

# Mortgage Loan Market in 2017

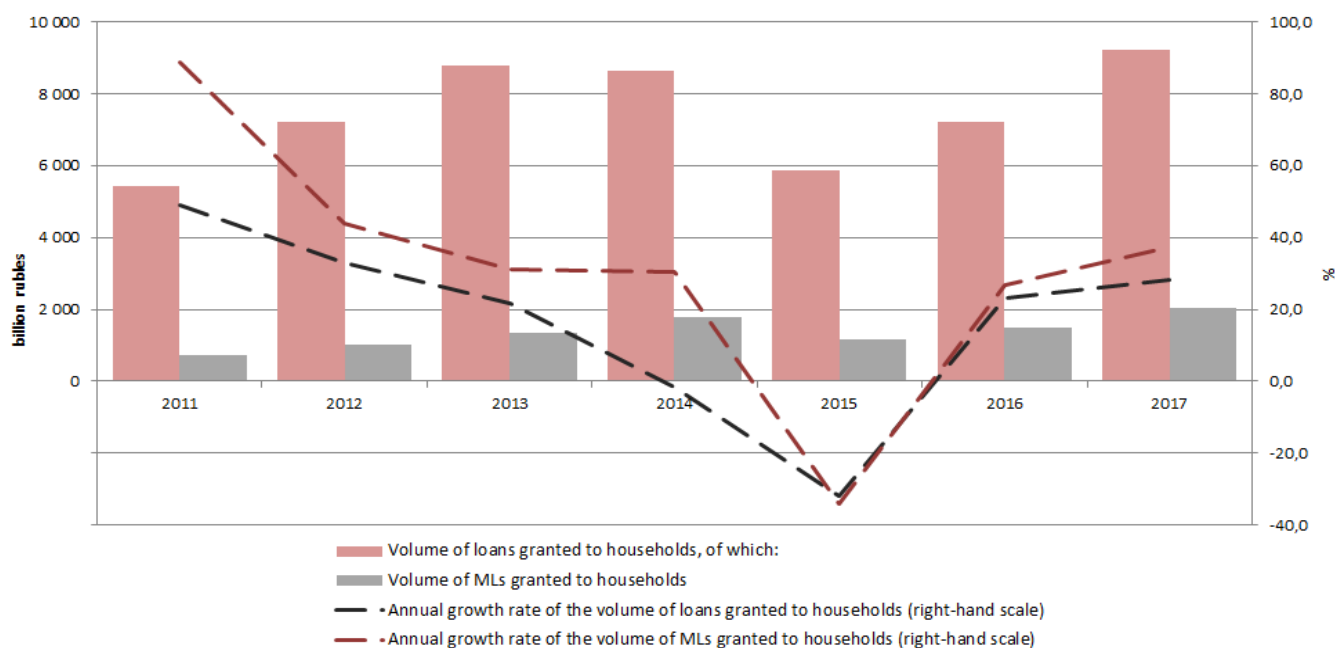
In 2017, the mortgage loan market demonstrated the following trends.

**The number of credit institutions granting mortgage loans (MLs) decreased** against the backdrop of a decline in the number of operating credit institutions. As of 1<sup>st</sup> January 2018, the number of participants in the primary mortgage loan market fell by 74 credit institutions year-on-year to 410 credit institutions.

The highest number of credit institutions granting MLs (209) is located in the Central Federal District, of which 179 – in Moscow; 66 participants are located in the Volga Federal District, of which 15 – in the Republic of Tatarstan.

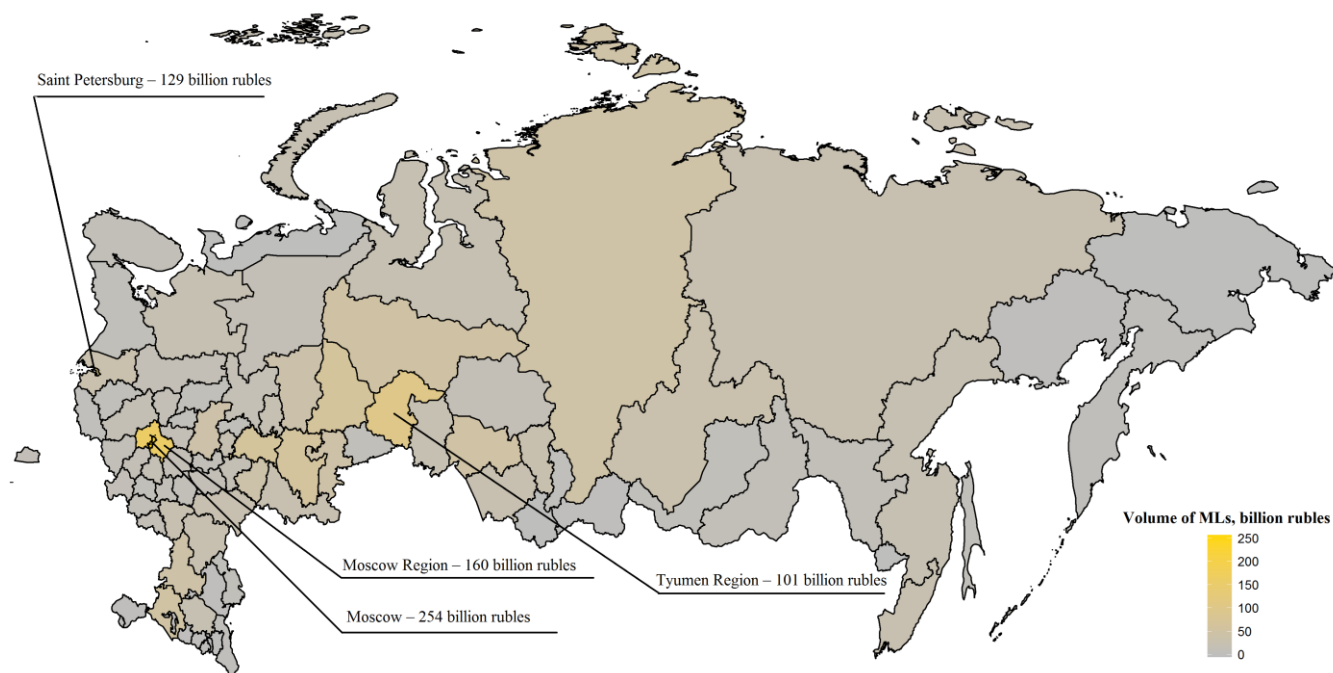
Due to decline of interest rates in 2017 **the mortgage lending grew intensively**. As a result of record amount of granted loans (1.1 million units), in 2017 the volume of loans went up 37.2% reaching 2 trillion rubles and exceeded the levels of previous years.

