

Advanced International Experience in the use of mortgage notes as a financial instrument

Sharipova Nilufar Khikmatullayevna

Associate Professor, Department of Banking Accounting and Audit,
Tashkent State University of Economics, PhD

Email: sharipova_nilufar@tsue.uz

ORCID: 0000-0002-4892-9922

Abstract: The paper explores the mortgage note as a financial instrument that enhances banks' financial stability by formalizing creditor rights, standardizing mortgage obligations, and facilitating secondary market circulation of mortgage assets. The study highlights its role in improving portfolio liquidity, reducing credit risks, and supporting secure and efficient mortgage operations. The analysis underscores the potential of mortgage notes to strengthen financial resilience and contribute to the development of a transparent and sustainable mortgage lending system.

Keywords: Mortgage note, mortgage lending, financial stability, secondary market, credit risk, portfolio liquidity.

Аннотация: Мақолада гаров хати кредитор ҳуқуқларини расмийлаштириш, ипотека мажбуриятларини стандартлаштириш ва ипотека активларининг иккиламчи айланмасини таъминлаш орқали банкларнинг молиявий барқарорлигини оширадиган молиявий инструмент сифатида тадқиқ этилган. Тадқиқотда ушбу инструмент портфель ликвидлигини ошириш, кредит хатарларини камайтириш ва ипотека операцияларининг хавфсиз ҳамда самарали амалга оширилишини қўллаб-қувватлашдаги роли таъкидланади. Таҳлил гаров хатининг молиявий барқарорликни мустаҳкамлаш ва шаффоф ҳамда барқарор ипотека тизимини ривожлантиришда катта салоҳиятга эга эканини кўрсатади.

Калит сўзлар: Гаров хати, ипотека кредити, молиявий барқарорлик, иккиламчи бозор, кредит хатарлари, портфель ликвидлиги.

Аннотация: В статье рассматривается закладная как финансовый инструмент, который способствует повышению финансовой стабильности банков посредством формализации прав кредитора, стандартизации ипотечных обязательств и обеспечения вторичного обращения ипотечных активов. В исследовании подчеркивается её роль в повышении ликвидности портфеля, снижении кредитных рисков и поддержании безопасных и эффективных ипотечных операций. Анализ показывает, что закладная обладает значительным потенциалом для укрепления финансовой устойчивости и развития прозрачной и устойчивой системы ипотечного кредитования.

Ключевые слова: Закладная, ипотечное кредитование, финансовая стабильность, вторичный рынок, кредитный риск, ликвидность портфеля.

Introduction

The development of mortgage lending is one of the key factors for sustainable economic growth and improving access to housing across countries. The effective functioning of the mortgage market directly depends on the availability of legal and financial instruments that protect creditors’ interests, formalize borrowers’ obligations, and enable the circulation of mortgage assets in the secondary market.

One such instrument is the mortgage note. In international practice, the mortgage note functions not only as a legal document confirming the rights of the creditor and obligations of the borrower, but also as a tool for risk management, enhancing liquidity of bank portfolios, and ensuring financial sector stability. It plays a significant role in standardizing mortgage obligations, simplifying procedures for transferring claims, and creating opportunities for refinancing.

The objective of this study is to analyze advanced international experience in the use of the mortgage note as a financial instrument, identify key models of its application, and evaluate its impact on the stability of banking systems. The study examines the functioning of mortgage notes in Germany, the United States, and Scandinavian countries, where the instrument serves as a basis for structuring mortgage assets, securitization, and issuing covered bonds.

Literature Review

The application of mortgage notes in international practice attracts attention from both financial market researchers and legal scholars. Numerous empirical studies confirm that collateralized debt instruments, including mortgage notes, reduce information asymmetry, strengthen creditor protection, and lower credit risk. For example, Green and Wachter (2005) demonstrate that standardized mortgage documentation plays a central role in lowering credit risk and enhancing the stability of mortgage finance systems in advanced economies. They emphasize that transparent and enforceable mortgage instruments form the foundation for efficient risk transfer and secondary market operations¹.

Data published by the Deutsche Bundesbank (2019) show that the German Pfandbrief system represents a rigorously regulated institutional framework in which mortgage-backed claims form the basis for issuing covered bonds. The strict standardization of collateral eligibility criteria and cover pool composition ensures exceptionally high liquidity, low default risk, and strong investor confidence. This model is widely regarded as one of the most stable mortgage funding systems globally and offers valuable lessons for countries developing their mortgage finance markets².

