

## MORTGAGE IN THE RUSSIAN FEDERATION IN 2013

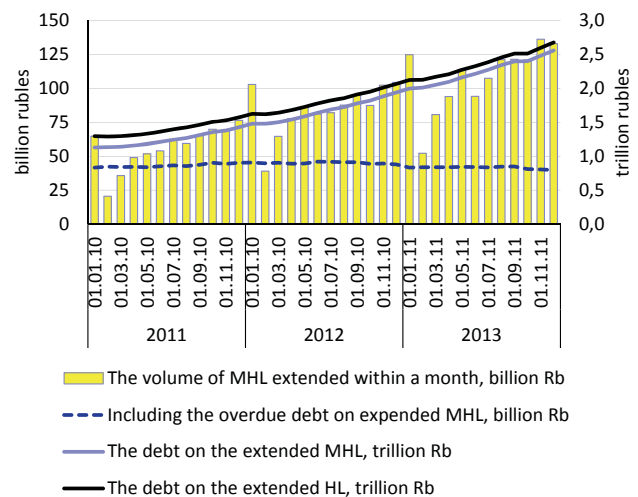
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The volume of mortgage housing loans extended within 11 months of 2013 exceeded by 17.38% and 29.51% the respective index of 2012 as regards the number and monetary value, respectively, having amounted to Rb 1175.0bn. The average weighted rate on MHL in rubles extended within a month fell from 12.9% in March 2013 to 11.9% in November 2013. The share of the overdue debt in the outstanding debt on MHL in November 2013 decreased by 0.06 p.p. to 1.05% as regards loans in rubles, while that as regards loans in foreign currency, by 0.003p.p. to 12.29%. In November 2013, the share of debt on MHL without overdue payments in the total amount of the debt on MHL increased by 0.59p.p. and amounted to 95.89%. The share of the debt on defaulted loans (with payments overdue for over 180 days) in the total amount of the debt on MHL decreased by 0.06 p.p. to 1.91%.

According to the data of the Central Bank of the Russian Federation, in November 2013 Rb 132.83bn worth of 79,972 mortgage housing loans (MHL) were extended (Fig. 1) which is 2.1% and 2.5% lower in quantitative terms and monetary terms, respectively, than in October. As of December 1, 2013, Rb 1,175.0bn worth of 718,983 MHL were extended from the beginning of the year with the debt being equal to Rb 2,559.39bn (Fig. 1). From the beginning of 2013, they extended 17.38% and 29.51% more of loans in quantitative terms and monetary terms, respectively, than as of December 1, 2012. The share of mortgage in housing lending keeps growing and as of December 1, 2013 the share of MHL amounted to 96.3% in the total volume of housing loans (HL) which is 0.17 p.p. higher than that as of December 1, 2012. In 2013, the average value of the extended MHL kept growing and as of December 1 amounted to Rb 1,634m having exceeded by 10.3% the respective index as of December 1, 2012. As of December 1, 2013, the volume of the extended housing loans amounted to Rb 1,220.12bn with the number of loans being equal to 769,499 loans and the debt, to Rb 2,676.37bn (Fig. 1).

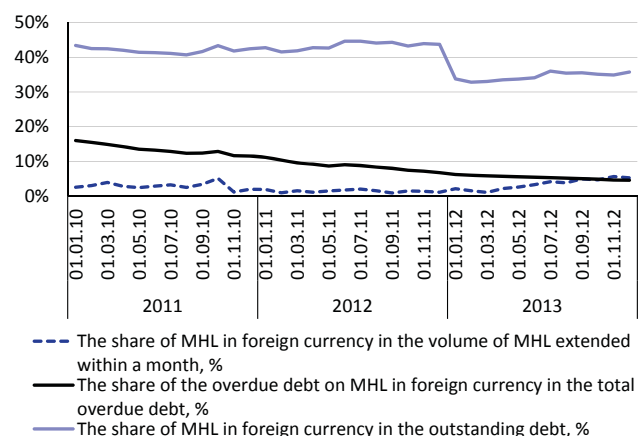
As of December 1, 2013, the overdue debt on MHL decreased by 0.79% as compared to that as of November 1 and amounted to Rb 39.9bn. It is to be noted that in November 2013 the share of the overdue debt in the outstanding debt on MHL decreased by 0.06 p.p. and amounted to 1.05% as regards loans in rubles, while that as regards loans in foreign currency, by 0.003 p.p. to 12.29%.

