TO OWE IS NOT TO OWN:

WHY RUSSIANS REJECT MORTGAGES (AND WHY AMERICANS ACCEPT THEM)

An NCEEER Working Paper by

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Executive Summary

This study traces the cultural consequences of transplanting the American model of housing markets to Russia. After the collapse of the Soviet Union, the Russian government, with the assistance of USAID, attempted to establish a system of mortgage lending. Imported foreign institutions, unadapted to the Russian context, produced what legal scholars call a “transplant effect,” a transfer of rules from one culture to another that slows economic development and provokes cultural resistance.

In the US a mortgage provides a sense of ownership, but in Russia, mortgages are labeled “debt bondage” and Russians insist that the bank, not the borrower, owns the home. Whereas borrowing to buy a home is seen in the US as a virtuous investment compared to credit cards, in Russia, a mortgage represents unconscionable hubris, while small-scale credit is considered banal. And to Americans, paying interest on loans spanning decades is a taken-for-granted condition of ownership; Russians, by contrast, are outraged by interest payments and uncertain ownership of a commodity they consider to be a basic right. In short, even if mortgages become more affordable in Russia, the market will not emerge until mortgages gain cultural legitimacy.

Introduction

In 1992, following the collapse of Soviet rule, the Yeltsin government transferred property rights to the occupants of state-owned housing, creating a significant source of household wealth. At the same time, newly minted financial institutions, modeled on the American system, laid the foundation for a mortgage-based housing market. This market was slow to emerge during the chaotic 1990s, when credit for both builders and buyers was scarce, and construction nearly ceased.

But by 2007, the Russian housing market finally appeared to be taking off. Vice-Minister Dmitrii Medvedev commented that “Russia is standing on the threshold of a construction boom.” He cited optimistic projections on lending as evidence that half the population would soon be able to purchase housing (Medvedev 2007; PNP 2007). Popular media encouraged consumers to get in on the action. The glossy magazine Your Mortgage (*Tvoia Ipoteka*) claimed in 2007 that “mortgage credit is affordable for the majority of Russians. In civilized countries no one waits to save for an apartment or house—everyone from millionaires to pensioners acquires housing through credit.”

Nevertheless, the mortgage market has failed to thrive, for reasons that transcend the ongoing international financial crisis. This paper analyzes one critical factor that undermines the market: lack of consumer demand. In 2000 only 7% of surveyed Russians could define the word mortgage and over 70% had never even heard it. By 2006, 40% could define the term and another 40% had at least heard of it. Yet by 2007, just 3% of Russians had home loans, and only 22% said they would consider a mortgage if they needed housing; that proportion shrank to 9% in 2009 (FOM 2006; FOM 2009).

This deep aversion to mortgages is evident in the primary metaphor that Russians use to describe them: they are called kabala, which means "debt bondage." President Putin pointed to the cultural nature of the problem: "Mortgage loans must become not only accessible but habitual, operating as the norm and not as an exception.…So far the word `mortgage' mystifies our citizens….It is necessary that people come to believe that it can be used to solve the acute problem of housing". (Putin 2003).

Why do Russians view mortgages so negatively, given their increasing acceptance of other forms of consumer credit? The conditions of post-socialist crisis invert the cultural logic that has legitimized mortgages in the US, at least until recently. American mortgagors consider themselves homeowners, but Russians insist that the bank owns the home. Whereas borrowing to buy a home is seen in the US as a virtuous investment compared to credit cards, in Russia a mortgage represents unconscionable hubris on the part of both borrower and bank, while small-scale credit is considered banal. And while to Americans, decades worth of interest payments are take for granted as a cost of ownership, Russians, by contrast, are outraged by the prospect of paying many times over for the deferred promise of owning a home—a good they consider a basic right.

Of course, as the locus of three major financial crises in two decades, both banks and borrowers in Russia have good reason to be skeptical of long-term loans due to economic instability. Most Russians today would not qualify for a mortgage even if they wanted one. Yet the problem is not simply one of tightened supply, as credit crises are usually understood. Credit cannot flow if consumers do not want it. Russians' beliefs about housing, property, and rights are incompatible with a mortgage-based housing system.

This paper is structured as follows. I first present the concept of "transplant effect" from legal studies and discuss the cultural underpinnings of the American housing system that was transplanted to Russia. Next I provide background on the how American mortgage institutions were transplanted to Russia and how the mortgage market evolved. Then I analyze Russian dispositions toward mortgages using qualitative interviews conducted with young Russians in 2009. Although my primary interest is in the Russian case, studying the cultural dimension of market failure in Russia provides some insight into the American case as well. I conclude by speculating whether the global financial crisis could similarly destabilize the cultural foundations of mortgages in the US.

Mortgages as a Cultural Transplant

The theory of the "transplant effect" from legal studies posits that laws must be locally meaningful to be effective. Transplanting laws without adapting to local conditions exacerbates the "gap between formal law on the books and law in action," which in turn impedes economic development. The mechanism, the theory's proponents argue, is cognitive: effectiveness of formal law "rests on knowledge and understanding of these rules and their underlying values by social actors" (Berkowitz et al. 2003: 177). Mortgage law in Russia presents a clear case of legal transplant effects, as Yulia Guseva has demonstrated in her study of mortgage legislation and case law in Russia (2009).

I broaden the concept of transplant beyond the law to consider the broader culture that supports a mortgage system. Underlying mortgage law is the belief that housing should be allocated by markets and financed with long-term loans, a belief that many Russians do not share. A mismatch between foreign and local understandings of home, ownership, risk, and rights represses housing markets and delegitimizes housing policy. To analyze the cultural dimension of the transplant effect, we must first understand the culture that was exported. What do mortgages mean to Americans?