The European Mortgage Federation’s Hypostat (2020) provides a comprehensive overview of European mortgage markets, underscoring the importance of unified and standardized mortgage instruments for the smooth functioning of the secondary market. According to this report, harmonized mortgage documentation

¹ Green, R. K., & Wachter, S. M. (2005). *The American Mortgage in Historical and International Context*. Journal of Economic Perspectives, 19(4), 93–114. <https://doi.org/10.1257/089533005775196769>.

² Deutsche Bundesbank. (2019). *The German Pfandbrief market*. Monthly Report, Vol. 71 (January), pp. 33–47.

facilitates greater transparency, supports long-term housing finance, and reduces operational and legal risks associated with the transfer of mortgage claims³.

Fabozzi and Kothari (2007; updated 2016) analyze the U.S. mortgage market, showing that mortgage notes serve as the legal foundation for mortgage-backed securities (MBS). Through securitization, mortgage notes are pooled and transformed into tradable instruments, enabling banks to redistribute credit risk, access long-term funding, and maintain portfolio liquidity. The authors emphasize that the effectiveness of this model relies heavily on a robust legal infrastructure, standardized documentation, and strict federal oversight⁴.

Discussion

The analysis of international experience demonstrates that the effectiveness of the mortgage note depends on a combination of legal certainty, document standardization, secondary market circulation, and integration with financial mechanisms such as securitization and covered bonds. In different jurisdictions, mortgage notes operate according to the specific features of national mortgage markets and financial systems.

In Germany, mortgage notes are used within the Pfandbrief model, serving as the basis for issuing covered bonds. Document standardization and strict cover pool requirements ensure high liquidity and investment attractiveness. According to Deutsche Bundesbank (2019), Pfandbrief holdings exceed 20% of German banks' balance sheets, highlighting the mortgage note's significant role in maintaining financial stability and enabling long-term financing. Strict legal regulation and federal supervision minimize banks' credit and operational risks.

In the United States, the mortgage note is a key element of mortgage securitization. Although it is not a security itself, it underpins the issuance of MBS, which are widely used to attract capital and redistribute credit risk. Fabozzi and Kothari (2016) report that in 2020, the total volume of issued MBS exceeded \$8 trillion, demonstrating the mortgage note's effectiveness for secondary market circulation and capitalization of mortgage assets. However, the U.S. practice requires a developed registry infrastructure and strict adherence to legal procedures to ensure liquidity and transaction transparency.

Scandinavian countries, such as Denmark and Sweden, use mortgage notes within a mortgage bond system based on the balance principle. Mortgage notes establish a direct link between the mortgage loan and the bond issued by the bank. According to the European Mortgage Federation (2020), this model ensures rapid transfer of mortgage claims and interest rate stability, strengthening investor confidence and long-term bank portfolio stability.

A comparative analysis shows that successful mortgage note systems share:

- Legal certainty and standardization;
- Transferability and secondary market circulation;
- Integration with financing instruments (covered bonds or MBS);

³ European Mortgage Federation – European Covered Bond Council (EMF-ECBC). (2020). *Hypostat 2020: A Review of Europe's Mortgage and Housing Markets*. Brussels: EMF-ECBC.

⁴ Fabozzi, F. J., & Kothari, V. (2007). *Securitization: The Tool of Financial Transformation*. New Haven, CT: Yale International Center for Finance.

— Effective supervision and transparent collateral pool rules.

Unlike Germany and Scandinavian countries, where mortgage notes are directly integrated into debt financing instruments, in the U.S. their potential is realized through securitization. These differences highlight that adapting international experience to national conditions requires consideration of the legal framework, banking system structure, and the development level of the secondary mortgage market.

The international best practices have been analyzed and are now compared with the national experience. By examining the strengths and weaknesses, it becomes possible to formulate the necessary policy recommendations (table 1).

Table 1.
Characteristics of Mortgage Note Application in Different Economies⁵

Parameter	Germany	USA	Scandinavian countries (Denmark, Sweden)	Uzbekistan
Legal status of mortgage note	Independent legal instrument; regulated by Pfandbrief law; secures creditor rights	Legal document confirming debt; not a security; basis for MBS	Independent legal instrument linked to mortgage bonds; regulated by national pledge and mortgage laws	Legal instrument securing creditor rights and borrower obligations; not a security; regulated by Law No. ZRU-1028 of 12.02.2025
Secondary market circulation	Through Pfandbrief and covered bonds	Through securitization and MBS	Direct integration with mortgage bonds	Intended for refinancing and transfer of claims; secondary market is developing
Relation to financing instruments	Covered bonds	Mortgage-backed securities (MBS)	Mortgage bonds	Potential integration with securitization; currently used as loan collateral
Regulatory authority / supervision	Federal Financial Supervisory Authority (BaFin)	Federal agencies (Fannie Mae, Freddie Mac, SEC)	National financial supervisory authorities	Central Bank of Uzbekistan; legal regulation through laws and normative acts

⁵ Author's development.

