Bank of Russia

ANALYSIS OF RUSSIAN HOUSEHOLDS' DEBT BURDEN IN 2020 Q2–Q3 BASED ON CREDIT BUREAU DATA

Information and analytical commentary

Moscow
2021

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This review was prepared by the Financial Stability Department.
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Cover photo: A. Bok, Bank of Russia

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SUMMARY

- The decline in retail lending activity due to the coronavirus pandemic and the related restrictive measures proved to be temporary. The quality of loans decreased only slightly owing to the restructuring that helped customers avoid defaults during the period of the toughest restrictions, as well as the measures taken by banks after 2015 to increase the quality of their loan portfolio. After restructuring, the loan quality does not decrease significantly either.

Banks' and MFOs' customer base

- Temporary restrictions introduced in 2020 Q2 on the back of the pandemic outset affected the retail lending market, primarily unsecured consumer lending and MFO loans. In these segments, the overall number of borrowers dropped by 0.8 and 0.2 million respectively.
- It was already in 2020 Q3 that the retail lending segment largely recovered and the total number of borrowers with outstanding loans reached 41.9 million, which is almost equal to the pre-pandemic value.

Situation in the mortgage lending segment

- In 2020 Q3, decreasing interest rates on mortgage loans, including due to government preferential programmes, led to the fact that the share of borrowers for whom mortgage became their first loan slightly rose: from 22.8 to 24.2%.
- Falling interest rates boosted demand for mortgage loan refinancing at a lower rate. Demand for refinancing peaked in 2020 Q1 when the share of such loans was 12.7% of all mortgage loans issued.
- When refinancing mortgage loans in 2020, banks increased the debt under the new loan by 4 to 6% on average (the so-called 'top-up'). This increase in the loan amount does not entail any additional risks.

Quality of bank and MFO loan portfolios

- The quality of bank and MFO loan portfolios remains stable including owing to loan restructuring. The quality of debt servicing by new retail borrowers even slightly improved in the second quarter due to tightening lending standards. The improvement of the quality of new loans (especially in the MFO segment) can also be related to the support of household incomes through government social benefits and the overall decline in borrowers' expenditures on goods and services. In general, the MFO portfolio is still characterised by a high level of overdue loans, mainly due to customers with more than two loans and only MFO loans.
- On average, borrowers have more than one loan, which underlines the importance of calculating the debt burden ratio when a loan is issued. As of 1 October, an average bank borrower had 1.90 loans and an MFO borrower – 2.95 loans, which is slightly less than on 1 April (1.91 and 2.99 respectively).

Retail loan restructuring in virtue of law

- Law amendments that allowed customers to apply for loan repayment holidays came in at the right time. Borrowers with high debt burden demonstrated the highest demand for restructuring. In the mortgage lending segment, borrowers who applied for restructuring had 2.3 loans (other borrowers in the mortgage segment had 1.6 loans). In the segment of unsecured consumer lending, the number of loans per borrower who applied for restructuring was 3.7 (2.1 for other borrowers in that segment).

- When borrowers applied for loan repayment holidays, debt servicing quality just started to deteriorate and the share of overdue debts was insignificant (0.1% for mortgage loans; 0.2% for unsecured consumer loans). However, the share of overdue loans that were restructured was high (6.4% for mortgage loans; 9.6% for unsecured consumer loans).

  85.6% of mortgage loans and 72.1% of unsecured loans that were excluded from restructuring pursuant to Federal Law No. 106FZ, dated 3 April 2020,[1] from 1 July to 1 October 2020 did not show signs of increasing overdue debt. This might point to a recovery of financial standing of a large share of borrowers.

[1] *Federal Law No. 106FZ, dated 3 April 2020, 'On Amending the Federal Law 'On the Central Bank of the Russian Federation (the Bank of Russia)' and Certain Laws of the Russian Federation As Regards the Specifics of Amending Loan Agreement Conditions'.*

1. CUSTOMER BASE

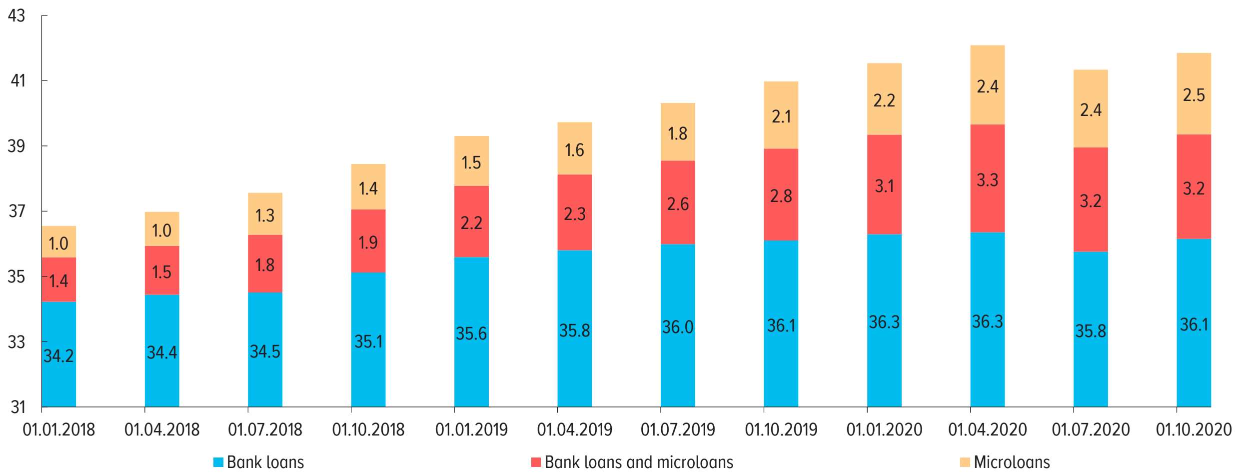
As the financial market develops, lending procedures are gradually becoming less complicated, which boosts lending expansion among households. In 2020, its growth was disrupted by the coronavirus pandemic; however, the market recovered fairly quickly compared to previous crises. The second quarter saw a decline in the number of bank borrowers by 0.8 million (Chart 1). The number of active MFO borrowers in the second quarter dropped by 158 thousand. Banks reported an outflow of borrowers with unsecured consumer loans (by 0.8 million) whereas the number of mortgage borrowers slightly rose (by 0.1 million) on the back of significantly decreased interest rates on mortgage loans. The latter was caused by both the Bank of Russia's shift to accommodative monetary policy and government concessional lending programmes. It was already in 2020 Q3 that the lifting of temporary restrictions in most regions caused the retail lending segment to recover: as of 1 October, the total number of borrowers (41.9 million) came close to the pre-pandemic level (42.1 million as of 1 April 2020).

Bank customers prevail in the borrower structure. As of 1 October 2020, 86.4% of borrowers had only bank loans (36.1 million people), 6% – only MFO loans (2.5 million people), and 7.7% – both bank and MFO loans (3.2 million people).

Despite the fact that the MFO loan portfolio accounts for only 1.1% of debt on retail bank loans (Chart 2), the share of MFO borrowers in the aggregate number of borrowers rose from 6.4% in 2018 to 13.6% as of 1 April 2020. Growth that is characteristic of an immature market was equally supported by MFO borrowers both with and without bank loans. At the same time, the proportion of MFO borrowers remained unchanged since the onset of the pandemic.

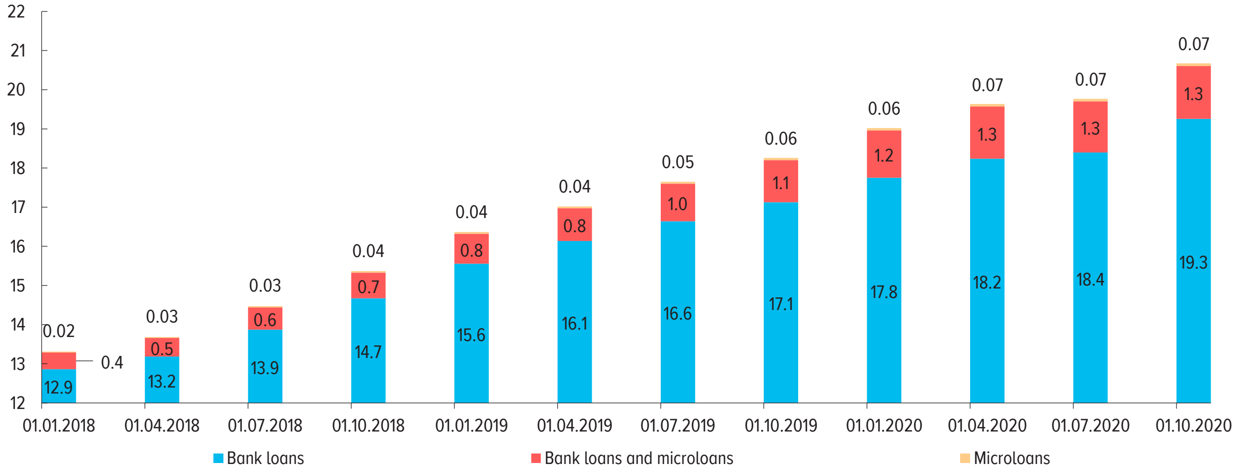
Neither the restrictions introduced in the second quarter to curb the pandemic nor the growing number of restructured loans produced any effect on the share of borrowers who fulfilled their obligations to lenders (i.e. repaid their loans). Due to the overall decline in demand for loans in the second quarter, the pace of renewal of banks' and MFOs' customer base temporarily slowed; however, the inflow of new bank customers recovered already in 2020 Q3 (Chart 3). The inflow of new customers to MFOs remained slightly below the pre-pandemic level (Chart 4).