Most Americans believe that ownership begins at the moment that they receive the keys to their mortgaged home. Keys, for example, symbolize a happy ending in the reality television show *My First Place*. A buyer in one episode exclaims upon opening his front door with his new key: "It's like we're opening up our future here….Now we're homeowners and we know this is ours and no one can take it from us." Legally he does own the property, but it is not true that no one can take it away. A mortgage is a lien on a home's title as security for the loan. The borrower is also the owner as the holder of title. The lien, however, gives the lender the right to repossess the home in case of a breach of the mortgage contract. Practically speaking, the presence of a lien makes ownership status ambiguous. The borrower's sense of ownership glosses over this conditionality.[1]

In the book *Credit Card Nation*, Robert Manning explains how Americans came to take debt for granted. He attributes the spectacular rise in consumer debt to "the erosion of the traditional 'cognitive connect,'" in which households calibrate living standards to current income and future anticipated expenses. By contrast, contemporary "Americans' consumption patterns tend to be influenced by their perception of future economic conditions… rather than by current trends—even during periods of declining real wages or economic difficulty" (2000: 105-6, 127).

Though mortgages epitomize consumption today based on projections about the future, Manning says little about mortgages in his book on debt-fueled consumption. This omission reflects the extraordinary legitimacy that mortgages hold as a form of virtuous debt in the West.

[1] "Use It or Lose It," *My First Place*, Home and Garden Television Network, Season 8, 2008.

As two French economists note in their history of consumer credit: “Housing loans…are dignified by the wholesome utility of dwellings. Consumer purchases are seen as superfluous expenditure…. Property loans are the only loans which are spared this moral stigma” (Gelpi and Julien-Labruyere 2000: xi). The rise of home equity loans and refinancing further normalized housing debt by transforming the idea of a home from purely a dwelling into an investment. The expectation of rising prices and refinancing opportunities enabled subprime lending—a market of staggering risk—to appear rational and even virtuous (Smith et al. 2002; Jarvis 2008; Langley 2008; Cook et al. 2009).

The virtue of housing debt was born of necessity. Homeownership rates are highest where social spending is low, providing households with a source of security in old age (Conley and Gifford 2006). Because the cost of housing far exceeds annual incomes, young families without inheritances that wish to own a home must borrow. In the US low-income homeownership was achieved by deregulating access to mortgages, rather than by directly subsidizing low-income households (Carrozzo 2004). The moral valence of mortgages thus helped legitimize state retrenchment away from the housing sector.

In sum, the following beliefs buttress the American mortgage economy. First, consumers equate mortgages with ownership. This sense of ownership is enabled by the “cognitive disconnect” that calibrates present consumption to optimistic projections about future income and housing values. Second, mortgage debt is perceived as more virtuous than other types of consumer credit. And third, borrowing to buy homes is regarded as a reasonable alternative to state-subsidized housing.

Transplanting American Mortgage Institutions to Russia

In the Soviet Union the party-state built, distributed, and owned most housing. Nevertheless, residents derived a sense of de facto ownership from their long-term usage rights over the dwellings they inhabited, which could be transferred to descendants or swapped with other families. Yet housing remained scarce and the so-called "housing question" was a persistent problem. In 1961 the Communist Party promised that by 1980 "every family, including the families of young married couples, will have a fully outfitted apartment, corresponding to hygienic and cultural needs." The separate apartment was celebrated in the Soviet media and inscribed in the logic of housing design and distribution, leading Russians, who had been accustomed to living in multi-generational households, to conclude that to reside with the nuclear family is to "live normally" (Harris 2003). Although the state did not deliver on its promise for everyone, millions of households moved to separate apartments, and others queued with the expectation of eventually receiving one.

After the Soviet Union collapsed, the new government tried to construct a housing market by creating "a Russian copy of the American secondary mortgage market system" (Mints 2000). In March 1992 the Russian Federation signed an agreement with the United States Agency for International Development (USAID) to implement the Housing Sector Reform Project (HSRP). The project, which was subcontracted to the Urban Institute, was one of the largest USAID programs in the region. Although the project ended in 1998, it has had a lasting influence. Mortgages remain at the ideological core of Russian housing policy, even as the state increasingly manages the market.

The central premise of the HSRP is that the housing sector is, or should be, a market, founded on private property and regulated by supply and demand. Privatization was "the key instrument" for establishing a housing market in Russia (UNECE 2004). The Russian government's 1992 Law on the Fundamentals of Housing Policy gave occupants the right to privatize the dwellings they inhabited for a nominal fee. The policy was relatively simple to implement, but it had flaws. For one, it made no attempt to mitigate inequality. As the HSRP directors wrote: "There is little hope of equal treatment....those occupying the better units at the beginning of the privatization process will receive larger transfers of wealth" (Kosareva and Struyk 1993: 98). Although one-third of eligible units were privatized within two years, the rate of privatization then slowed. The costs and benefits remained unclear, and many saw no reason to privatize, since massive subsidies for maintenance and utilities persisted despite HSRP recommendations to recover costs.[2] Still, by 1998 nearly half of housing in Russia was privately owned, a major accomplishment that HSRP leaders expected would catalyze housing markets.

Unfortunately, a market did not flourish as the state withered away. Instead the construction of new housing units fell by two-thirds in the first post-Soviet decade. During the same period the average size of new apartments rose by nearly 50% (see figure 1). Builders targeted development toward affluent consumers who could pay cash, a small minority since housing prices far exceeded average incomes (Kosareva and Tumanov 2008). What resulted is a housing regime I call "property without markets," in which housing is privately owned but not fully commodified, and housing opportunities for younger generations depend on inheritance of privatized assets and not on income (Zavisca 2010: Chapter 4; Zavisca 2008).