Document standardization	High: strict form and content requirements	Medium: mortgage note standardization depends on state	High: standardized and linked to bonds	Unified standardized form for banks, including electronic version
Liquidity risk	Low: high liquidity of Pfandbrief	Medium: MBS liquidity depends on market and regulation	Low: high liquidity due to balance principle and transparency	Medium: gradually increasing with electronic mortgage note and secondary market formation
Practical use	Main instrument of long-term mortgage financing; supports bank stability	Key instrument for securitization and risk redistribution	Direct mortgage financing; interest rate stability	Main instrument for mortgage loan collateral; lays foundation for secondary market and bank stability

Comparative analysis indicates that Uzbekistan’s mortgage note implementation draws on best international practices but has unique features related to market formation and legal framework. Germany’s high standardization and strict cover pool rules combined with Pfandbrief integration ensure low liquidity risk and portfolio stability. U.S. mortgage notes underpin securitization, allowing risk redistribution and long-term funding, though their efficiency depends on secondary market infrastructure and regulatory compliance. Scandinavian countries link mortgage notes with bonds, ensuring rapid claim transfer and interest rate stability.

In Uzbekistan, the mortgage note was recently introduced as a standardized legal instrument (Law No. ZRU-1028 of 12.02.2025)⁶. Its secondary market is still developing, but the electronic version has been implemented, speeding operations and reducing operational risks. Compared to other countries, the potential of the mortgage note in Uzbekistan lies in future integration with securitization and refinancing mechanisms to enhance portfolio liquidity and financial stability.

International experience demonstrates that the key elements of successful mortgage note implementation are legal certainty, document standardization, secondary market circulation, and integration with long-term financing instruments. Uzbekistan can adapt these elements, considering national characteristics, regulatory framework development, and mortgage market growth

Conclusion and Recommendations

⁶ Law of the Republic of Uzbekistan No. ZRU-1028 of 12 February 2025 “On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with Further Development of the Mortgage Lending Market”.

Considering international experience, the mortgage note is a critical component of mortgage lending infrastructure. In Germany, the U.S., and Scandinavian countries, it not only secures creditor rights but also enables secondary circulation, securitization, and issuance of covered bonds, enhancing portfolio liquidity and bank stability.

In Uzbekistan, the introduction of the mortgage note establishes a framework for standardized mortgage obligations, increased transaction transparency, and secondary circulation of mortgage assets. The electronic mortgage note accelerates operations, reduces operational risks, and minimizes the likelihood of loss or fraud.

Practical recommendations for further development:

1. Develop a secondary mortgage note market – establish infrastructure for claim transfer and mortgage loan refinancing.
2. Integrate with securitization and covered bonds – gradual adoption will allow banks to attract long-term funding and improve liquidity.
3. Standardize and unify the document – further enhance the mortgage note, including the electronic version, following international best practices.
4. Strengthen the regulatory framework and supervision – clearly regulate issuance, transfer, and circulation procedures to ensure transparency and protection of market participants’ rights.

Thus, the mortgage note in Uzbekistan can effectively enhance banking sector stability, support long-term mortgage financing, and create a sustainable and transparent mortgage market. International experience confirms that successful implementation of these measures fosters investor confidence and expands housing access.

References:

1. Law of the Republic of Uzbekistan No. ZRU-1028 of 12 February 2025 “On Amendments and Additions to Certain Legislative Acts of the Republic of Uzbekistan in Connection with Further Development of the Mortgage Lending Market”
2. Green, R. K., & Wachter, S. M. (2005). The American Mortgage in Historical and International Context. *Journal of Economic Perspectives*, 19(4), 93–114. <https://doi.org/10.1257/089533005775196769>.
3. Deutsche Bundesbank. (2019). The German Pfandbrief market. *Monthly Report*, Vol. 71 (January), pp. 33–47.
4. European Mortgage Federation – European Covered Bond Council (EMF-ECBC). (2020). *Hypostat 2020: A Review of Europe’s Mortgage and Housing Markets*. Brussels: EMF-ECBC.
5. Fabozzi, F. J., & Kothari, V. (2007). *Securitization: The Tool of Financial Transformation*. New Haven, CT: Yale International Center for Finance.