Chart 1. Volume of Loans Granted to Households, Including MLs (New Business)



The regional distribution of granted MLs remained constant. Borrowers of Moscow, Moscow Region, Saint Petersburg and Tyumen Region have been representing the largest volume of granted MLs during the recent years. The share of loans, granted to borrowers of these regions, constituted 31.9% of the total volume and 20.2% of the total number of granted MLs in the Russian Federation. Moreover, the average size of MLs granted in these regions was one and a half times that of the average size of MLs granted in the Russian Federation (2.94 million rubles against 1.87 million rubles).

Chart 2. Choropleth map of granted MLs in 2017



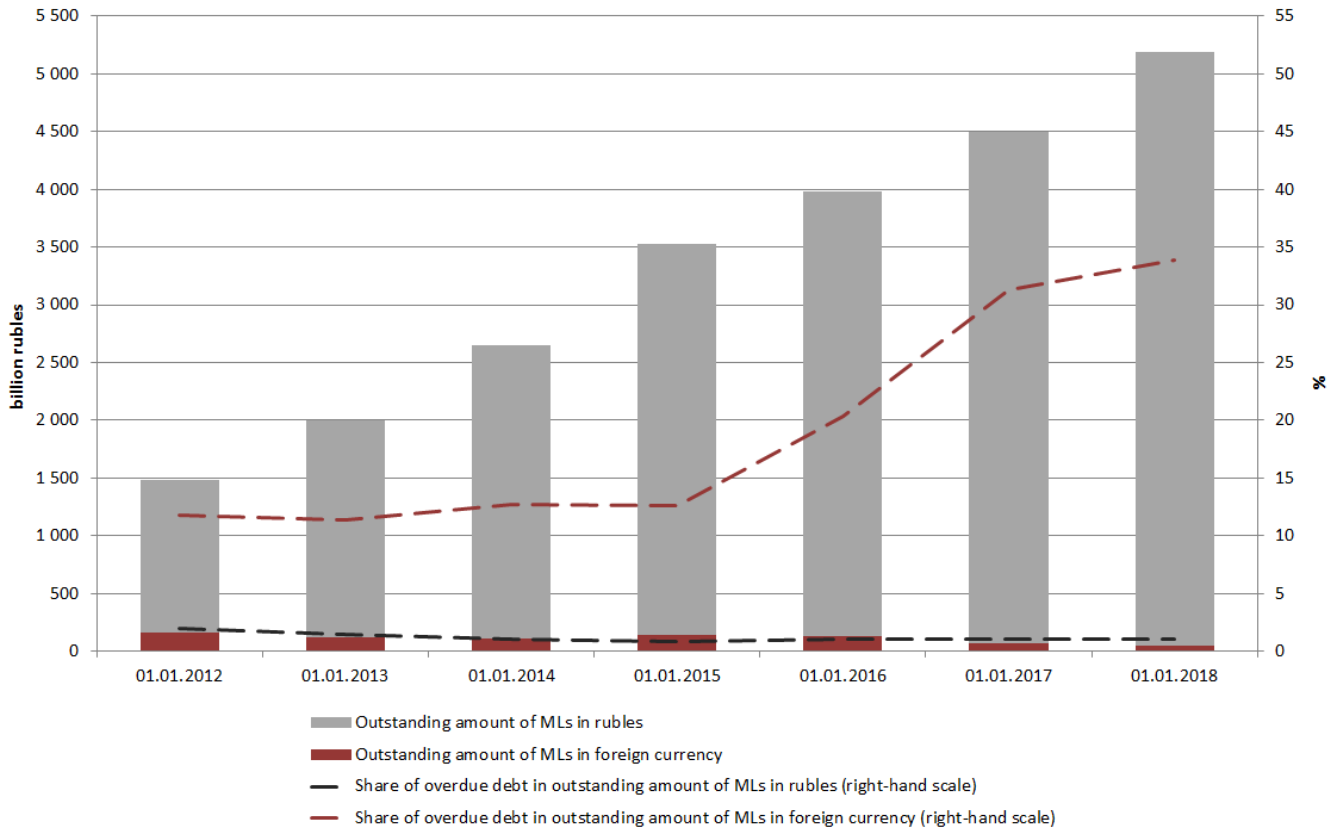
In 2017, the share of MLs, granted against the pledge of claims under share construction participation agreement (MLs under SCPAs) in the total volume of granted MLs, decreased by 6 p.p. to 32.7% in comparison to 2016. In 2017, there were 312 164 granted MLs under SCPAs in the amount of 661.2 billion rubles, exclusively in rubles.