NUMBER OF BORROWERS (DISJOINT SETS OF BORROWERS) *Chart 1*
(MILLIONS OF PERSONS)



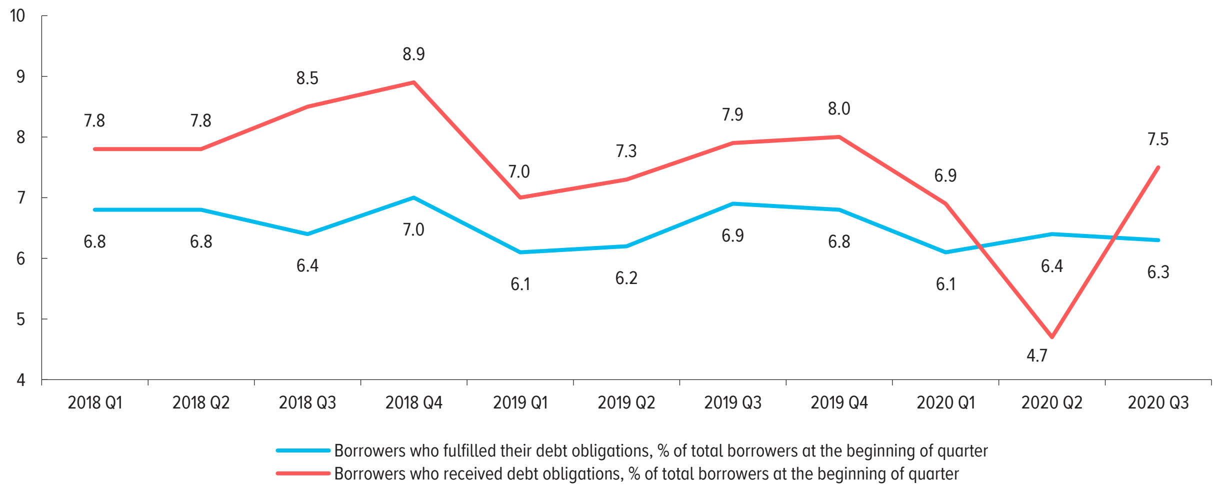
AMOUNT OF DEBT (DISJOINT SETS OF BORROWERS)
(TRILLIONS OF RUBLES)

Chart 2



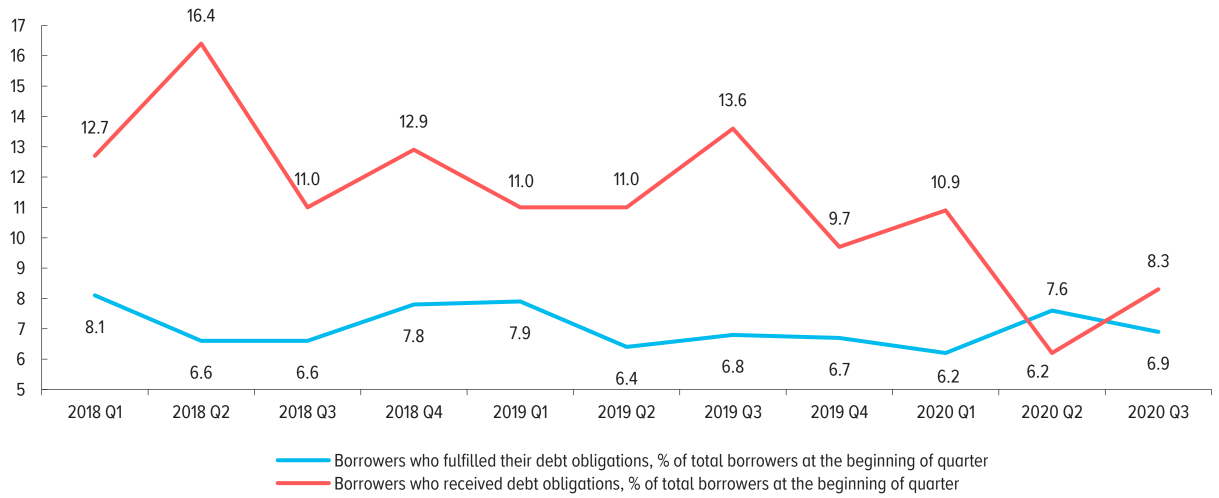
RENEWAL OF BANK BORROWER BASE

Chart 3



RENEWAL OF MFO BORROWER BASE

Chart 4



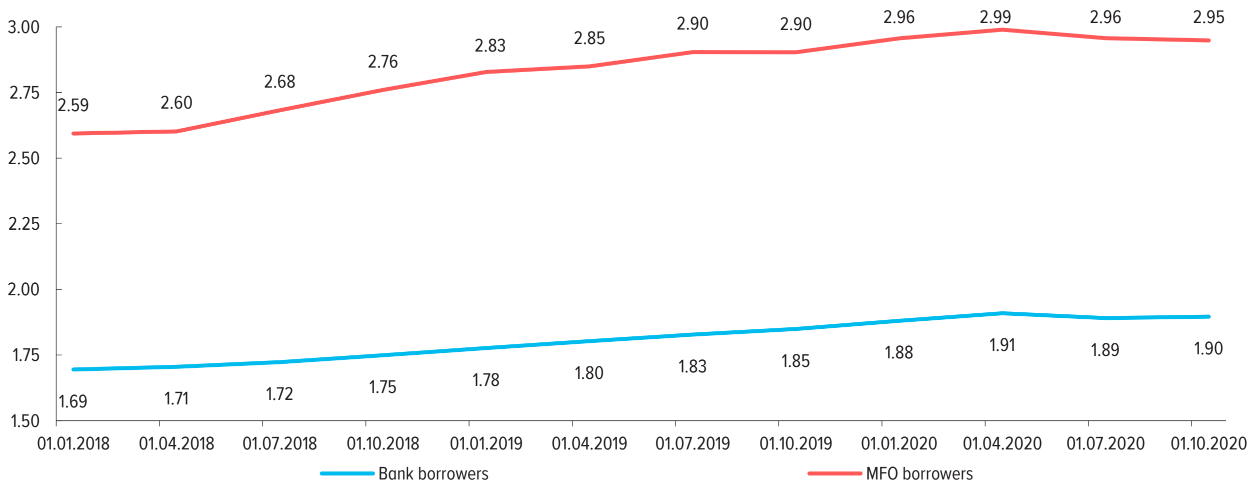
2. CREDIT RISKS AND DEBT BURDEN OF BORROWERS AMID THE PANDEMIC

In our previous reports,[1] we noted that the average number of loans per borrower was gradually growing. This trend temporarily broke in 2020 Q2–Q3. From 2018 to 1 April 2020, the average number of loans per bank borrower rose from 1.69 to 1.91 (Chart 5); however, in the next quarter, this indicator declined for the first time by 0.02 to 1.89. MFO borrowers behaved in a similar way: from 1 January 2019 to 1 April 2020, the average number of loans per borrower increased from 2.59 to 2.99, whereas in 2020 Q2 and Q3 this number edged down to 2.96 and 2.95 respectively.

Debt servicing by new borrowers who did not have any debt when they applied for a loan remained stable in the period under review (Chart 6) and even slightly improved since the onset of the pandemic. The main reasons behind the improved quality of debt servicing by new borrowers in

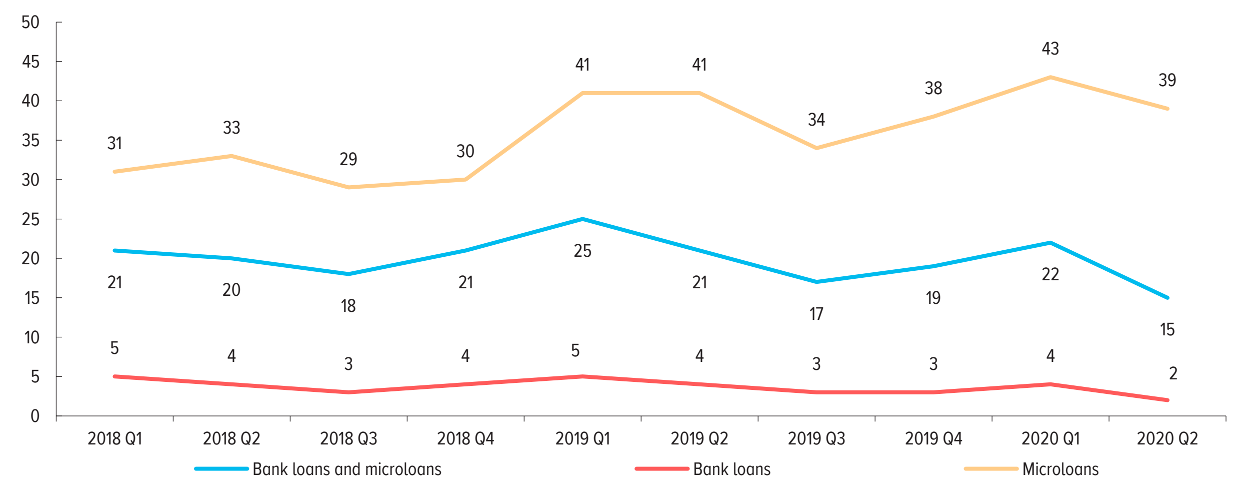
AVERAGE NUMBER OF LOANS PER BORROWER
(UNITS)

Chart 5



SHARE OF NEW BORROWERS DURING A QUARTER WHO HAD OVERDUE DEBT AT END OF THE NEXT QUARTER (DISJOINT SETS OF BORROWERS)
(%)

Chart 6



[1] *See information and analytical materials Analysis of Consumer Lending Trends in 2015–2019 Based on Credit History Bureau Data and Analysis of Russian Households' Debt Burden in 2019 Q4 – 2020 Q1 Based on Credit History Bureaus' Data.*

2020 Q2–Q3 likely include the tightening of lending standards in 2020 Q2 and the growth of social benefits. MFO and bank borrowers continue to demonstrate a steady difference in their payment discipline (which is reflected in the business model of microfinance organisations). 39% of MFO borrowers that took out a loan in 2020 Q2 had overdue debt by the end of the third quarter. For comparison, this indicator was 15% for the borrowers of MFOs and banks simultaneously and only 2% for bank borrowers.