Aware that privatization alone could not create a healthy market, HSRP leadership shifted the project's focus from 1995-1998 to institutionalizing mortgage lending. First, the Institute for Urban Economics (IUE) was founded by the Russian staff of the HSRP in Moscow,

[2] These subsidies were eventually scaled back during Putin's push to monetarize social benefits (*l'goti*) after 2002,

who helped draft laws on mortgages, securitization, bankruptcy, and foreclosure. The IUE introduced a Certified Mortgage Lender program in 1996 to train bankers in mortgage practices. Second, the government established the Agency for Home Mortgage Lending (AHML) in 1997 to provide liquidity and set lending standards. The agency is modeled on America's Fannie Mae, whose experts helped to establish AHML's operating procedures.

Russia thus became the first post-Soviet nation to have a formal institutional basis for a secondary mortgage market and mortgage-backed securities (MBS). AHML remained a hollow transplant, however, a formal copy with little practical effect. Its first loan purchases were scheduled for September 1998 but postponed after the Russian government defaulted on its debt and devalued the ruble in August 1998. The AHML and the tiny mortgage sector survived that crisis only due to American subsidies.[3]

In 2005 the mortgage sector suddenly began to grow, as did construction (see figures 1 and 2). Average terms shifted from a 20% adjustable interest rate on a 10-year loan in 2001 to a 12.5% fixed rate on a 16-year loan in 2007.[4] Nevertheless, housing did not become more affordable because prices skyrocketed. A typical applicant in 2007 needed a family income of about 45,000 rubles a month, twice the average earnings of two full-time workers. By 2008 the ratio of mortgage debt to GDP was less than 3%, a fraction of the HSRP target of 30%. Most other former Soviet states had mortgage sectors worth from 10-15% of GDP in 2008. The ratio

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although more gingerly than other kinds of benefits due to popular and political resistance (Cook 2007: Chapter 4).

[3] Although the HSRP ended in 1998, USAID invested in the US-Russian Investment Fund (TUSRIF), which marketed mortgages in Russia under the brand "Delta Credit." A USAID annual report in 2002 boasted that: "Building on USAID's support for landmark reform on mortgage lending, Delta Capital is now the leading mortgage financier in Russia." The TUSRIF intended to jumpstart the new mortgage system and then sell its assets to private investors and dissolve. But there was little demand for Russian MBS. Investors in Russian housing—i.e., the American government—entered the field not to turn a profit, but to promote markets as a political project. The result was that "cheap mortgages for highly paid Russian qualified professionals are provided now by American taxpayers" (Mints 2000).

[4] In historical perspective these are conventional terms. American interest rates on 30-year fixed rate mortgages fluctuated between 10-15% during the 1980s. Internationally, loan-to-value rates of around 70% were typical before the subprime bubble, and fixed-rate loans were not available in many countries (Green and Wachter 2005).

stood at 50% in the EU-27 and 87% in the US (European Mortgage Foundation 2009).

Still, a market had begun to emerge. This growth began, however, only after the state began to actively subsidize mortgage lending. Flush with petro-dollars, the Russian government in 2006 declared affordable housing a “Priority National Project.” Incentives on the supply side include subsidized credit and tax incentives for builders. On the demand side, government banks increased mortgage lending, gaining more than half of market share by 2007 (Grishin and Raskosnov 2007). The government also subsidized mortgages in the service of its pronatalist agenda. The Young Families Program provides a 30% down-payment and low-interest loan for modest housing, although eligibility restrictions have limited the program’s scale. More significant is so-called Maternity Capital, $10,000 vouchers that can be applied toward mortgages for all mothers who have had a second child since 2007 (payouts began in 2009).[5]

These subsidies depart from the American system in their scale and overt pronatalist intent. Russian mortgage law also differs from its American prototype in the degree to which it deflects risk to borrowers to hedge against macroeconomic uncertainty and difficulty evaluating creditworthiness. There is no equivalent to the Federal Housing Authority (FHA) to insure loans purchased by AHML. Instead AHML requires borrowers to purchase several types of insurance against risks to the borrower’s income, health, and life, as well as property. AHML also requires “repurchase agreements,” in which the primary lenders must buy back loans if underwriting standards were violated; these are normally only seen in subprime markets in the West. Mortgage contracts are also unfavorable to consumers. Foreclosure proceedings may begin after even minor delays in payment, with no grace period before payment of the entire amount is required in full, and personal liability is unlimited (Guseva 2009).

[5] I analyze the pronatalist aspects of Russian housing policy and its political and demographic effects in Chapters 3 and 7 of Zavisca (2010).

Nevertheless, Russian housing policy remains rooted in the American model. Both the American and European mortgage systems were created with public financing. American mortgage institutions were a product of government responses to crises, from the FHA and Fannie Mae—founded to avert mass foreclosure during the Great Depression—to the creation of Freddie Mac and MBS, designed to inject capital into the savings and loan sector during the stagflationary 1970s (Gilbert 2002; Carrozzo 2004; Arku and Harris 2005).

Likewise, Russian housing policy since 1998 has attempted to support a securitized, secondary mortgage market. Until recently, residency permits (*propiska*) and the constitutional right to housing had made it nearly impossible to foreclose on mortgaged properties, making them a very risky investment. Foreclosure is now a real legal possibility. Legal reform increased lenders' confidence and ratings agencies' optimism about mortgages in Russia. New securities legislation, coupled with an oil-based economic boom, enabled AHML to finally issue its first MBS in 2007 (Skyner 2005: 568; Guseva 2009).