**Increase of MLs was mainly determined by ruble-denominated loans. MLs denominated in foreign currency carried on losing attractiveness.** The share of MLs in foreign currency in 2017 was all-time low – 0.03% (11 loans to the sum of 544 million rubles).

**Total outstanding amount on MLs was up 15.4% during the year and reached 5.2 trillion rubles.** Portfolio of foreign currency-denominated loans continued to shrink. At the end of the year it decreased by 40.3% and its share in the portfolio of MLs loans was only 0.8%.

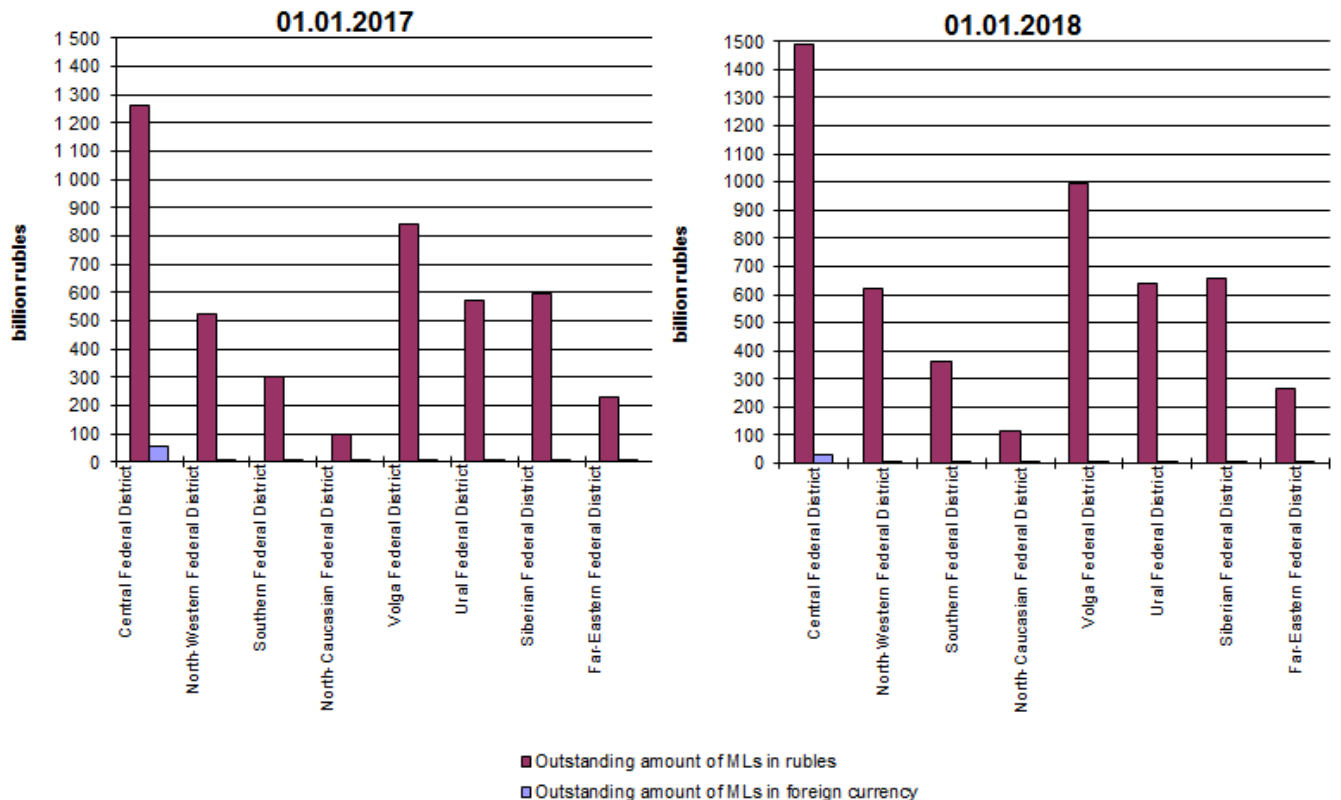
As of 1<sup>st</sup> of January, 2018, the outstanding amount on MLs in rubles was 16.3% higher than the year before and reached 5 144.9 billion rubles. The proportion of overdue loans in rubles remained the same (less than 1.1%) (Chart 3).