Mortgage lending

Mortgage lending growth accelerated in the third quarter. Borrowers applied for mortgage loans (either to improve housing conditions or as investment) and received loans at all-time low interest rates. Before the pandemic, the average number of loans per borrower who applied for a mortgage loan was growing consistently (Chart 7). The trend reversed in 2020 Q2 when new first-time borrowers joined the market lured by historically low interest rates on mortgage loans. In the third quarter, the average number of loans per borrower who received a mortgage loan was 1.58 including mortgage (1.60 in 2020 Q1). Before the pandemic, the proportion of mortgage borrowers without a previous credit history gradually declined; contrastingly, starting from the second quarter, this trend changed (Chart 8). 24.2% of borrowers who received a mortgage loan in the third quarter (164 thousand) had never borrowed before (vs 23.0%, or 101 thousand, in 2020 Q1).

In 2020, when interest rates on mortgage loans fell to all-time lows of 8.1%,[2] demand for the refinancing of existing loans at lower rates increased (hereinafter, we are speaking of mortgage loan refinancing by other banks[3]). The volume of loans submitted for refinancing[4] over the first three quarters of 2020 totalled 299 billion rubles and exceeded that value for the whole 2019 (153 billion rubles). The share of loans issued to refinance existing loans also grew in 2020 and reached its all-time high in the first quarter (Chart 9).

When banks refinance loans, the amount of a new loan often exceeds the old loan amount ('top-up'). The excessive use of this practice was one of the reasons behind the mortgage crisis of 2007 in the US.

In the Russian market, the average top-up on all loans refinanced since 2019 was 4 to 10% of the refinanced loan amount (Chart 10). In 2020, amid the significantly increased demand for refinancing, the top-up reached 3.8–5.6%. This increase in the loan amount is moderate and does not entail any additional risks.

Since 2015, banks have been gradually improving the quality of mortgage loans, including on the back of macroprudential restrictions on issuing high-risk loans. This factor along with loan restructuring helped banks avoid a surge in overdue loans since the onset of the pandemic (Charts 11 and 12). Nonetheless, the quality of mortgage loans slightly worsened during the pandemic: the share of loans overdue for over 90 days (NPL 90+) as of the 12th month after the loan issue rose from 0.1% for loans issued in 2018 to 0.22% for loans issued in 2019 (Chart 11). These loss indicators are 1.5–2 times as low as those observed for loans issued in 2015–2017. However, the large number of restructured loans prevents us from drawing any firm conclusions about the quality of loans as it may change significantly after the loan repayment holidays.

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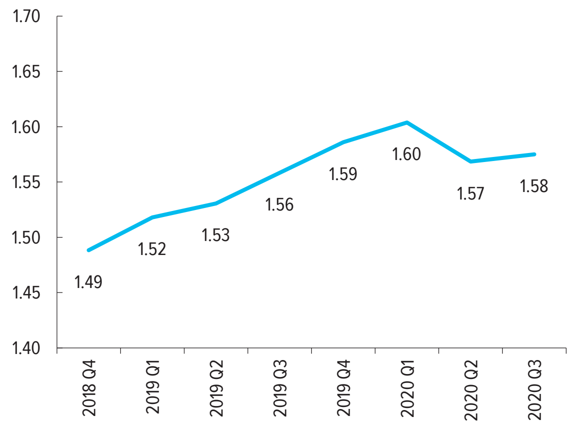
[2] *Excluding loans issued as part of mortgage rate subsidy programmes.*

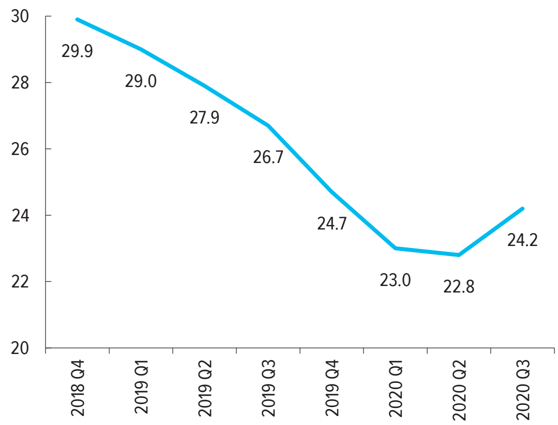
[3] *Banks can also restructure a loan while lowering the interest rate. This material does not cover these cases.*

[4] *According to credit history bureaus (CHBs), a mortgage loan was considered issued for refinancing if the following conditions were met simultaneously:*
– a borrower of the mortgage loan already had a mortgage loan;
– debt under the existing mortgage loan was at least 50% of the initial loan amount (otherwise, the benefit of the restructuring would be marginal as a significant part of interest would have been already paid);
– after restructuring, the borrower's debt under the mortgage loan increased by no more than 50%;
– the borrower's obligations under the existing mortgage loan were terminated.

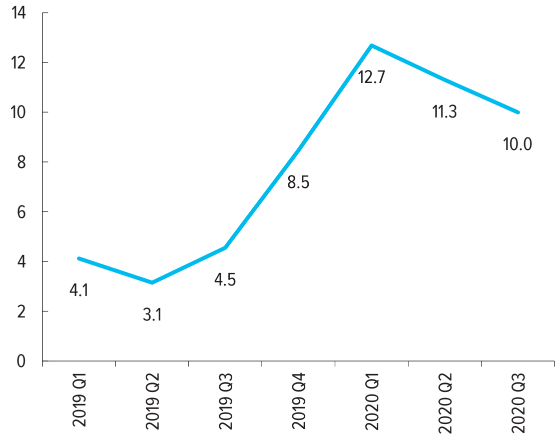
AVERAGE NUMBER OF LOANS PER MORTGAGE BORROWER *Chart 7*
(UNITS)



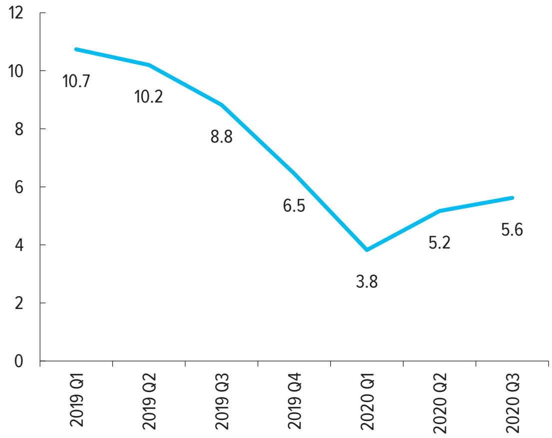
SHARE OF MORTGAGE BORROWERS WITHOUT CREDIT HISTORY BEFORE RECEIVING A MORTGAGE LOAN IN THE TOTAL NUMBER OF MORTGAGE BORROWERS *Chart 8*
(%)



SHARE OF LOANS ISSUED FOR REFINANCING PURPOSES IN THE TOTAL AMOUNT OF MORTGAGE LOANS ISSUED DURING A QUARTER *Chart 9*
(%)



AVERAGE 'TOP-UP' ON MORTGAGE LOANS REFINANCED DURING A QUARTER *Chart 10*
(%)

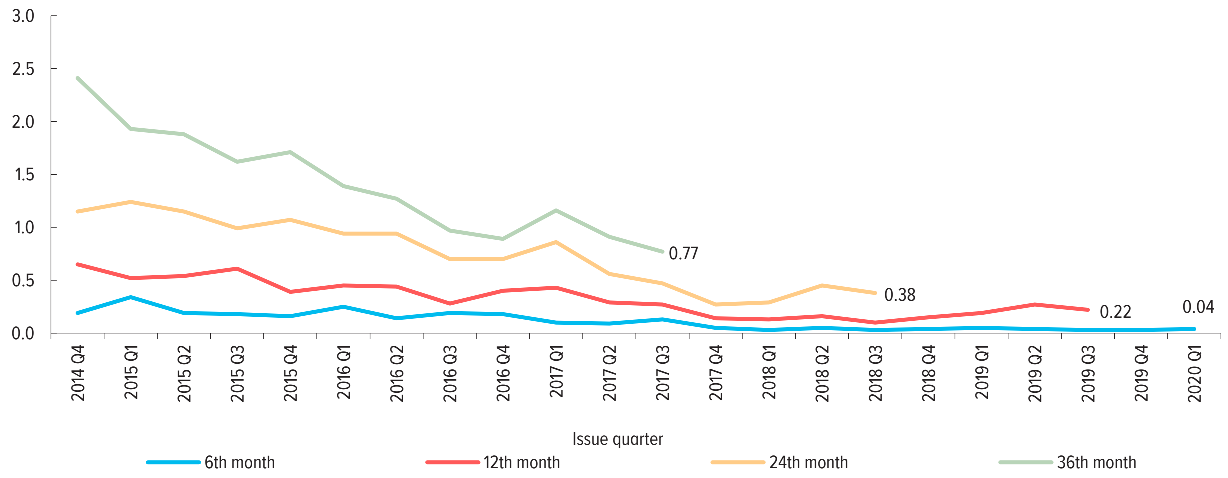


Federal Law No. 106FZ, dated 3 April 2020, allowed borrowers who faced a substantial decline in their incomes to apply for loan repayment holidays. CHB data make it possible to analyse the quality of such loans. Many individuals who did not have such problems before the pandemic faced difficulties with servicing their debt. This is indicated by small overdue debt, yet under a substantial number of restructured mortgage loans. As of 1 July 2020, the share of the overdue mortgage loans of those borrowers who applied for restructuring was 0.1% of their aggregate debt (for comparison: the average share of overdue mortgage loans was 0.8%). At the same time, 6.5% of the borrowers who applied for restructuring in 2020 Q2 had at least one overdue loan, while the share of overdue loans in restructured loans was 6.4%.