Anti-crisis measures since 2009 also resemble American policy: stabilizing banks at the expense of consumers. When the American subprime crisis began, the Russian government and banking sector pointed to strict underwriting standards to assert that "Russia is not America" in an attempt to calm markets. Nevertheless, loan defaults grew alongside unemployment, and mortgage lending contracted by 80% in 2009 (see Figure 2). Just as in the US, the government has bailed out banks with massive subsidies, while proposing small, toothless programs to restructure the loans of troubled borrowers (Bashkatova 2009; Lialiakina 2009; Senatorova 2009). In short, Russian financial crises in both 1998 and 2009 led the state not to questioning the American model of housing finance, but rather to dig in.

In this macroeconomic context, few Russians could get a mortgage today even if they wanted one. However, very few want a mortgage, despite the enormous demand for housing. In 2007 about half of Russians lived with extended family even through the age of 35.[6] The vast majority crave their own apartments: in a 2007 survey, 86% of respondents age 18-35 indicated that young families should live separately from their parents (FOM 2007). This unmet demand makes housing, in a common turn of phrase, a "painful question" (*bol'noi vopros*). Regardless, misgivings about mortgages in Russia will make it difficult to translate demand for housing into demand for credit, even after the current crisis lifts.

Research Design

To analyze what mortgages mean to Russians, I draw on data from a qualitative interview study of housing and family life conducted from July-December 2009. A team of three Russian sociologists under my supervision conducted in-depth interviews with 130 young Russians age 21-35. They began with questions about respondents' housing histories, current conditions, and aspirations. Respondents were then asked to define the term mortgage, to recount their impressions of and experiences with mortgages, and to share their view on government programs to subsidize mortgages for young families.

We recruited respondents based on a quota sample that varied according to housing tenure (extended family, renting, owning outright, mortgage-holder), education (with or without a higher degree), and gender. Descriptive statistics on the sample are presented in Table 1. Sample characteristics were selected in accordance with the research goals of the larger project and are not intended to represent the population as a whole. The sample over-represents renters

[6] Author's calculations from the Russian Longitudinal Monitoring Survey.

and mortgage holders by design. Within housing tenure categories, the sample was split evenly between those with and without higher educations (with the exception of mortgage holders, of whom all but one had a college degree). Women are overrepresented for reasons unrelated to the topic of this paper.[7] The distribution of housing tenure, education, and age is similar for men and women in the study.

Limited resources made it necessary to restrict data collection to one location. I selected the city of Kaluga because it is situated on the boundary between core and periphery, both geographically and economically. Though Kaluga has average demographics and income for Central Russia, housing is relatively expensive due to its proximity to Moscow (180 km) and the presence of several foreign auto factories. Because of extreme income inequality, the city's well-to-do population is sufficiently large to support new construction, mortgage, and rental sectors. About 15 banks offer mortgage loans.

In presenting findings I will emphasize the most common views of mortgages, rather than variation across socioeconomic groups, among whom I found a striking degree of consensus on this topic. To evidence these shared meanings, I document similarities where one would least expect to find them: between those who do and do not have mortgages.

The Meaning of Mortgages for Russian Consumers

Mortgages as Debt Bondage

Russians frequently describe mortgages as *kabala*. More commonly known in English for its association with Jewish mysticism, the word in Hebrew also means receipt for a payment. The term developed negative connotations in Russia during the Imperial era in association with

[7] Women were of primary interest in the larger study of the relationship between housing and fertility. Resources sufficed for a supplemental but smaller sample of men.

Jewish moneylending. The phrase *dolgovaia kabala* is the translation of the term "debt bondage" used in the USSR's ratification of the United Nations 1956 Supplementary Convention on the Abolition of Slavery, which defined debt bondage as "the status or condition arising from a pledge by a debtor of his personal services or of those of a person under his control as security for a debt, if the value of those services as reasonably assessed is not applied towards the liquidation of the debt or the length and nature of those services are not respectively limited and defined."[8]

The following examples provide a sense of contemporary usage as applied to mortgages.

> —What is a mortgage? It is a kabala. It is to enter into slavery for 33 years, with the bank as your master. The bank, by charging interest, is earning money on the backs of human beings.—Alexei, 30 year-old engineer, married with two children, owns inherited apartment.

> —It's not realistic for us to get our own apartment. To enter into a kabala for 25 years by taking out a mortgage, when it's not clear what will happen in 2 years. Today I'm married, tomorrow is unknown. Who knows if I'll even be alive in 5 years? I can't imagine the consequences if something were to happen to me. The bank would kick my son out onto the street. I can't hang a kabala on my child. It's abnormal.—Lena, 26-year old bookkeeper, married with one child, lives with in-laws.

> —A mortgage is a kabala. There must be better options than to believe in the "radiant future," but to constantly worry that that at any moment, even tomorrow, you could have problems at work; your salary could go down. And then what will you do? Who knows if the laws will change tomorrow? Or the interest rates? It gives one the jitters.—Vadim, 33-year-old civil servant, single, renter.

Thirty percent of respondents in the Kaluga interview study used the term kabala spontaneously. Although interviewees with mortgages did not use the term, 8 of 15 described their mortgages using a related term such as shackle, yoke, slavery, or burden--as did 34% of all respondents.

The notion of debt bondage arises from uncertainty about the terms or possibility of repayment. Interviewees imagined catastrophic scenarios—from unemployment to sudden

[8] For English text of the convention see http://www1.umn.edu/humanrts/instree/f3scas.htm; the Russian translation is

death—and expressed anxiety that the terms not only of a specific loan but of the economic system, could change at any moment. The burden of debt overshadowed any sense of ownership for these Russians.