Chart 3. Outstanding amount of MLs



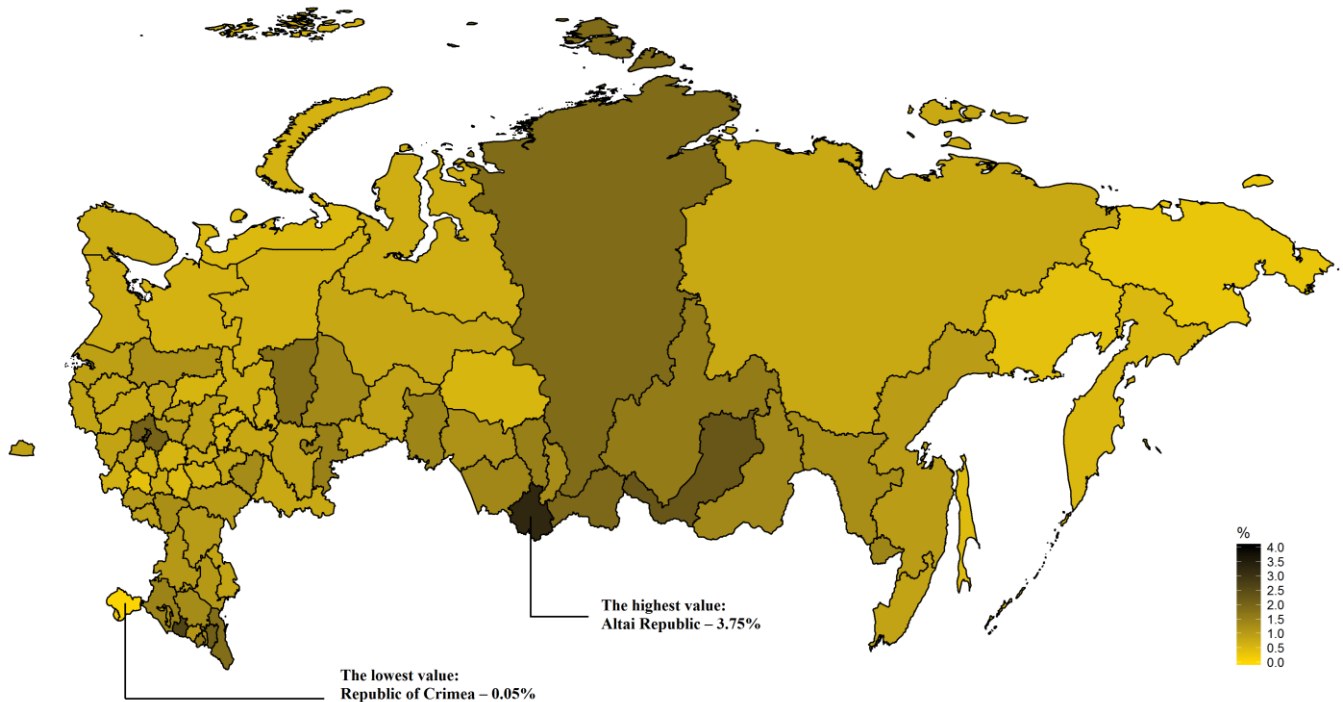
The data on regional structure of outstanding amount of MLs in rubles and in foreign currency are presented on Chart 4a.

Chart 4a. Regional Structure of Outstanding amount of MLs



Share of overdue MLs by region is depicted on the choropleth Chart 4b. Altai Republic had the highest value (3.75%), while Republic of Crimea had the lowest value of 0.05%

Chart 4b. Choropleth map of overdue MLs as of 01.01.2018<sup>1</sup>



**Interest rate decline for MLs in rubles and foreign currency while extension of weighted average maturity for MLs were registered.**

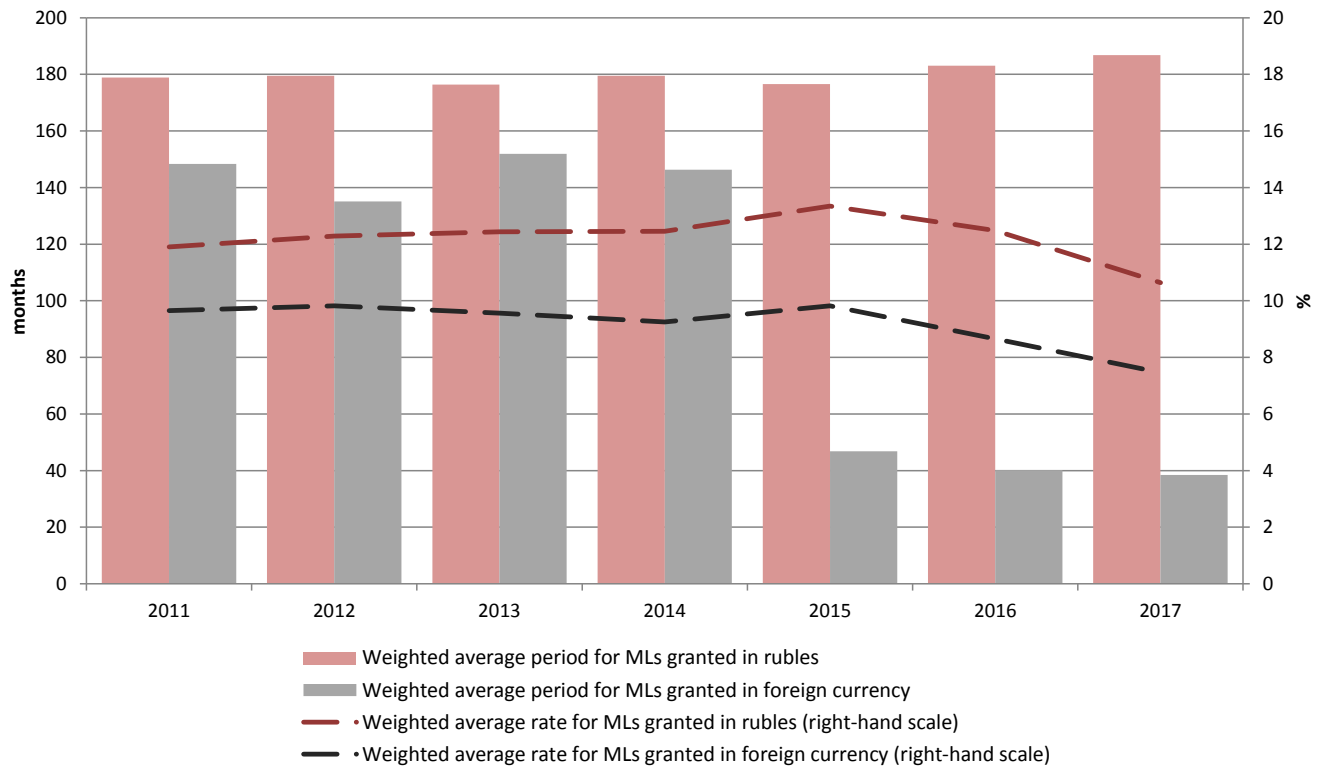
Weighted average interest rate on MLs in rubles continued to decline during the year and reached its lowest level of 9.79% in December, 2017 (11.54% - December, 2016). Interest rates on MLs in foreign currency demonstrate the same tendency. During the year weighted average interest rate on MLs in foreign currency decreased by 1.18 p.p. to 7.47%.