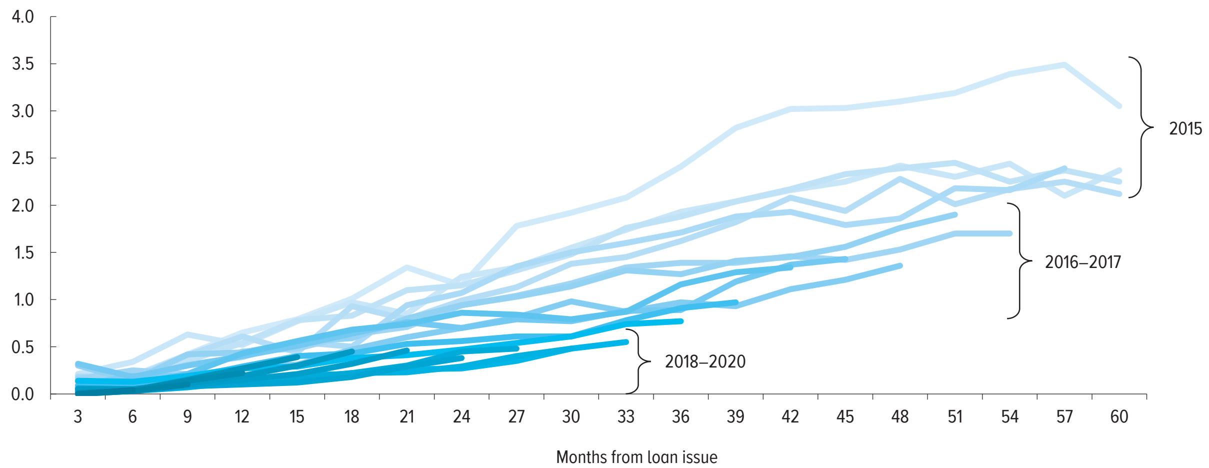
Borrowers with high debt burden are most vulnerable to economic shocks. Mortgage borrowers whose applications for loan repayment holidays were approved had 2.3 loans while other mortgage borrowers had 1.6 loans. This confirms the need for the Bank of Russia to oblige banks and MFOs to calculate borrowers' debt-to-income (DTI) ratio and introduce macroprudential buffers depending on the DTI, which would make it possible to accumulate capital buffers in the banking system.

Nearly 15% of mortgage loans restructured pursuant to Federal Law No. 106FZ were out of restructuring by the end of the third quarter. This could be caused by the fact that a borrower failed

SHARE OF NPL 90+ BY GENERATION OF MORTGAGE LOANS AS OF 6, 12, 24 AND 36 MONTHS *Chart 11*
(%)



SHARE OF NPL 90+ BY GENERATION OF MORTGAGE LOANS SINCE 2015 (DARKER SERIES ARE MORE RECENT) *Chart 12*
(%)



to confirm that their income had declined, or at the borrower's request. 86% of mortgage loans that were out of restructuring from 1 July to 1 October 2020 did not demonstrate any increase in overdue debt. This can be caused by a recovery in borrowers' financial standing or new restructuring under banks' own programmes.

Unsecured consumer lending

At the onset of the pandemic, banks tightened their standards for unsecured consumer lending. Owing to that, the number of loans per borrower stopped growing in 2020 Q2 (Chart 13). However, already in the third quarter, as retail lending recovered, this indicator resumed growth. On average, when a borrower applies for an unsecured consumer loan they already have an outstanding loan.

Unsecured consumer loans are usually sought by experienced borrowers with a credit history. In 2020 Q3, the share of borrowers without a credit history among new borrowers of unsecured consumer loans was 9.7% (Chart 14).

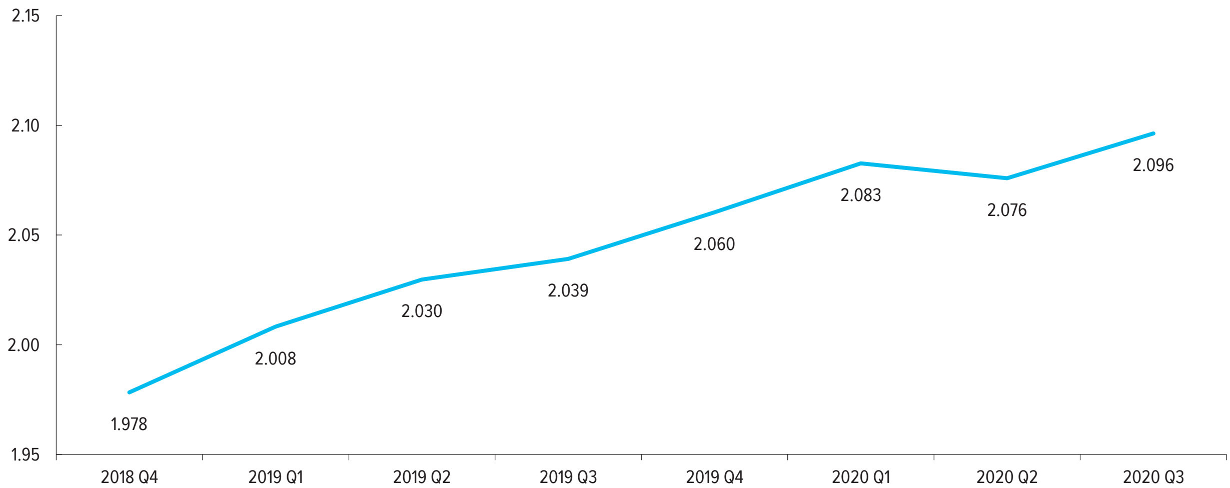
As in the mortgage lending segment, the restructuring of consumer loans helped avoid a surge in overdue loans. Since 2016, the quality of unsecured consumer loans remained stable, including during the pandemic (Charts 15 and 16). Overall, risk under unsecured consumer loans is higher than under mortgage loans both because banks select mortgage borrowers more thoroughly and because such borrowers are more responsible. For comparison, the share of NPL 90+ by mortgage loan generation as of the 12th month after the issue is only 0.22% vs 2.19% for consumer loans (according to data on loans issued in 2019 Q3) (Chart 15).

The share of overdue unsecured consumer loans restructured as of 1 July 2020 was only 0.2% with the market share of overdue debt in this segment being 7.7%. At the same time, the share of overdue restructured loans was 9.6%, which suggests that borrowers faced difficulties with servicing their debt at the onset of the pandemic.

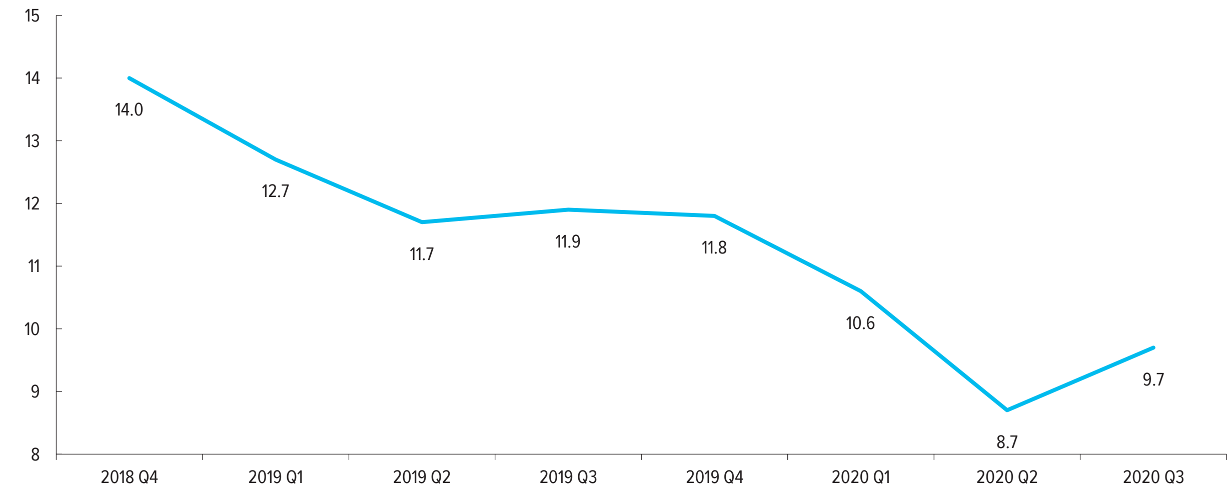
Unsecured consumer borrowers who applied for loan repayment holidays had relatively high debt burden. As of 1 July 2020, the average number of loans per borrower for whom such holidays were approved was 3.7 vs 2.1 for all other borrowers in this segment.

Overdue debt did not post growth for 72.1% of unsecured consumer loans that were out of restructuring by 1 October 2020 due to the borrower's failure to confirm a decline in its income or at the borrower's request.