To Owe is Not to Own

In established mortgage markets, I have argued, consumers misrecognize debt as outright ownership. Russians see things in the opposite light—they insist that the bank is the true owner, even if the mortgagee holds title. This refusal to recognize conditional ownership can be traced to the distinction between the concepts of ownership (*sobstvennost'*) and possession (*svoi*). In the Soviet period, people developed a sense of possession over the apartments they inhabited, describing their residences as "mine" (*svoi*), even though the government was the legal owner. Conversely, being an owner of record (*sobstvennik*) with a mortgage lien does not necessarily provide Russians with a practical sense of possession.[9] Russians without mortgages typically see borrowers as debtors, and regard any sense of ownership as an illusion. Natasha, a 25-year-old, unemployed renter, classifies mortgagees as closer to renters than owners: "I know very few people who actually own their own homes. Most of my acquaintances either have a mortgage (*nakhodiat'sia v ipoteke*), or they are renting, or they are living with their parents." The expression "nakhodit'sia v ipoteke," which translates "to be situated in a mortgage," suggests a transient state. With no prospect of inheritance, Natasha has looked into mortgages, but is wary:

> In theory, a mortgage is better than renting, because you have the feeling that you are paying for something that is yours, so it's easier to part with the money. But it's complicated. My friend got a mortgage and she even got a 30% subsidy. Still it's an enormous risk. Because the government doesn't guarantee a stable job or sufficient income. It doesn't insure your debt. You and not the government conclude the contract with the bank and pay the interest. Therefore if something changes for you, the bank will take away the apartment, because in reality it was never yours.

at http://www.pravoteka.ru/enc/1931.html.

[9] This is also why most Russians prefer not to rent: because they cannot make rentals their own.

Economic instability makes the prospect of ownership seem distant and uncertain. Svetlana, who is desperate to move out of her mother's apartment, inquired about the Young Families Program: "But you have to be prepared to pay for practically the rest of your life. Everyone I know who looked into it ran away when they found out the conditions. Naturally, because the future is unclear. Unfortunately we live in a country where every time it seems that things have stabilized, a crisis appears. People are losing their jobs. And thus those with mortgages are losing homes which they renovated and invested in and mistakenly believed belonged to them."

The fear of instability extends to the banking system as well as to jobs. Anatolii, who also looked into a mortgage, explained:

> We applied for a mortgage, but when we understood it better, we decided that it's a lost cause. Anything could happen, our salaries could be cut, crisis or no crisis, the situation in our country is inscrutable. Although you have to pay 30,000 rubles a month, in reality you have nothing. You don't even get ownership documents immediately, and if you are late with a payment, the bank will kindly ask you to get out. The amount that you already paid is automatically incinerated. As long as the bank is holding the ownership papers, it's scary, because anything can happen with banks these days. The bank could suddenly go bankrupt or disappear. And then what? How will you prove to whom the apartment actually belongs?

The belief that foreclosure means automatic forfeiture of any previous payments, while incorrect, is widespread. Respondents had little conception of equity or the possibility that a mortgaged property could be sold if it became unaffordable. They also had little faith in insurance. For example Vladimir claimed that insurance companies would always find a way not to pay: "You could be killed while riding on a bus whose driver is drunk, and they could refuse to pay your mortgage for your family because of a stipulation that the insurance is invalid in case of death due to alcohol abuse." While this sounds extreme, a study by AHML found that insurance companies do go to great lengths to avoid payouts (Biianova and Grishina 2009).

Notably, even respondents who had mortgages rarely define themselves as property owners. Three actually corrected interviewers who referred to mortgaged apartments as owned. When one interviewer said, “So you’ve been living in that apartment for a year. So you have your own property now,” the respondent clarified, “It was purchased a year ago with a 30-year mortgage. It’s not our property yet. I’m 33 now, so when I’m 62, god permitting, it will finally belong to us. It’s optimistic to think that will actually happen, but it was our only option.”

When mortgagors do describe their homes as “mine,” they are typically referring to living separately from the extended family, more akin to a renter getting his “own place” than a homeowner. Yurii remarked that the bank will own his mortgaged apartment “until we reach retirement age.” But he expressed no regrets: “Some people will say, ‘No way, I don’t want a mortgage, it’s not so bad to live with my auntie! But we had already rented and seen how it is to live separately. What’s mine is mine; it’s good to be the master of my own domain (*khoziain*).”

For those struggling with payments, the burden foregrounds their debtor status. Vera, whose husband was laid off six months ago, explained:

> Mortgages are not affordable for young Russians. But it’s not realistic to save up and buy an apartment all at once. The government should lower the interest rates. We have to overpay by triple the amount that we borrowed.
>
> *Interviewer*: Well, do you like the apartment itself?
>
> *Vera*: There’s nothing special about it. It’s small. But we aren’t used to better conditions. It seems as if we live in our own apartment. I don’t know.
>
> *Interviewer*: So you at least have a sense of happiness that now you have your own place?
>
> *Vera*: No. There is no joy. Because I always say that this apartment belongs to the bank, and not to us.

Russians’ insistence that a mortgage is not a type of ownership leads to the question of why borrowers in the US believe that it is. If kabala is a metaphor in Russia, homeownership is a metaphor in countries where mortgages are taken for granted. Linguist George Lakoff defines a metaphor as a cognitive mapping of a familiar source domain onto a less familiar target domain (2002). Equating mortgages with ownership maps the practical sense of possession onto more abstract financial arrangements.

A qualitative study of mortgage holders in the UK asked respondents: "If your mortgage were an animal, what would it be?" Most chose domestic animals, reflecting the degree to which "mortgage finance is entrenched in daily life." Even risk-taking mortgage holders who routinely draw on home equity framed their mortgages as lively but domesticable, like a dog that must be trained (Cook et al. 2009: 137). I suspect that if Russians were asked the same question, Russians would choose a wild animal instead--just as they often call Russia's own variety of capitalism "wild" (*dikii*).