Also, banks started to grant MLs with longer maturity. The weighted average maturity for MLs granted in rubles, which reached 187 months in 2017, was higher than recorded at any time in the last 7 years. This indicator for MLs in foreign currency continued to decline: the weighted average term of such loans decreased from 40 to 38 months.

The dynamics of weighted average lending periods and interest rates are shown on Chart 5.

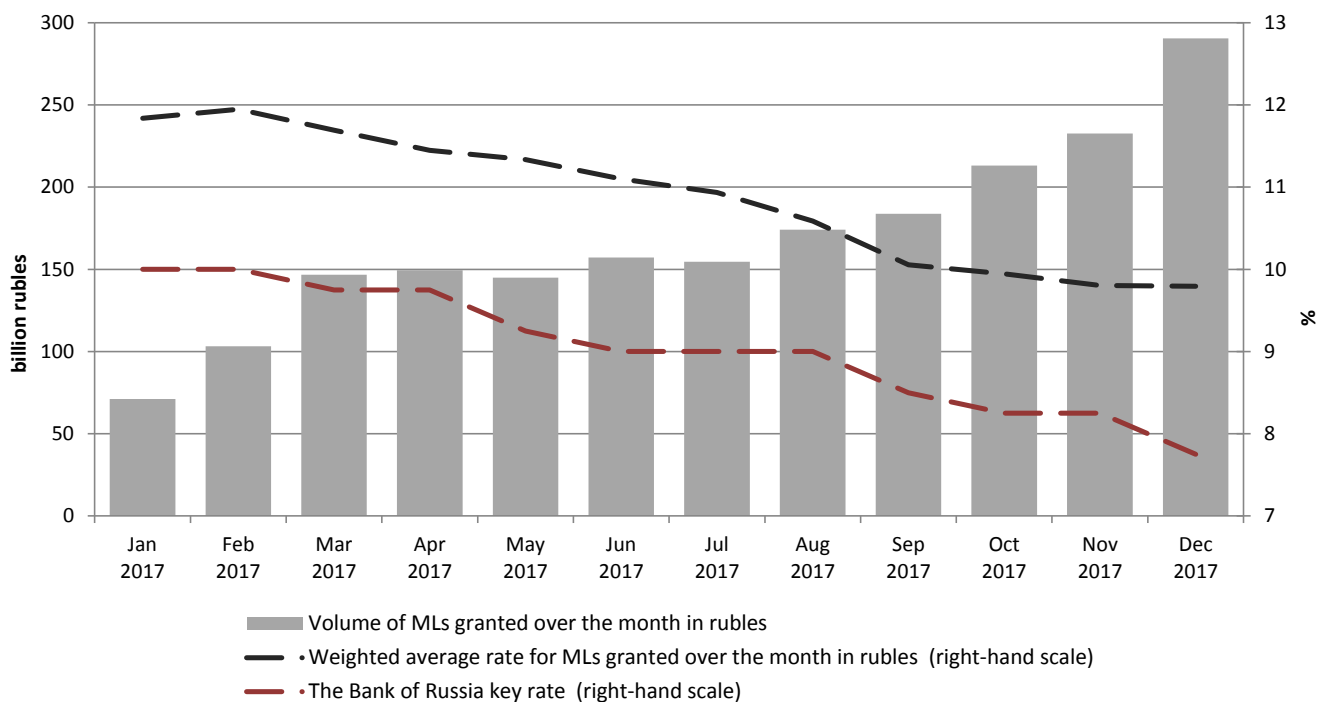
<sup>1</sup> Determined as a share of overdue debt in outstanding amount by region.

