*Section: Economic security*

**Kinakh I.**

*student*

*Kyiv National Economic University named after Vadym Hetman*

*Kyiv, Ukraine*

***Scientific adviser**:*

**Ivanets I.**

*PhD in Economics, associate professor of*

*Department of Corporate Finance and Controlling*

*Kyiv, Ukraine*

# «GREEN MORTGAGE BACKED SECURITY» AS AN INNOVATIVE TOOL FOR FINANCIAL MARKET: THREAT OR PROSPECT FOR HUMANITY

Capital markets have been a source of funding for green investments for a number of years, but until recently, financing was predominantly from equity. Private equity, venture capital, and government funding were the most accessible sources of capital when green technologies such as solar and wind were in early stages of development. More recently, as these technologies have been tested, proven, and refined, funders have naturally progressed along the capital structure towards public equity and debt financing to support growth and scale. At the same time, leading financial institutions have provided impetus for expanded green investing. Green mortgage-backed securities are an option to invest. As the US Energy Efficiency Mortgage Program explains, lower energy costs mean that building owners are more able to repay mortgages—and they are a better credit risk.

In 1994, the commercial mortgage-backed securities market was a $50 billion industry. Today, the Commercial Mortgage Securities Association estimates the market at $500 billion, making up 25 to 30 percent of the mortgage market.

This growing secondary market for commercial mortgages provides both liquidity and diversification for large commercial real estate investors, including insurance companies and large pension funds. The scale of that market is the reason that the Institute for Market Transformation to Sustainability (MTS) is promoting development mortgage-backed securities for green buildings [2].

We all remember the global collapse of the mortgage market in 2008 in the United States that was the starting point of the global financial crisis. Therefore, it resulted in adoption of regulations by which country tried to impose the financial market constraints similar to those of the Great Depression time. For example, according to the well-known Glass–Steagall legislation (Act) bankers were not allowed to carry out speculative activities by deposit money. Its prototype was the Dodd-Frank Act of 2010 [3]. However, today J. Trump has ordered to review this law for the sake of rolling back financial regulations, indicating that the discretion of the banking sector will enable them to more actively engage in speculative activities in the mortgage market.

Synthetic derivatives were immediately introduced to the financial markets. They had been widely used and as a result were one of the causes of the financial crisis of 2008 - 2010 years, namely bonds secured by mortgages (MBS - Mortgage Backed Security) (released about $ 600 million. US Federal National Mortgage Association Fannie Mae). However, there is one rather considerable difference. Today it is not just a bond secured by mortgages, it is so-called green mortgage, because it must meet requirements of energy efficiency and be equipped with future payments.

Thus, there is still the question: green mortgage is threatening humanity and might end in such a crash, as in 2008, or is it still a financial instrument that will ensure sustainable development?

Since the Green Mortgage backed Security is a fairly new concept in the financial world there is no clear definition. This innovative financial instrument is a security backed by fixed income, mainly assured by a loan or other property taking into account both environmental and financial characteristics of the asset.

Considering the environmental dimension, following condition of obtaining a mortgage can be distinguished:

1. The presence of nationally recognized Green Building Certification.
2. Improvement and enhancement of property in order to reduce usage of energy and water.

If we consider the financial component, then this financial instrument is a way for banks to provide mortgages to their clients without worrying about the availability of assets to cover the loan. Since in this case the bank acts as a mediator between the owner of the house and investment market. Nevertheless, there is a high risk of default (non-payment), which can lead to a new "bubbles" that later can "burst".

Another difference between the Green Mortgage Backed Security and normal Mortgage Backed Security (widely spread on the financial market up to the financial crisis of 2008 -2010 years) is that banks will have the opportunity to trade not only with mortgage collateral but also with payments on this mortgage. Thought I think it will even double the risk.

However, Fannie Mae believes these types of green renovations could lower credit risk, increase property value, create higher quality and more durable housing while lowering energy and water use [1].

Speaking about the use of this innovative financial instrument in the financial market of Ukraine, worth noting that it does not bear any risks for us at the moment. Firstly, because of undeveloped financial market; secondly, the low level of using synthetic derivatives by Ukrainian banks and thirdly, Green Mortgage Backed Security is at the initial stage of development, so only few countries acquainted with this instrument and its use in practice.

## LIST OF REFERENCES

1. Frank Chaparro "There's a way to invest in a cleaner environment, and the market is booming" [Electronic resource] - Access mode: http://www.businessinsider.com/green-bonds-taking-off-thanks-to-sovereigns-2017-3.
2. An official web-site of Capital Markets Partnership [Electronic resource] - Access mode: http://www.capitalmarketspartnership.com/about.
3. JOSH CLARK How can mortgage-backed securities bring down the U.S. economy? [Electronic resource] - Access mode: http://money.howstuffworks.com/mortgage-backed-security.htm.