Mortgages versus Consumer Credit in a Culture of Permanent Crisis

Mortgages in the West are supported by what Manning calls the "cognitive disconnect," which leads households to make consumption decisions based on rosy predictions about the future. By contrast, the experience of repeated crisis inclines Russians to predict catastrophe. Unprompted, 45% of respondents used the term "crisis" at some point during the interview. Nearly 80% expressed anxiety about the possibility of personal misfortune such as job loss or death, and two-thirds spoke of systemic instability, from economic implosion to the possibility of war.

The sense of impending doom makes comprehensible the equation of a mortgage with debt bondage, since it feels impossible to predict how, when, or whether a debt can be paid. As Nina, a renter who owns a hair salon, put it: "In present conditions, a mortgage is a kabala. We have a financial crisis. Anything could happen. Maybe a few people already have other property or land they don't need that they could use as collateral. But If you start out dog poor and hang a mortgage around your neck when you don't know what you will eat tomorrow, I think that's very difficult."

Few respondents, however, linked the crisis in Russia to the ongoing global financial crisis when discussing mortgages. Instead, the problem of crisis was framed as either uniquely or extremely Russian. One of the few respondents to refer to the global crisis framed Russia's crisis as more extreme: "Take the example of America itself. Everyone there took out mortgages and now we see the consequences. Everyone is burdened by debt. It's dangerous to get into serious debt for a banal reason: you may not be able to pay. Especially in our country. Right now due to the international crisis, people everywhere don't know what will happen tomorrow. This is even more true of Russia."

Russians' conception of crisis, even in 2009, is best captured by Olga Shevchenko's depiction of a culture of "permanent crisis," which she argues has pervaded Russian society since the collapse of the USSR. Following the 1998 ruble default, when Shevchenko conducted much of her fieldwork, consumption strategies were oriented around predictions of renewed crisis. Russians rushed to convert their cash into consumer durables, in case sudden inflation or unemployment should place these items out of reach (2009). A mortgage, then would represent an unacceptable loss of control, because rather than turning cash into durables, it makes one's most important durable possession dependent on future cash flow.

If mortgages do not fit Russians' crisis-fueled calibration of income and consumption, how can we explain the explosion of other forms of consumer credit that has occurred in the past decade? According to national survey data, use of credit among Russians for items other than housing more than doubled between 2003-2006, from 15% to 32%. Rates of use were even higher among young adults: the percentage aged 18-45 who had used credit was 25% in 2003 and 50% in 2007. As of December 2008, 36% of 18-39 year olds had an outstanding loan. The vast majority used credit to buy appliances, consumer electronics, and computers, followed by furniture and cars. Consumer confidence in credit peaked in 2007 and then plummeted as the global crisis hit Russia. Still, according to a May 2009 survey, two-thirds of Russians are prepared to take out a short-term loan if they have an urgent need of cash. By contrast only 9% said they would consider a mortgage (Bondarenko 2009; FOM 2009; ROMIR 2009).

Why is consumer credit accepted by so many, while mortgages are usually rejected? According to Alya Guseva in the book, *Into the Red*, the fastest growing segment of consumer loans in Russia are "express loans" for specific retail purchases, such as microwaves, stereos, refrigerators, and tires. At first glance, these appear to resemble the frugal caution of installment credit in the US in the nineteenth century. But Guseva argues that express loans evoke Manning's credit card nation more than they do an earlier Puritan ethos. Express loans are typically made by banks at kiosks inside retail establishments. Screening for creditworthiness is minimal, and the consequences of default relatively minor. Lending at the point of purchase leads consumers to associate borrowing money with the goods they desire, encouraging impulse borrowing and overcoming Russians' aversion to borrowing from banks (2008).

Acceptance of small-scale consumer credit is evident in the interviews, although we did not ask questions about non-housing credit. A few respondents emphasized that they always pay for things in full and are opposed to debt on principle. But about half spoke favorably or matter-of-factly about credit. For example, Olga, a 26-year-old market researcher, exclaimed:

> Mortgage is a dirty word! Because the banks are unscrupulous. They take so much interest, you pay and pay and pay and never know if you will ever finish paying! And even if you do, when you consider the interest, in the end you actually paid for three apartments, but you only own one…I think credit is fine in

> principle. They give out very good loans in the stores, without much overpayment. We've already taken out 4 or 5 loans, mostly for appliances. It's good when you want to buy something a little better, a little more expensive, for example a digital camera. It's more convenient to pay 1500 rubles a month than pay all at once. You practically don't notice it in your budget. And it allows you to buy a better product. I have a lot of experience with credit and I am not afraid of it. It helps, why not?

Consistent with Guseva's analysis, Olga's focus on the store and the monthly payment leads her to downplay the bank as lender and the interest buried in the monthly payment. Another respondent named Alla jokes that she needs credit because she is "constitutionally incapable of saving." Later, when asked about mortgages, she says:

> Mortgages scare me. I am constantly taking out credit. But a mortgage is totally different. I cannot understand how someone can take out a loan for 20 years. You have to be very daring. Today you are a prince, you have your own business, but tomorrow there is a crisis and you lose everything. Today you are living with your husband, tomorrow you fight and get divorced, who will you rely on? It's a kabala. I mean, it's 20,000 rubles a month! Right now I'm paying 800 rubles a month for a loan I took to buy a TV. My mother says, "You are overpaying, 300 a month is wasted on interest!" But I say that it's no problem, I can come up with 800 rubles a month for 3 years no matter what happens. Some people rush to pay it off faster, but what's the point of hurrying? You will just go shopping and take out a new loan!