**Chart 5. Weighted Average Lending Periods and Interest Rates for Granted MLs (New Business)**



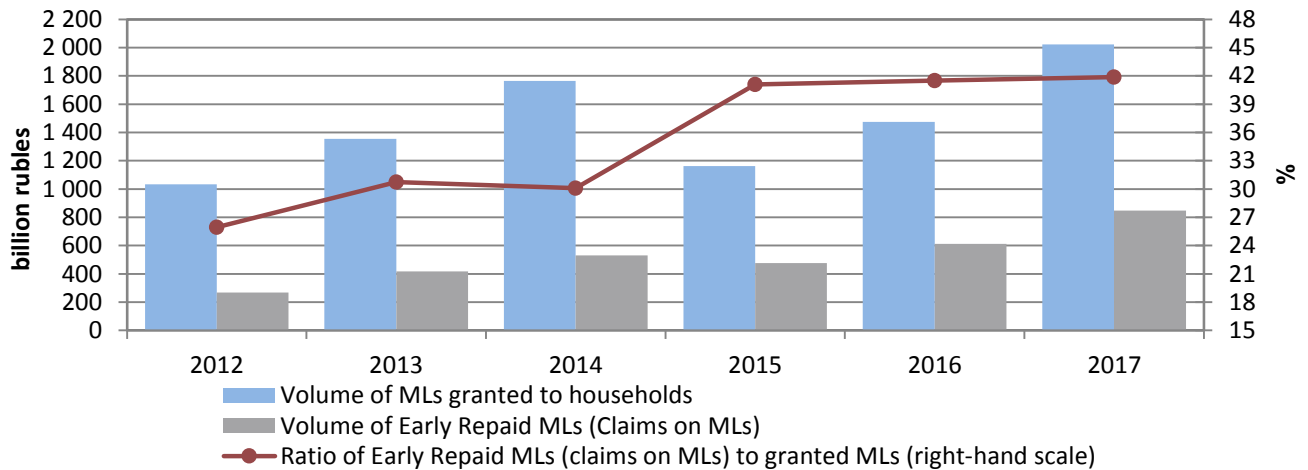
The reduction of the Bank of Russia key rate from 10.00% in the early-2017 to 7.75% (December, 2017) contributed to decline of the weighted average interest rates on MLs in rubles granted over the month, which broke the 10,00% mark in October and was lower than that afterwards.

**Chart 6. Volume and Interest Rates for MLs Granted in Rubles**



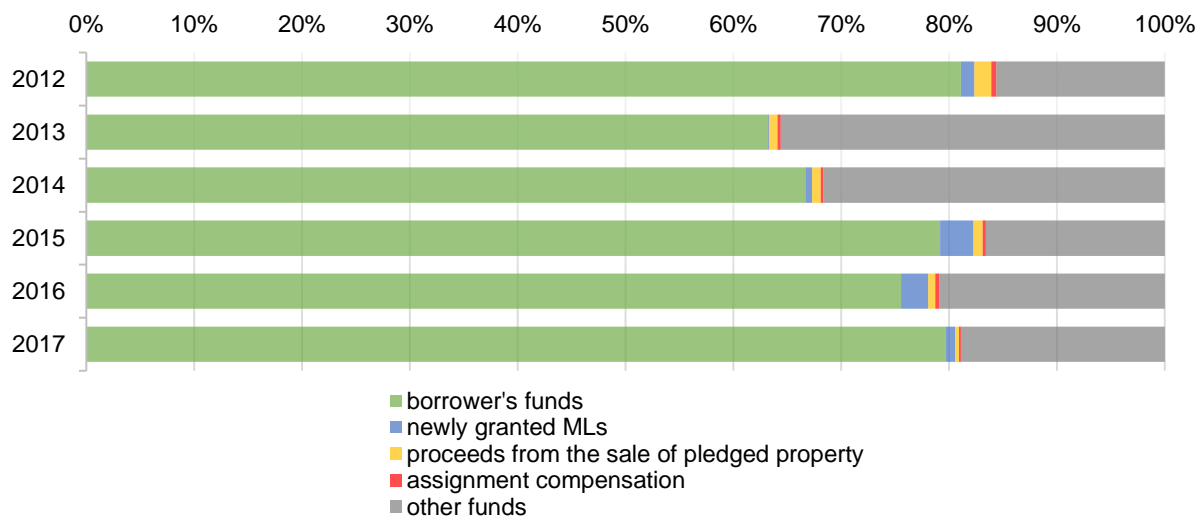
In 2017, the volume of early repaid MLs (claims on MLs) has increased substantially against the backdrop of ML market gain. MLs for an amount of 846.9 billion rubles, including 14.5 billion rubles on claims on MLs, were early repaid and it is on 235.5 billion rubles higher than the volume of 2016 (39%).

Chart 7. Volume of Early Repaid MLs (Claims on MLs) and MLs Granted to Households



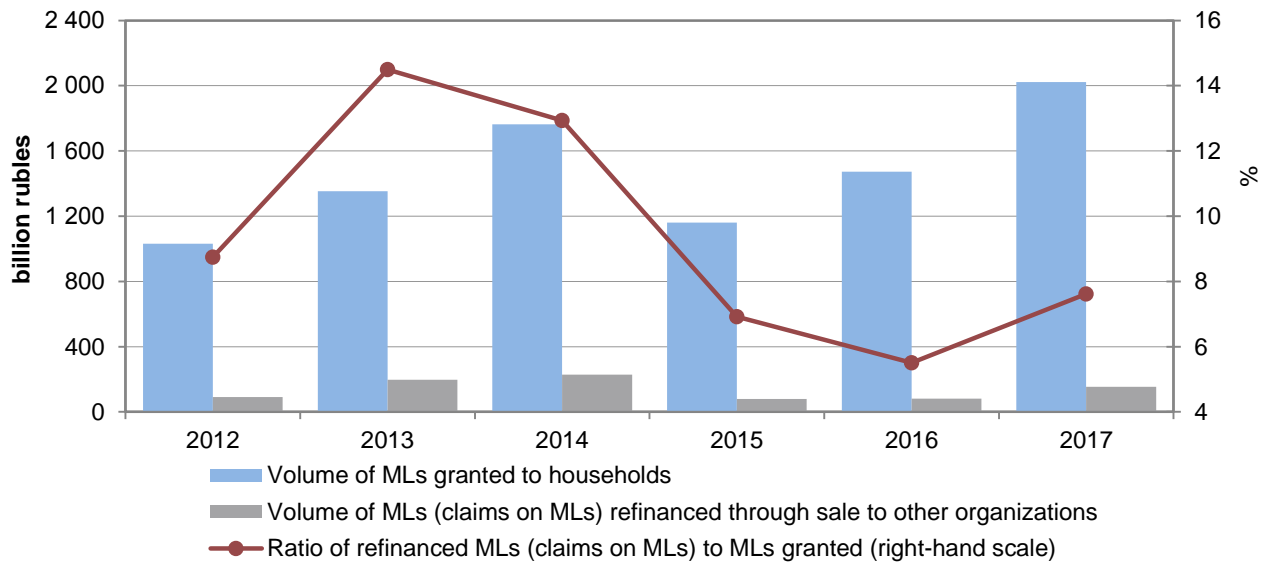
Considering that share of MLs in foreign currency was less than 1%, early repayment of MLs was primarily made on ruble loans (98.9%) – 837.3 billion rubles. Advanced repayment of loans traditionally was made by borrowers' own funds and constituted 79.7 of aggregate early repayment.