According to the data of the Central Bank of the Russian Federation, in November 2013 the share of the debt on MHL without overdue payments increased by 0.59 p.p. to 95.89% of the total amount of the debt. The share of the debt on defaulted loans (with payments overdue for over 180 days) in the total amount of the debt on MHL decreased by 0.06 p.p. and amounted to 1.91%.



Source: the data of the Central Bank of the Russian Federation.

Fig. 1. Dynamics of housing lending



Source: on the basis of the data of the Central Bank of the Russian Federation.

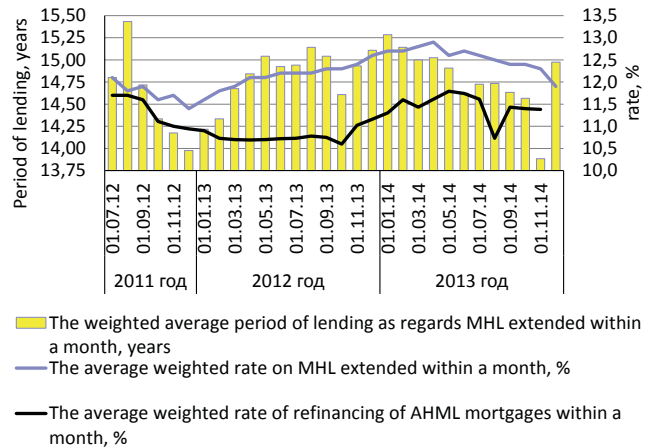
Fig. 2. Dynamics of the ruble/foreign currency correlation in the main MHL indices

The share of MHL in foreign currency in the volume of loans extended in November 2013 amounted to 5.2%, which is 0.38 p.p. lower than in October 2013. As of December 1, 2013, the share of such loans in the outstanding debt decreased by 0.07 p.p. to 4.53% as compared to that as of December 1, 2013, while the share of the overdue debt on MHL in foreign currency in the total overdue debt, to 35.73% as of December 1, 2013 (Fig. 2).

In November 2013, the average weighted rate on MHL in rubles amounted to 11.9% which is 0.4 p.p. and 1.0 p.p. lower than in October 2013 and the highest value of the rate in 2013, respectively. In October 2013, the average weighted rate on loans refinanced by OAO Agency for Housing Mortgage Lending (AHML) amounted to 11.38% which is 0.41p.p. lower than the highest value of the rate in 2013 (Fig. 3). In November 2013, the average weighted rate on HL in rubles extended within a month was at the level of 12.2% having decreased by 0.2 p.p. within a month. As of December 1, the average weighted rate on ruble MHL extended from the beginning of the year amounted to 12.5%, while that on MHL in foreign currency, to 9.6%. In November 2013, the weighted average period of lending as regards ruble MHL extended within a month amounted to 14.98 years (Fig. 3), while that as regards HL in rubles, to 13.62 years. As of December 1, 2013, the weighted average period of lending as regards foreign currency MHL extended from the beginning of the year was at the level of 10.64 years.

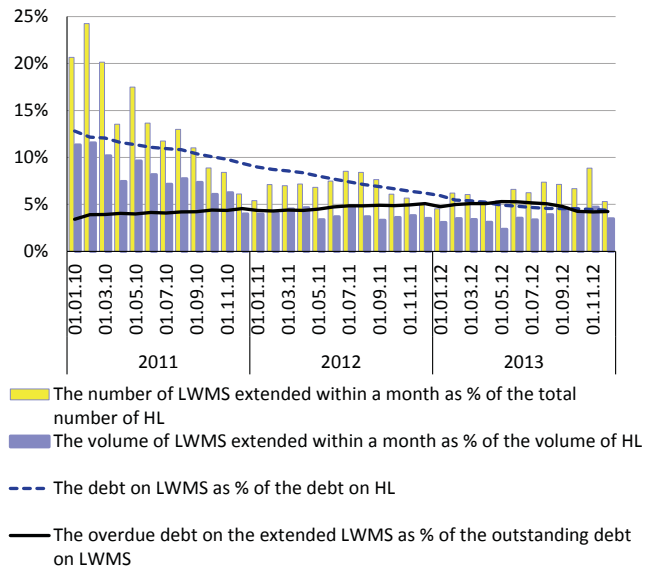
In November 2013, the share of loans without mortgage security (LWMS) as a difference between HL and MHL as a percentage of HL decreased by 3.55 p.p. to 5.31% and 1.23 p.p. to 3.48% as regards the quantity and the monetary value, respectively (Fig. 4). The share of the debt on unsecured housing loans in the debt on HL was steadily decreasing (Fig. 4) and as of December 1, 2013 amounted to 4.37%. The overdue debt on LWMS in the outstanding debt on LWMS amounted to 4.25% as of December 1, 2013 which figure exceeded within the same period the value of the overdue debt on MHL in the outstanding debt 2.72 times over (1.56%). The average value of a LWMS increased, but remained (Rb 0,893m) substantially lower (64.3%) than the value of MHL. The above figures confirm the lower quality of LWMS as compared to MHL which factor is the main cause of a drop in the share of LWMS in housing lending.