As these examples illustrate, young Russians feel comfortable with credit as long as the monthly amount is modest, predictable, and relatively short-term, and if the act of borrowing is tied to the retail experience rather than a visit to a bank. Borrowing to buy a home, on the other hand, is seen as a long-term risk and commitment. The possibility of selling a mortgaged property or refinancing loan terms is rarely considered. The moral ranking of the virtue of debt is thus inverted compared to the US: loans for small luxuries have become normal and convenient, but a loan for a home is risky and imprudent.

Respondents with mortgages, likely aware of their stigma, described their circumstances as exceptional or their decisions as spontaneous. For example, Polina said that eviction from her rental apartment set the wheels in motion, and she just happened to be in the right place at the right time to find an affordable apartment and a low-interest loan. Kirill, who had taken out several mortgages and paid them off early, warned that they should be used only as short-term bridge loans; ordinary Russians should avoid them because they will naively fall into a "pit of debt" (*dolgovaia iama*). In a third case, a couple saw an advertisement for apartments in a new building next to their rental apartment. They went to look out of curiosity, and the sales manager who met them brought along a bank representative. In the course of looking at the apartment and talking to the banker, they "suddenly realized that it was realistic for us to buy an apartment." Although most mortgages are initiated at banks, not inside apartments, this story reinforces Guseva's argument that providing loans at the point of purchase makes credit more palatable to Russians.

Mortgages as a Breach of the Social Contract

Many of the objections Russians raise to mortgages are instrumentally rational, based on a calculation of costs, benefits, and risks under conditions of financial uncertainty. But the aversion to mortgage debt is more than simply economic. It is moral as well. The leaders of market transition claimed that capitalism would deliver higher living standards, at least to everyone who was willing to work hard to earn a return on human capital. Yet as I show in related work, most young Russians now believe that an apartment was easier to "earn" in the Soviet period and that the Soviet system was more fair (Zavisca 2010: Chapter 5). Housing was distributed through the workplace and was a legal right for everyone who worked. The waiting period for a separate apartment was uncertain, but by the late Soviet era most people believed they would eventually get their own place. Today, although housing remains a constitutional right, there is no guarantee in practice of affordable housing. Most respondents view better housing as a function of luck, not merit: the result of inheritance, a fortunate marriage, or happening to get rich by being in the right place at the right time.

New subsidies to make mortgages more affordable have backfired politically. After nearly two decades of state retrenchment from the housing sector, these subsidies reinforce the expectation that the government, and not the market or the individual, is ultimately responsible for ensuring that every family has its own apartment. Yet since a mortgage does not meet local definitions of ownership, a mortgage subsidy is not perceived as helpful. Instead, when asked what the government should do to make housing more affordable, most respondents proposed either some variant on the Soviet system of providing housing as an outright gift, or a quasi-mortgage program that would cap monthly payments at a relatively small proportion of income, and be guaranteed even in case of unemployment and inability to pay.

This sense that practical (as opposed to juridical) ownership is a social right explains why Russians do not see mortgage debt as virtuous. In *Credit Card Nation*, Manning notes that American media accounts of troubled borrowers tended to blame individual imprudence and youthful indiscretion, not the systemic overextension of credit. Though the kabala metaphor also assigns some personal responsibility to borrowers, because it suggests a voluntary choice to hang a yoke around one's neck, Russians are far more critical of the system than they are of the people who use it. They tend to describe mortgagors as gullible rather than greedy. After kabala, the next most common metaphor for mortgage credit is *obman*, which means "scam."

Mortgages are perceived as a scam in several senses. First, they may create a false sense of ownership. Second, they are commonly described as "unrealistic," with onerous monthly payments that at best make people "house poor": "You live in a house, but you have no life." Third, the high cumulative interest paid is often called "overpayment" (*pereplata*). When speaking of small consumer loans, most respondents did not calculate the total amount of interest paid, focusing instead on the affordability of the monthly payment. With mortgages, on the other hand, they tended to calculate and criticize the interest paid. For example, Marina commented:

> If a person borrowed a certain amount, that's what he should have to repay. A simple loan. But with a mortgage, a person has to pay more than he borrowed. It's not fair. It's one thing to pay interest for a television, but we are speaking of housing! You wind up in debt for the cost of two apartments, instead of for the one in which you are living. You have to overpay. It's a scam.

Perhaps the deepest sense of scam, however, is the broken promise that markets will reward hard work and provide prosperity. As a young man named Feodor noted when explaining why a mortgage is a kabala:

> In the Soviet epoch it was possible to earn an apartment. People stood in line at their enterprises. It was hard but it was achievable. Now it's not realistic to earn housing, except for a very small minority. Now, it's just like under Yeltsin and Chernomyrdin, they thought that everything would turn out better, but things have only gotten worse. Mortgages, all of these programs for young families, it's a lot of hot air. Simply a scam.

Although Russians profoundly distrust the government, they distrust housing and mortgage markets even more. Over 90% of respondents agree that the government should control housing prices and interest rates. Although that is likely not what Putin had in mind when he promised to "civilize" the housing market, the experience of crisis combined with the expectation of secure ownership has led most Russians to reject mortgages as a solution to the housing question.

Conclusion

In any economy, housing is a special type of commodity, one of the most significant and expensive acquisitions of a household. It is the market bar none that must be created by the state. This special status has made home loans more legitimate than other types of credit in the US, but less legitimate in Russia. Table 2 summarizes the various meanings that mortgages have for Russians and counterposes them to the cultural logic of mortgages in the US. I conclude the paper by speculating about what these findings suggest the future may hold for mortgages in both nations.

Is Russian distaste for mortgages simply a case of sour grapes? Would Russians want them if salaries and mortgage terms were better and more stable, of if they could actually qualify for loans? Although it is possible that new conditions would produce a new culture, the interview results give reason to be skeptical. We asked respondents whether they saw any potential for making housing more affordable in Russia. Two-thirds of respondents with higher educations agreed mortgages could work in theory, while nearly two-thirds of respondents without higher educations did not.