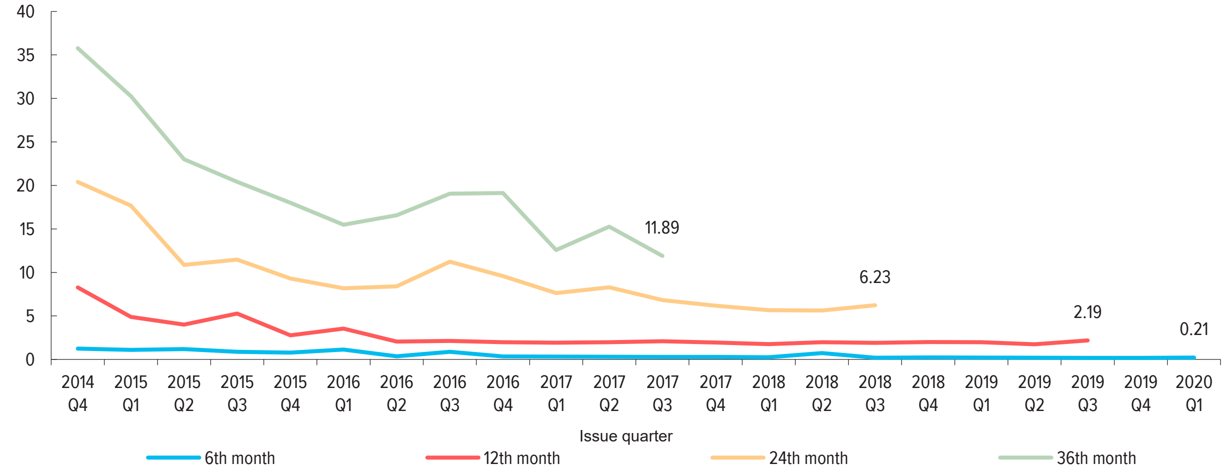
AVERAGE NUMBER OF LOANS PER UNSECURED CONSUMER BORROWER *Chart 13*
(UNITS)



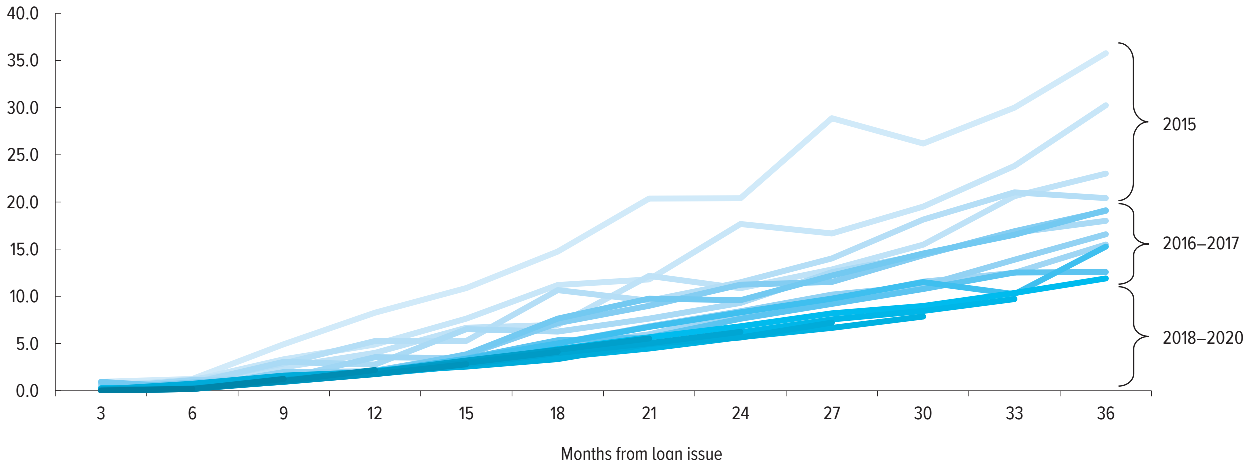
SHARE OF UNSECURED CONSUMER BORROWERS WITHOUT CREDIT HISTORY BEFORE RECEIVING A LOAN IN THE TOTAL NUMBER OF UNSECURED CONSUMER BORROWERS *Chart 14*
(%)



SHARE OF NPL 90+ LOANS BY GENERATIONS OF UNSECURED CONSUMER LOANS AT 6, 12, 24 AND 36 MONTHS *Chart 15*
(%)



SHARE OF NPL 90+ LOANS BY GENERATIONS OF UNSECURED CONSUMER LOANS SINCE 2015 (DARKER SERIES ARE MORE RECENT) *Chart 16*
(%)



Impact of the pandemic on MFO loan portfolio quality

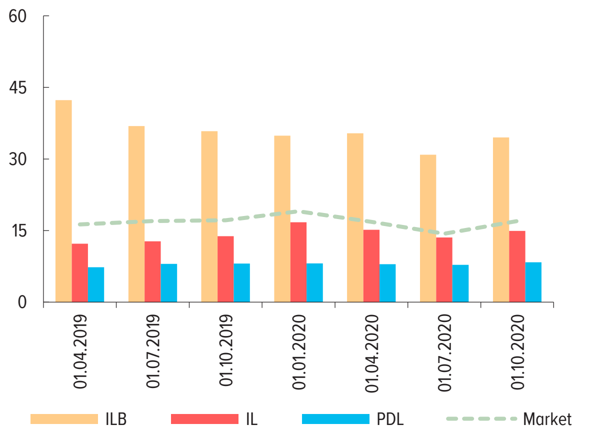
In 2020 Q2, the coronavirus pandemic and restrictive measures impacted consumer microfinance lending; however, as of now, it has not caused a substantial increase in debt burden.

According to CHB data, microloans issued posted a decline for the first time in a long while which amounted to 34.2% (their volume almost completely recovered in the next quarter) with the ILB[5] segment dropping as much as 44.3%. This trend was mainly related to the increased share of rejected loan applications to minimise credit risks as well as to the fact that a number of MFO offices had to close (the major impact of the pandemic on the offline segment). As a result, in 2020 Q2, the aggregate loan portfolio contracted from 225 to 220 billion rubles (-2.2% QoQ) and the number of active borrowers dropped from 5.7 to 5.6 million individuals (-2.8%).

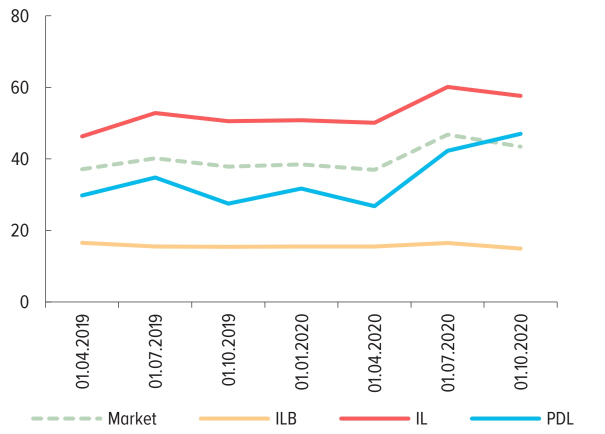
During this period, the average loan amount also fell from 16.8 to 14.4 thousand rubles (Chart 17) and the share of loan agreements for up to 10,000 rubles went up from 48.5 to 52.6%. For this kind of loans, MFOs are not obliged to calculate the DTI and, consequently, they do not have to

[5] *The following abbreviations are used in international literature: ILB – instalment loans issued by bank MFOs; IL – instalment loans issued by other MFOs; PDL – payday loans for up to 30 days and up to 30 thousand rubles.*

CHANGE IN AVERAGE LOAN AMOUNT *Chart 17*
(THOUSANDS OF RUBLES)

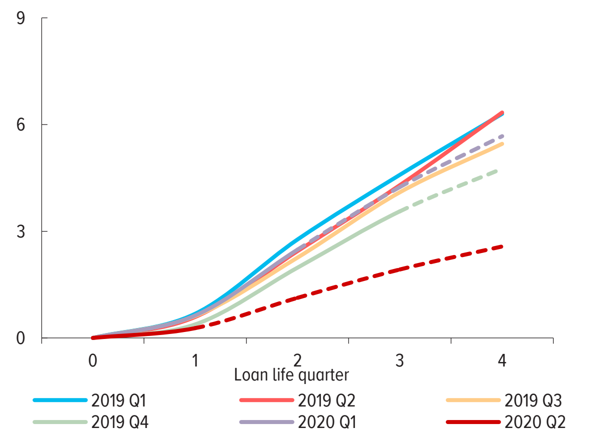


CHANGE IN SHARE OF REPEAT BORROWERS* *Chart 18*
(%)



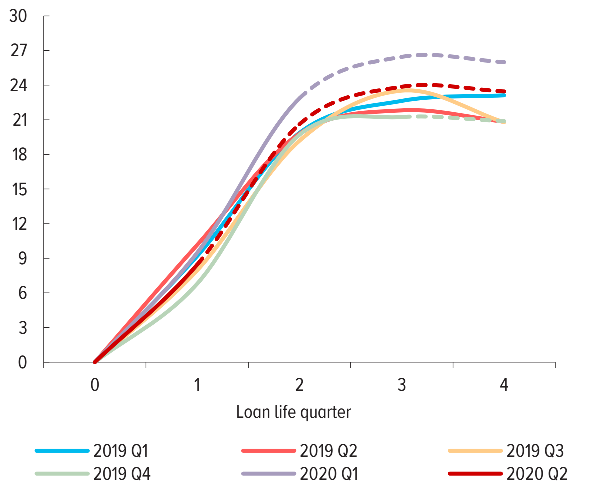
** Repeat borrowers are clients who were issued a loan during the current period and who already had a loan from the same MFO over the last 12 months.*