Chart 8. Sources of Early Repaid MLs (Claims on MLs), %



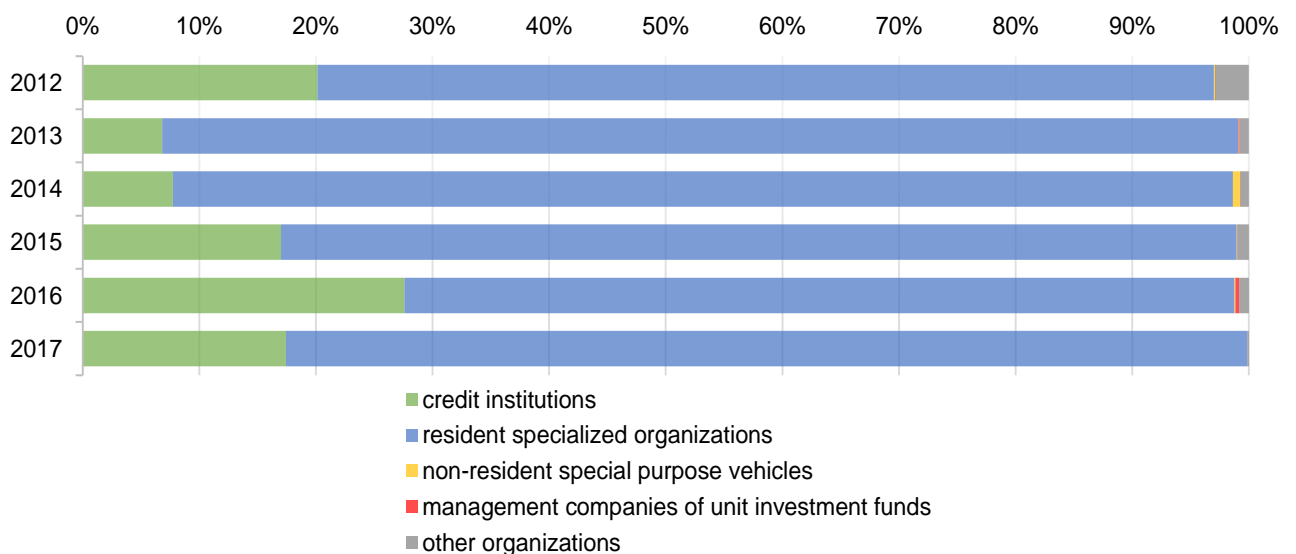
In 2017, 72 credit institutions refinanced MLs against 93 credit institutions in 2016. As a result of 2017 the volume of refinanced MLs has increased till 161.2 billion rubles, which is on 40.8% higher in comparison with 2016 and on 73.9% higher in comparison with 2015 (92.7 billion rubles). This growth was defined by double increasing of the volume of refinanced MLs (claims on MLs) by selling to other institutions comparing to the data in 2015-2016 (till 154.0 billion rubles).

**Chart 9. Volume of MLs Granted to Households and Refinancing of MLs (Claims on MLs) through Sale to Other Institutions**



Resident specialized organizations had leading position among the main sources of refinancing MLs (claims on MLs) by selling to other institutions – 82.4% of the total volume of refinanced MLs in the Russian Federation. In comparison with 2016, the share of operations conducted by resident specialized organizations increased by 11.2 p.p., the volume of MLs (claims on MLs) refinanced by these organizations increased in 2.2 times to 126.9 billion rubles. At the decline of the share of credit institutions in refinancing sources by 10.2 p.p. to 17.4%, the growth of the volume of MLs (claims on MLs) refinanced by these organizations constituted 19.9% (to 26,8 billion rubles). The share of other organizations constituted 0.1% or 0.2 billion rubles.