However, the mortgages they envision are not really mortgages at all. Two views emerged on mortgages for Russia. First, about 20% of respondents asserted that Western mortgages can only work in Western contexts. Second, nearly all respondents who have hope for mortgages in Russia, even the highly educated, believe that the state should control them. Many, in suggesting how mortgages could work, proposed a variant of an "installment loan" (*rassrochka*), with monthly payments pegged to construction costs and consumer incomes, limits on profit and interest, and a government guarantee that the home cannot be taken away. These proposals are far from the transplanted American mortgage: they combine aspects of Soviet housing loans for cooperative apartments, the construction savings associations of Germany (*Bausparkassen*), and "Islamic mortgage" instruments that have emerged in the US to quay ethical qualms with charging interest (Maurer 2006; Polterovich 2007).

Throughout this paper, I have used the case of failed transplant of the American system to Russia to also build a theory of what mortgages mean to Americans. Based on the findings about Russia, should we expect that the subprime mortgage crisis will destabilize the moral foundations of mortgages in the US? Will American consumers also question the relationship between owing and owning? Surely the foreclosure crisis of 2008-10 has made many Americans less secure about their sense of ownership. It is less clear to what extent this anxiety will translate into new modes of action.

Recent news stories in the American press tell of consumers who “walk away” from their mortgage debt and find relief renting a similar house for a fraction of what that had been paying to own. But so-called strategic default is still seen by many as immoral, making Americans reluctant to abandon their loans even if it is in their long-term financial interest to do so (Gross 2009; White 2009; Lowenstein 2010). The moral ambiguity of the responsibility to pay debt during a crisis could change the moral as well as financial calculus consumers make in the future about whether and how to become homeowners. The motif of “Main Street versus Wall Street” also suggests that, at least at the level of policy discourse, the morality of the system and not just the individuals who participate is now in question. However, in contrast to Russians, I do not expect American consumers to come to see practical ownership as a social right—rather, it will remain a part of the American Dream, a dream that suddenly seems more fraught with moral hazard, and more difficult to achieve.

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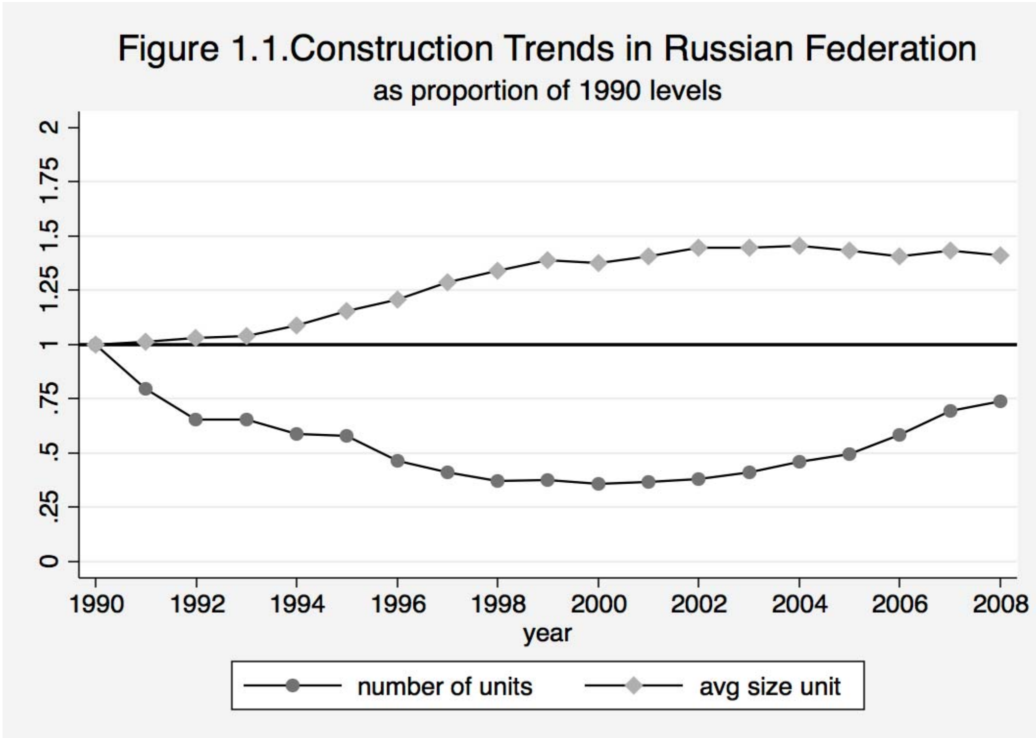
Table 1: Description of Qualitative Sample (N=130)

Housing Tenure		**Marital Status**	
Extended family	33%	Single	34%
Rent/Dorm	31%	Married	45%
Own w/o mortgage	24%	Living Together	9%
Mortgage	12%	Divorced	12%
Education			
Lower	50%	**# Children**	
Higher	50%	0	38%
Age		1	47%
21-25	33%	2+	15%
26-30	35%		
31-35	32%	**Employment Status**	
Gender		Employed	75%
Female	70%	Maternity leave	12%
Male	30%	Other	13%

Table 2. The Meaning of Mortgages in Russia and the US

	Russia	United States
Primary metaphor	Debt bondage	Homeownership
Future orientation	Pessimistic: Permanent crisis	Optimistic: Cognitive disconnect
Moral ranking of debt	Credit > Mortgage	Mortgage > Credit
Meaning of interest	Overpayment	Price of ownership
Political meaning	Breach of social contract	Personal responsibility



Source: Federal State Statistics Service of the Russian Federation

Figure 2. New Mortgage Lending (Source = Central Bank of Russia)