VINTAGE ANALYSIS OF NPL 90+ IN ILB* *Chart 19*
(%)



** Hereinafter, the dotted line marks the expected dynamics of vintages calculated using the average growth coefficient of the default rate for the previous loan issue periods.*

VINTAGE ANALYSIS OF NPL 90+ IN IL *Chart 20*
(%)

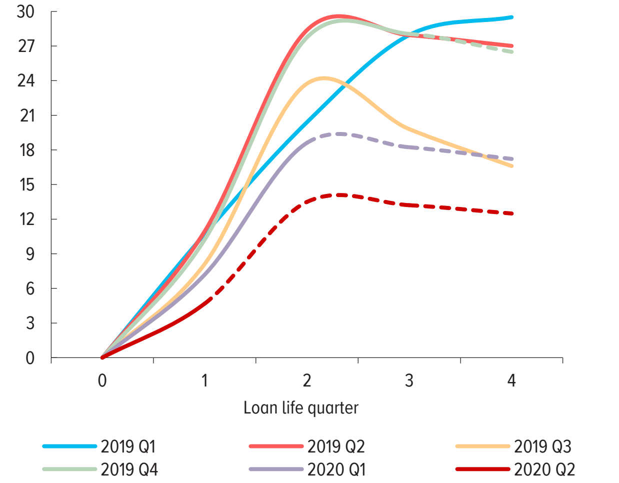


form additional capital if the DTI is high (above 50%).[6] Notably, from 1 April 2020 to 1 October 2020, the share of the so-called 'repeat borrowers' (those who took out one or more loans over the last 12 months from the same MFO; Chart 18) went up from 37 to 43% peaking at the end of 2020 Q2 (47%). The highest growth was observed exactly in the 'classic' IL and PDL segments: +7.5 pp (to 58%) and +20.7 pp (to 47%) respectively. In the current conditions, this fact can be an evidence of loan refinancing to constrain the growth of overdue loans, on the one hand. On the other hand, it might indicate that MFOs are trying to minimise their risks by increasing the share of repeat borrowers.

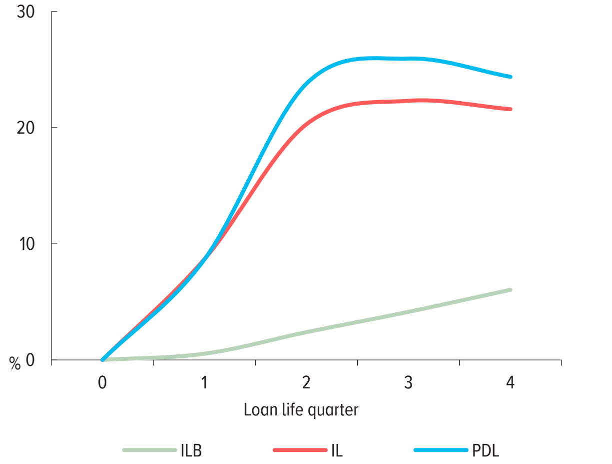
The observed decline in the number of loans issued led to an accumulation of overdue debt (90+ days) whose share reached 21.9% in the ILB segment (+1.3 pp in Q2) and 60.7% in the IL segment (+2.3 pp in Q2). Contrastingly, the share of bad loans in the PDL segment dropped to 79.8% (-2.8 pp

[6] *Bank of Russia Ordinance No. 5114U, dated 2 April 2019, 'On Setting Economic Ratios for a Microcredit Company Raising Funds from Individuals, Including Individual Entrepreneurs, Who are Founders (Members, Shareholders), and (or) Legal Entities in the Form of Loans'; Bank of Russia Ordinance No. 5115U, dated 2 April 2019, 'On Setting Economic Ratios for a Microfinance Company Raising Funds from Individuals, Including Individual Entrepreneurs, and (or) Legal Entities, in the Form of Loans, and for a Microfinance Company Issuing and Placing Bonds'.*

VINTAGE ANALYSIS OF NPL 90+ IN PDL *Chart 21*
(%)



VINTAGE ANALYSIS OF NPL 90+ BY SEGMENT, ON AVERAGE IN 2019 Q1 – 2020 Q2 *Chart 22*
(%)



in Q2), which can be related to a less substantial decline in loans issued (14.4%) amid an increased proportion of refinanced loans (more loans were issued to repeat borrowers).

In order to estimate credit risks in the consumer microfinance market, we have also conducted a vintage analysis of the default rate (NPL 90+)[7] for loans issued from 2019 Q1 to 2020 Q2. Despite a decline in household incomes, nearly all types of loans issued by MFOs during the first wave of the coronavirus infection demonstrated a very low level of overdue debt (Charts 19–21), which can be related to a tightening of scoring procedures. It should be noted that during the pandemic the government made social payments that could be used to repay MFO loans, which constrained growth of the default rate. The countrywide lockdown and the related decline in other expenditures of borrowers could also improve debt servicing.

Issue loss volatility is the highest in the PDL segment (Chart 21), which can be related to less conservative scoring procedures where the analysis of a borrower's income is not always the key decision-making factor. Moreover, the pandemic impacted borrowers' possibilities to find additional sources of incomes to repay small loans. These circumstances can lead to less stable cash flows in this market segment, which is also one of the factors behind the need for more frequent assignments and write-offs. At the same time, the ILB segment expectedly demonstrates lower average default rates compared to the consumer microfinance market in general (Chart 22).

Loan restructuring could become an additional factor constraining the growth of default rates over the period under review. According to supervisory reporting,[8] their share in the unsecured consumer loan portfolio increased from 9.0 to 10.5% in 2020 Q1–Q3. A slight growth of this indicator can be attributed to the regulatory relaxations introduced for MFOs, in particular the permission not to recognise such loans as restructured.[9] At the same time, according to CHB data, loans restructured as per Federal Law No. 106FZ accounted for less than 0.1% of the total number of outstanding loan agreements. We may thus conclude that for the most part loans were restructured under MFOs' own programmes.

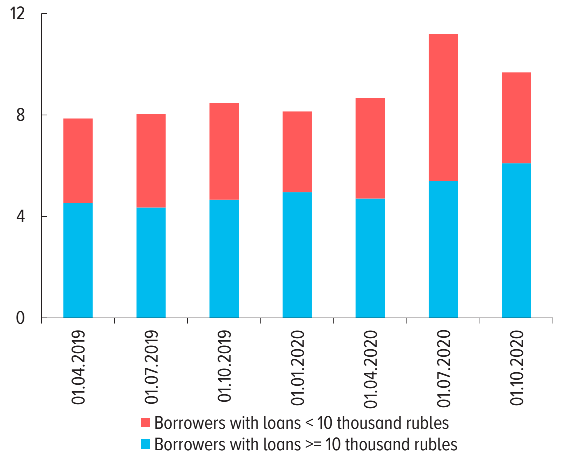
Due to a growing number of repeat borrowers, we have analysed potential chains of loan refinancing by borrowers based on CHB data. For the purpose of this report, refinancing means getting a new loan within five days before or after closing an old one. We have also reviewed cases

[7] *Loans overdue for 90 days and more.*

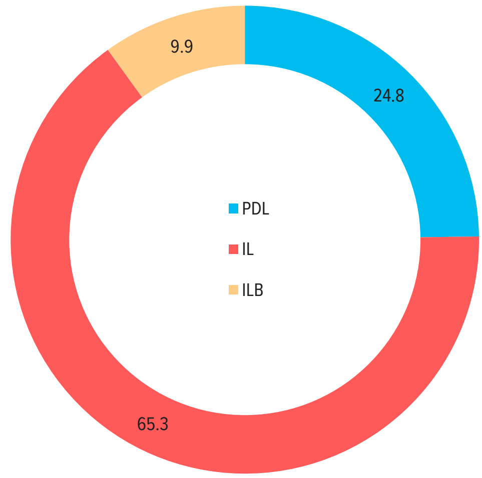
[8] *OKUD forms 0420840 and 0420846.*

[9] *Until 30 June 2021, in accordance with Bank of Russia Information Letter No. IN-06-59/140, dated 30 September 2020.*

SHARE OF BORROWERS REFINANCING OTHER LOANS IN TOTAL LOANS ISSUED PER QUARTER *Chart 23*
(%)



STRUCTURE OF LOANS REFINANCED IN 2020 Q3 *Chart 24*
(%)



when a borrower repaid an overdue loan or agreement early and received a new loan at the same time.

Our analysis showed that the share of borrowers who refinanced their loans in the same quarter increased during the period under review from 8 to 10% peaking at 11% in 2020 Q2 (Chart 23). In the same quarter, loans for up to 10,000 rubles accounted for the largest share of all refinanced loans (52%). As of the end of 2020 Q3, IL loans accounted for the largest share of all refinanced loans (65.3%; Chart 24). It should be noted that over the period under review the share of borrowers who applied for refinancing, already having an overdue loan when they received a new one, varied from 18 to 28%. For this group of borrowers, recapitalisation of debt can become a negative consequence and cause an accelerated growth of their debt burden due to high effective interest rate (EIR) on MFO loans.

Considering the above, we can note that the above-mentioned factors that constrain the growth of the default rate (government social payments, a growing number of restructured and refinanced loans, and repayments using funds spent for current consumption in normal conditions) are mostly temporary in nature. The further path of the share of defaults will be determined by the dynamics of real income of households.