**Chart 10. Sources of Refinancing of MLs (Claims on MLs) by Selling Loan Pool, %**

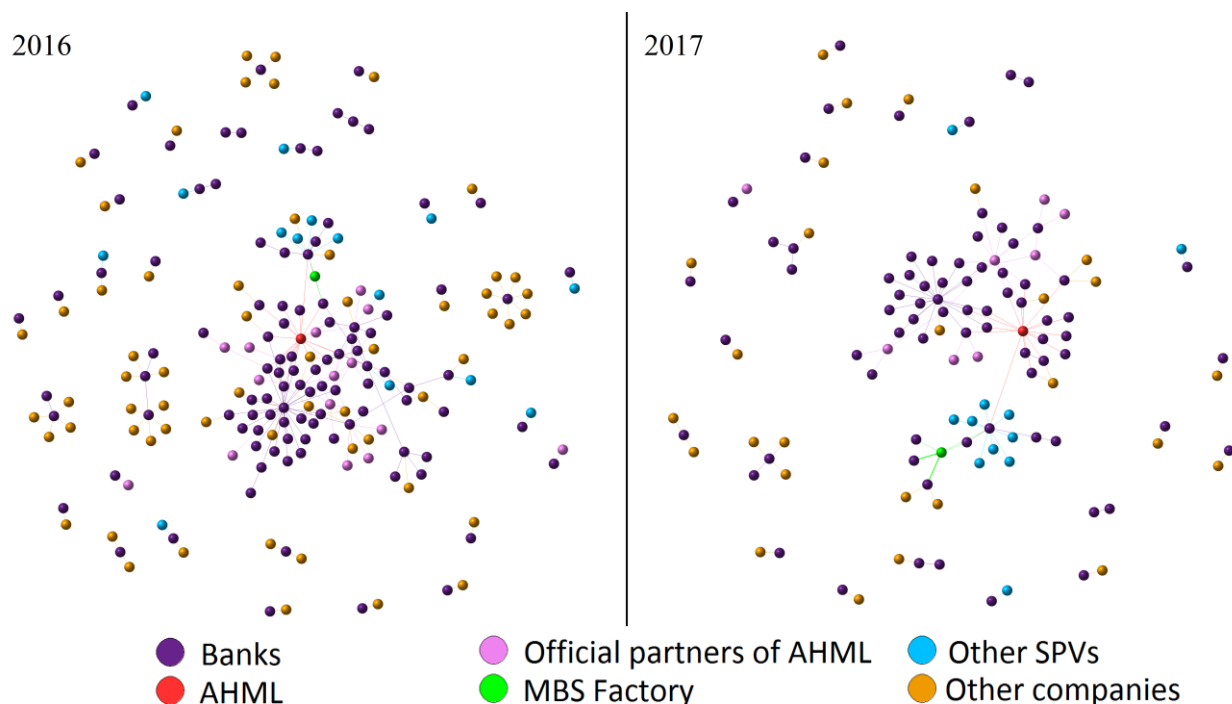


The refinancing market became more concentrated while total volume of refinanced MLs (claims on MLs) by selling to other institutions increased from 81.1 billion rubles in 2016 to 154.0 billion rubles in 2017.

A network diagram of refinancing activity by selling loans to other institutions shows decreasing density of central segment. While the total quantity of vertices on the peripheral part of the network decreased, the interaction between them reduced as well.

Moreover, “MBS Factory” LLC had 70% of the market volume which is depicted by thick edge line, while the role of other mortgage SPV diminished significantly.

Chart 11. Network structure of market of refinancing by selling loans<sup>2</sup>



Refinancing MLs (claims on MLs) through issuing mortgage-backed bonds with keeping an asset on a credit institution’s balance sheet in 2017 provided by one bank on 7.2 billion rubles. However, in 2016 their volume stood at 33.4 billion rubles (by 2 banks).

In 2017, credit institutions were allowed to use both bonds issued by the Agency for Housing Mortgage Lending (AHML)<sup>3</sup> and mortgage-backed securities issued in compliance with the Russian Federation legislation (including mortgage-backed bonds secured by AHML joint guarantee) as collateral for the Bank of Russia refinancing operations. As of 1<sup>st</sup> January 2018, 59 mortgage-backed bonds for a total value of 302.5 billion rubles and 25 bonds issued by the Agency for Housing Mortgage Lending for a total value of 184.0 billion rubles were included in the Bank of Russia Lombard List.

<sup>2</sup> Note: Vertex color is defined by counterparty type, edge color is defined by the direction of flow of funds. Edge thickness is defined by the volume of refinancing operation between counterparties.

<sup>3</sup> Since the 2<sup>nd</sup> of March, 2018 the title of AHML changed to DOM.RF.



**Key ideas**

*In 2017, the mortgage loan market demonstrated all-time high growth due to interest rate decline. The volume of granted MLs increased by 37.2% to 2 trillion rubles. The amount of granted MLs reached 1.1 million units.*

*Mortgage lending peaked in December, 2017 when banks granted over 151 thousand loans worth 290 billion rubles (103.5 thousand loans worth 184.2 billion rubles in 2016), the rate of increase was 46.2 and 57.7% respectively. The share of ruble MLs constituted more than a quarter in the overall volume of loans granted to households in December, its share increased by 1.8 b.p. over the month.*

*Weighted average interest rate on MLs in rubles continued to decline during the year and reached its lowest level of 9.79% in December, 2017 (11.54% - December, 2016).*

*Total outstanding amount on MLs was up 15.4% during the year and reached 5.2 trillion rubles. Portfolio of foreign-currency denominated loans continued to shrink. At the end of the year it decreased by 40.3% and its share in the portfolio of MLs loans was only 0.8%. The proportion of overdue loans in rubles as of 1<sup>st</sup> of January, 2018 remained the same (less than 1.1%).*

*The volume of early repaid MLs continued to grow three years in a row. In 2017, volume of early repaid MLs, which reached 846.9 billion rubles, grew by more than a third in comparison with 2016.*

*Market of mortgage loan refinancing continued to recover after significant reduction in 2015. The volume of refinanced MLs constituted 161.2 billion rubles in 2017 (92.7 billion rubles - 2015).*