomes were in the range of BGN400-500 a year ago and who became millionaires after they sold some immovable property. Foreigners really show great interest towards land and housing in Bulgaria. It turns out that its scope has already impressed domestic credit institutions and they are launching special products in order to extend loans to foreign citizens who want to buy houses, flats or plots of land in our country. Principally, clients pay for such deals by money from their accounts or bank loans received in their respective countries. But it turns out that there are investors who for one reason or another are inclined to use the services of Bulgarian credit institutions as well. According to our bankers, foreigners resort to the services of our institutions in several cases, the first one is when they have exhausted the credit limit in the banks servicing them. Usually, each citizen of a Western country has at his disposal a certain ceiling of financing from his bank which is calculated on the basis of his monthly incomes. Thus, if that limit is exhausted his only possibility is to address a Bulgarian credit institution and apply for a loan.

The second case when foreigners turn to a Bulgarian bank is when their local credit institution assesses the risk as too high and refuses to release a loan for the purchase of property in our country. That cannot be ruled out because for a bank outside the country it would be extremely difficult to control the real security which is in Bulgaria. Besides, any action in it is effected in compliance with Bulgarian legislation and lawyers of a West European bank are hardly acquainted with it. Thirdly, foreigners address Bulgarian banks for loans because they use the services of domestic real estate agents.

Most local companies trading in real estates offer also bank financing of purchase deals. According to the Executive Director of United Bulgarian Bank (UBB) Stiliyan Vutev, interest rates on mortgage credits in euro, offered by the bank - 6.5% a year - are not much higher than those in Great Britain where such loans are extended at 5-5.4% annual interest.

„However, we have not announced a special product for foreigners who want to buy property in our country, because real estate agents offer financing of such deals", Mr. Vutev specified.

In fact, UBB has tried to bind the whole process of financing the construction in a single whole which guarantees it a good quality of loans' servicing. Entrepreneurs who draw credits from the banks to finance the building of blocks of flats close contracts for mediation with agents, and the latter offer to their clients to ensure them loans for the purchase of flats.

It's interesting, however, how credit institutions check foreigners' solvency „We use the services of international credit bureaus which have huge and very detailed database. Moreover, we demand references from the banks, servicing our foreign clients, Mr. Vutev said.

Two weeks ago the Chairwoman of DSK Bank's management Board, Violina Marinova, said in an interview for the BANKER weekly that when launching housing loans to foreigners the bank she runs also used the services of international credit bureaus. Raiffeisenbank (Bulgaria) also extends loans to foreigners for purchase of real estates without having a specialized product for that. „We have closed deals for financing purchase of immovable property not only with EU citizens, but with Russians and Ukrainians as well. Raiffeisenbank has a wide network of subsidiaries in all countries of Central and Eastern Europe and that allows us to get very quickly information about the solvency of our clients applying for loans", Momchil Andreev, Chairman of Raiffeisenbank (Bulgaria) Management Board told

the BANKER. When making a decision for releasing mortgage loans to foreigners First Investment Bank (FIB) requires from its clients to present written information about their credit history, a letter from the employer or his accountant, verifying the net income of the applicant, as well as a bank statement about his deposit for the last three months of the year. When making decisions it is very important if there is a central credit register in the country of origin of the applicant. On that depends the number of documents that the credit institutions would require from the client, and also the price of the credit itself. It is not a question of interests only. The main way for banks to guarantee the money they extend to foreign citizens who want to buy real estates in our country is the so-called self-participation. What is that? Usually, banks do not finance the purchase of a real estate entirely. The size of the credit varies from 60% to 80% of the property's value with different credit institutions. In other words, the clients should pay some 20% to 40% of the deal with his own money. Bankers are unanimous that with such requirements for self-participation a few foreigners would venture to fail to pay the due instalment in time. In addition, the real estate itself that is being paid for with the credit serves as real security. In the current market situation real estate prices tend to move upwards and demand is very high. Therefore, it would be no problem for the bank to quickly sell the land, houses or flats, put in pledge, and collect its receivables. Yet, it cannot be said that foreigners have queued for loans in front of Bulgarian banks. Probably, people who invest in real estates in our country have sufficient money at their disposal, at least they have till now. Besides, they do not know the Bulgarian bank system well and therefore refrain from entering into business relations with it. Language is also an obstacle and foreigners enter our credit institutions only if it's extremely indispensable. UBB has extended BGN6MN, and DSK Bank - EUR8MN in mortgage loans to foreign citizens.

With the development of the domestic real estate market the demand for these services may rise considerably. Moreover, several foreign firms entered the Bulgarian construction business. Raiffeisenbank (Bulgaria) has even set up a subsidiary for consultations and mediation in the sale and purchase of immovable property. And it's absolutely normal for all those companies to „colour" their services by ensuring financing to their clients from Bulgarian banks. Thus, loans to foreigners might ultimately become a serious business for domestic credit institutions.