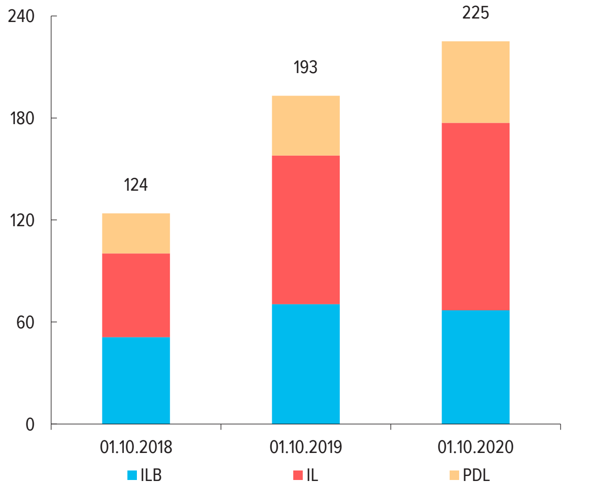
MFO borrowers' debt burden

Over the recent years, the Bank of Russia has consistently taken measures to ease MFO borrowers' debt burden (through limiting the maximum EIR, the total amount of interest accrued on the initial loan amount and the maximum number of loans at one MFO; taking the DTI into account when calculating MFO capital adequacy requirements; etc.). However, according to the CHB data analysis, a substantial part of MFO borrowers is still characterised by high debt burden and poor debt servicing quality. This can be a result of both the behavioural model of borrowers and MFO lending practices.

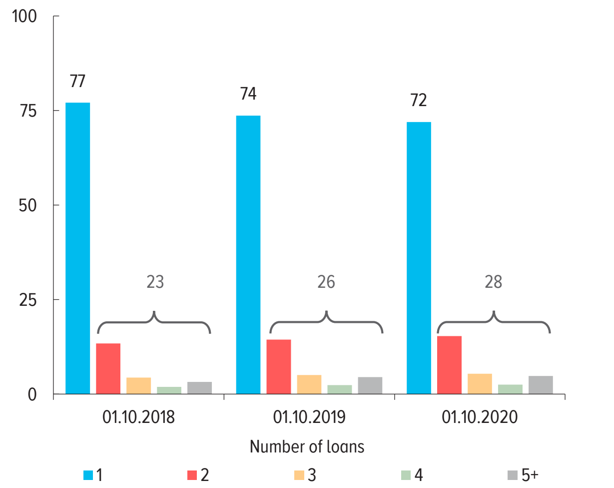
CHB data show that over the last two years the consumer loan market expanded from 124 to 225 billion rubles (by principal amount and interest accrued; Chart 25).[10] This growth was largely driven by the IL and PDL segments with their average annual growth rates equalling 65% and 72% respectively (30% in the ILB segment).

[10] *According to MFO supervisory reporting (OKUD forms 0420840 and 0420846), the consumer microloan market grew from 178.6 to 268.9 billion rubles over the same period.*

MARKET DYNAMICS BY LOAN AMOUNT (BILLIONS OF RUBLES) *Chart 25*



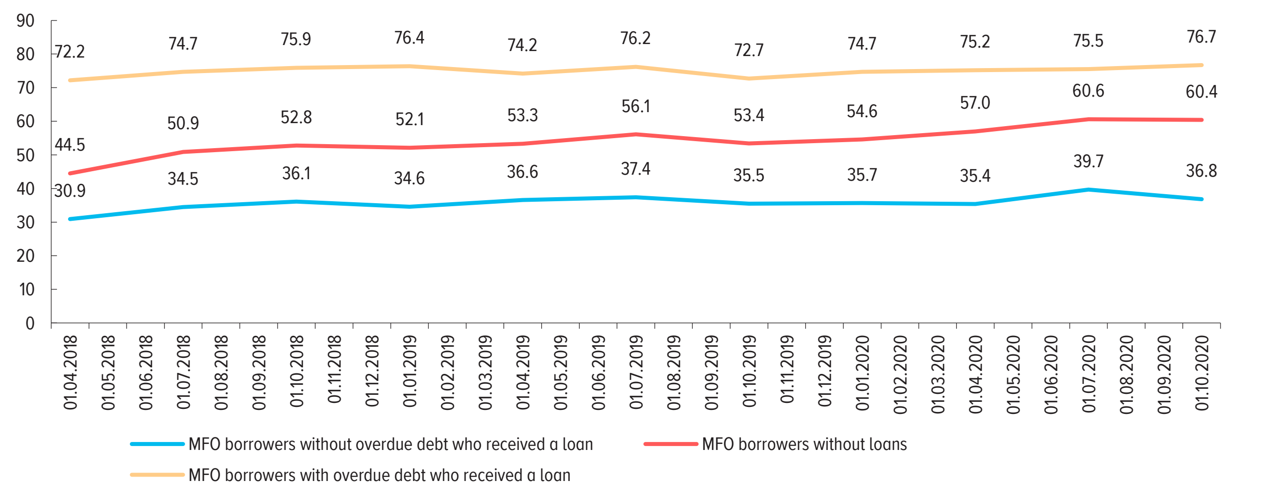
DISTRIBUTION OF LOANS PER BORROWER (%) *Chart 26*



Among those who applied for an MFO loan, the share of people who already had an overdue bank loan increased. Their proportion rose from 12.9 to 14.8% since early 2020 (as of end of 2020 Q3, the share of MFO borrowers with bank loans, whether overdue or not, was 56.2%). This is the highest level since 2018. The growth of this indicator can be explained by the consequences of the pandemic, including a decline in households' real incomes. Borrowers who apply for an MFO loan while having an overdue bank loan generally service their debt worse than other MFO borrowers: as of 1 October 2020, 76.7% of their debt was overdue. At the same time, for borrowers who applied for an MFO loan without an overdue bank loan, the share of overdue debt was 36.8%, and for MFO borrowers without a bank loan – 60.4% (Chart 27). It should be noted that, from 2018 Q3 to 2020 Q3, the quality of debt servicing by borrowers with only MFO loans significantly deteriorated: the share of overdue loans rose from 52.8 to 60.4%.

Moreover, the share of borrowers with two or more loans rose from 23 to 28% over the last two years (Chart 26). This group of borrowers also demonstrated the growth of debt per borrower (Chart 28) by over 15% (median), while for borrowers with one loan this indicator increased by only 2%.

SHARE OF OVERDUE LOANS BY SETS OF MFO BORROWERS (%) *Chart 27*

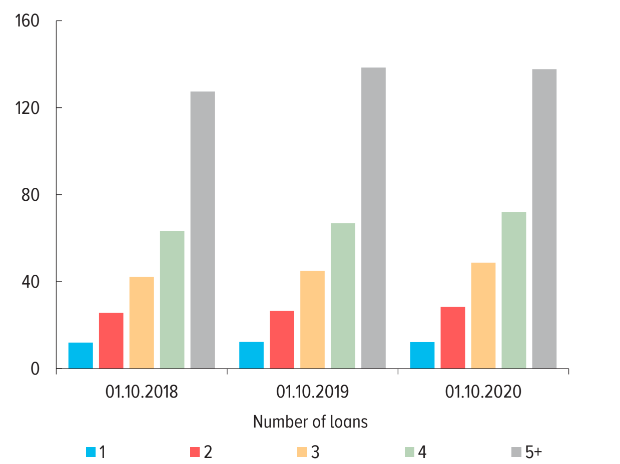


Despite a slight increase in the quality of loans issued in 2020 Q2–Q3, the microfinance market in general faced a rise in the share of overdue loans over the last year with the most substantial growth registered for borrowers with one to two loans simultaneously (+5 pp on average; Chart 29). As we have mentioned earlier, the growth of overdue debt was related to a decline in the amount of loans issued during the first wave of the pandemic. At the same time, this factor, along with growing debt per borrower, indirectly points to rising debt burden when borrowers receiving new loans service them more poorly.

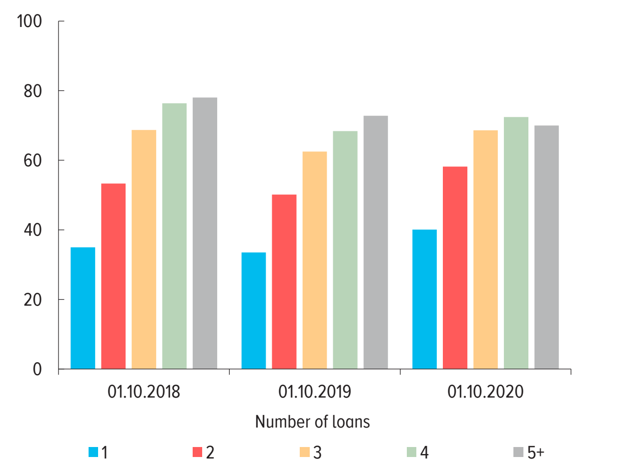
The largest proportion of borrowers with two or more loans was registered in the North-Western, Central, and Urals Federal Districts (FD) (Table 1), although this number was distributed across regions quite uniformly. It should be noted that the lowest value of this indicator was registered in the North Caucasian FD; however, this region posted the largest amount of debt per borrower with two or more loans. This is mainly attributed to the fact that this region has the highest debt in the ILB segment (52% vs the country's average of 31%). Regions with the highest share of borrowers with two or more loans post the largest share of overdue debt.

Therefore, calculation of the debt-to-income ratio (DTI) is important in lending as it helps avoid growth of debt burden of the least protected groups of borrowers.