In January–December 2013, the OAO AHML refinanced Rb 48,015bn worth of 32,731 MHL which is 28.05% and 21.26% lower in quantitative terms and monetary terms, respectively, than in 2012. In January–November 2013, in the total volume of MHL extended in the Russian Federation the share of loans



Source: The Central bank of the Russian Federation and the OAO AHML.

Fig. 3. Weighted average periods of lending and interest rates on ruble MHL extended within a month



Source: on the basis of the data of the Central Bank of Russia.

Fig. 4. Dynamics of provision of housing loans without mortgage security (LWMS)

refinanced by AHML amounted to 5.68% and 3.58% in quantitative terms and monetary terms, respectively, and decreased by 0.99 p.p. and 2.46 p.p., respectively. In 2013, in the volume of loans refinanced by the Agency the share of social products, such as the *Military Mortgage* and *Maternity Capital* rose by 5.48 p.p. and 5.65 p.p. in quantitative terms and monetary terms, respectively, as compared to 2012 and amounted to 33.16% and 42.47%, respectively.

In 2012, securitization deals which attracted the long-term money into housing lending amounted to 6.7% of the volume of the extended MHL. It is expected that in 2013 that value will amount to 10%. As se-

curitization deals are liquid for large volumes of loans worth several billion rubles, attraction of the long-term money by small banks which are beyond the top 50 is rather complicated.

The OAO AHML has prepared an infrastructure which ensures within the frameworks of securitization deals an opportunity to a market participant to join multi-originating deals<sup>1</sup> and secure an access to the long-term funds. In December 2013, Rb 3bn worth of bonds of the Russian multi-originating deal of securitization of mortgage assets which mortgage collateral was formed by four mortgagees apart from the AHML were placed for the first time. Issuers of mortgage-backed bonds are *ZAO Vostochno-Sibirsky Ipotekhnny Agent 2012* and the pattern of the issue includes a senior tranche with a coupon rate of 8.75% annually and an additional collateral in the form of OAO AHML's surety, a mezzanine tranche with a coupon rate of 11% annually and three junior tranches.

Along with that, in 2014 AHML intends to develop an interbank system of standardized short-term lending against collateral in the form mortgaged assets (SSL). It is expected that participants in that system will be banks beyond the top-20 and they will be granted by SSL an opportunity to accumulate a sufficient volume of loans in their balance for subsequent inclusion

1 AHML developed the following mechanism: a few small creditors – banks, non-banking institutions and regional operators of AHML – will be able to consolidate pools of mortgage papers which they have managed to accumulate and issue jointly mortgage-backed securities. The first deal of that kind in the Russian practice – a multi-originating securitization – was successfully finalized late in 2013.

thereof in bonds' mortgage collateral. It is planned that such deals can be concluded for the term of from six months to one year with the volume of loan amounting to Rb 0.5bn-Rb 3bn, while creditors in SSL are large Russian and foreign banks. SSL will supplement the existing AHML's programs, such as repurchasing of mortgage-backed securities (MBS) and provision of sureties in respect of MBS and multi-originating securitization platforms. It is expected that introduction of SSL will result in growth in the number of participants in the securitization market.

In December 2013, two Federal Laws amending statutory acts in order to establish a legislative base and conditions for securitization of a large range of non-mortgage assets came into effect. From July 1, 2014, subject of pledge may include securities, real property and cash claims, including those on future obligations, as well as cash funds in a bank account. The notions of nominal accounts<sup>2</sup> and escrow accounts<sup>3</sup> are introduced which measure ensures protection of the rights of bond holders to monetary flow of securitized assets, including mortgaged assets. The obligation of notary certification of a notice of pledge is established to ensure enforcement of bonded obligations. ●

2 Nominal accounts are temporary accounts which are used as a part of a standard accounting system. Accounts classified as nominal ones are normally used to monitor profits and losses, as well as revenues and expenditures within a certain period of time.

3 Escrow account is a special account in which property, documents and cash funds are accounted for till the date of beginning or fulfillment of certain circumstances. In the international practice, such accounts can be opened by banks, law firms, specialized firms and other escrow-agents.