DISTRIBUTION OF AVERAGE (MEDIAN) DEBT BY NUMBER OF LOANS PER BORROWER *Chart 28*
(THOUSANDS OF RUBLES)



CHANGE IN SHARE OF OVERDUE LOANS DEPENDING ON NUMBER OF LOANS PER BORROWER *Chart 29*
(%)



DEBT OF BORROWERS WITH TWO OR MORE LOANS BY FEDERAL DISTRICT *Table 1*

Federal district (FD)	Share by number of borrowers with two or more loans, %			Debt per borrower with two or more loans (median), thousands of rubles			Share of overdue loans per borrower with two or more loans, %		
	01.10.2018	01.10.2019	01.10.2020	01.10.2018	01.10.2019	01.10.20	01.10.2018	01.10.2019	01.10.2020
Central FD	24.9	29.0	30.6	12.1	13.2	13.2	55.9	53.8	57.3
North-Western FD	26.7	30.5	32.8	13.2	13.0	13.0	55.4	52.0	57.4
Volga FD	22.9	27.0	29.3	11.4	12.3	12.5	55.7	53.3	59.5
Urals FD	24.1	28.2	30.0	12.7	13.2	13.8	45.1	48.0	54.8
North Caucasian FD	19.7	21.7	23.8	14.4	14.8	14.5	31.0	32.5	39.2
Southern FD	21.8	25.9	28.3	13.2	13.9	14.2	40.2	43.6	50.1
Siberian FD	23.1	25.7	27.3	11.0	11.9	12.9	44.0	44.9	51.6
Far Eastern FD	22.8	25.2	27.7	13.0	13.0	13.0	35.2	39.9	46.1
Russian Federation	**23.5**	**27.1**	**29.2**	**12.1**	**12.9**	**13.2**	**48.4**	**48.5**	**54.2**

CONCLUSION

The onset of the pandemic and the restrictive measures taken to curb it led to a short-term decline in retail lending in 2020 Q2. However, the third quarter saw recovery growth in all lending segments owing to a number of reasons.

Firstly, the opportunity to restructure their loans, both in virtue of law and under lenders' own programmes, helped borrowers avoid default during the period of tough restrictions and resume payments after loan repayment holidays. However, restructuring also 'disguised' the quality of loan portfolios as the growth of the share of 'bad' loans was postponed. A preliminary analysis does not point to a significant deterioration in their credit quality of loans that come out of restructuring: the share of overdue debt increased for only 14% of mortgage loans and 28% of consumer loans.

Secondly, historically low mortgage interest rates drove the inflow of new customers (mainly in the primary market) and boosted demand for loan refinancing.

Therefore, retail lending is set to grow, and it is important to continue to ensure that its growth is balanced and does not increase households' debt burden.

ANNEX. CREDIT PENETRATION AND DEBT BURDEN, BY REGION (AS OF 1 OCTOBER 2020)

Penetration is the ratio of the number of borrowers in a region as of the reporting date to the number of permanent residents as of the beginning of the calendar year.

Region	Credit penetration (all MFO borrowers), %	Credit penetration (consumer loans, excluding credit cards), %	Credit penetration (mortgage loans), %	Credit penetration (total), %
Altai Territory	5.2	20.8	5.6	33.5
Amur Region	5.1	23.2	5.6	35.4
Arkhangelsk Region	4.3	19.4	7.6	32.0
Astrakhan Region	4.4	21.1	4.5	30.7
Belgorod Region	3.8	19.2	4.6	29.4
Bryansk Region	3.2	16.2	5.2	26.3
Vladimir Region	3.6	15.9	5.2	26.3
Volgograd Region	4.3	17.1	4.8	27.9
Vologda Region	3.8	19.4	7.4	30.8
Voronezh Region	3.3	16.4	5.8	26.9
Moscow	2.8	11.9	4.0	23.5
Saint Petersburg	3.3	15.4	7.2	30.8
Sevastopol	6.8	13.8	4.5	35.9
Jewish Autonomous Region	7.2	21.5	4.4	33.6
Zabaikalye Territory	6.3	22.6	4.8	34.5
Ivanovo Region	4.1	14.9	4.4	25.5
Irkutsk Region	5.7	23.2	6.7	36.7
Kabardino-Balkar Republic	3.5	14.3	2.2	20.2
Kaliningrad Region	3.7	17.8	5.1	29.7
Kaluga Region	3.7	17.5	6.4	29.0
Kamchatka Territory	4.0	21.4	5.4	33.0
Karachay-Cherkess Republic	4.3	18.1	2.6	25.4
Kemerovo Region	5.3	21.3	6.1	33.6
Kirov Region	4.2	18.8	7.2	30.4
Kostroma Region	3.9	16.9	5.7	28.0
Krasnodar Territory	4.5	19.2	4.6	30.9
Krasnoyarsk Territory	4.2	21.9	7.1	34.8
Kurgan Region	5.5	21.7	5.8	33.8
Kursk Region	3.5	18.8	5.4	29.3
Leningrad Region	3.9	17.0	5.7	29.5
Lipetsk Region	3.4	17.4	5.0	27.4
Magadan Region	4.2	23.6	8.3	37.5
Moscow Region	4.1	17.8	6.3	31.8
Murmansk Region	4.5	22.4	5.5	34.9
Nizhny Novgorod Region	3.7	16.8	5.8	27.7
Novgorod Region	3.9	18.1	5.5	29.9
Novosibirsk Region	4.7	20.6	7.4	34.2
Omsk Region	4.9	20.2	6.0	32.8

Region	Credit penetration (all MFO borrowers), %	Credit penetration (consumer loans, excluding credit cards), %	Credit penetration (mortgage loans), %	Credit penetration (total), %
Orenburg Region	4.3	21.4	6.9	34.0
Orel Region	3.9	18.3	6.0	29.5
Penza Region	3.4	16.9	5.6	26.9
Perm Territory	4.7	20.3	7.3	33.3
Primorye Territory	4.9	20.1	4.2	31.0
Pskov Region	4.1	17.7	4.4	29.1
Republic of Adygeya	4.8	20.2	3.3	30.0
Altai Republic	8.2	25.3	2.4	37.5
Republic of Bashkortostan	4.8	18.9	6.9	31.0
Republic of Buryatia	5.2	22.2	4.3	34.1
Republic of Dagestan	1.4	5.8	0.6	8.3
Republic of Ingushetia	0.9	5.6	0.2	7.3
Republic of Kalmykia	6.1	22.7	5.1	34.0
Republic of Karelia	4.0	20.6	6.8	33.3
Republic of Komi	4.9	23.1	8.8	36.4
Republic of Crimea	2.9	5.3	0.6	13.4
Mari El Republic	5.8	16.7	6.4	28.6
Republic of Mordovia	3.4	15.4	5.2	24.2
Republic of Sakha (Yakutia)	5.8	23.0	8.5	36.5
Republic of North Ossetia – Alania	5.2	19.9	2.3	27.3
Republic of Tatarstan	4.7	17.5	6.9	30.0
Republic of Tuva	12.9	24.2	3.4	38.4
Republic of Khakassia	5.3	22.6	5.5	33.9
Rostov Region	4.0	17.9	4.5	28.4
Ryazan Region	3.2	16.2	6.5	26.7
Samara Region	4.5	18.6	6.9	32.8
Saratov Region	4.1	17.8	5.4	28.8
Sakhalin Region	4.6	22.3	5.2	34.6
Sverdlovsk Region	5.2	19.9	6.7	33.5
Smolensk Region	3.6	16.9	5.3	27.1
Stavropol Territory	3.7	17.2	4.4	26.5
Tambov Region	3.4	16.8	4.6	26.0
Tver Region	3.6	16.7	5.8	27.7
Tomsk Region	4.3	19.3	5.9	31.2
Tula Region	4.1	17.4	5.3	28.7
Tyumen Region	4.8	21.8	9.5	35.1
Udmurt Republic	5.1	20.4	8.9	34.1
Ulyanovsk Region	4.2	18.4	7.5	30.3
Khabarovsk Territory	5.2	20.4	5.7	33.4
Chelyabinsk Region	4.8	19.9	6.8	32.7
Chechen Republic	1.3	8.3	0.4	10.2
Chuvash Republic	3.9	15.3	8.5	27.8
Chukotka Autonomous Area	2.0	19.0	6.7	28.0
Yaroslavl Region	3.4	16.4	5.4	26.9

Debt burden is the ratio of average debt per borrower in a region as of 1 October 2020 to average monthly income in that region over the previous four quarters.

Region	Debt burden (consumer loans, excluding credit cards)	Debt burden (mortgage)	Debt burden (total*)
Altai Territory	9.2	31.8	13.4
Amur Region	8.9	30.7	12.5
Arkhangelsk Region	8.8	25.9	13.4
Astrakhan Region	10.8	34.0	14.7
Belgorod Region	8.4	23.0	11.0
Bryansk Region	8.6	24.4	12.1
Vladimir Region	10.2	30.2	14.6
Volgograd Region	10.7	31.2	14.6
Vologda Region	10.1	26.1	14.7
Voronezh Region	8.5	26.3	12.9
Moscow	7.4	35.8	11.7
Saint Petersburg	9.1	35.3	15.4
Sevastopol	10.7	39.5	11.2
Jewish Autonomous Region	10.5	31.1	12.7
Zabaikalye Territory	11.1	35.0	14.3
Ivanovo Region	9.6	28.4	13.2
Irkutsk Region	11.3	32.5	15.6
Kabardino-Balkar Republic	10.5	36.1	13.4
Kaliningrad Region	11.2	35.2	15.6
Kaluga Region	9.6	30.3	14.9
Kamchatka Territory	8.1	25.2	11.2
Karachay-Cherkess Republic	14.4	46.5	17.9
Kemerovo Region	10.8	29.8	14.8
Kirov Region	10.1	30.1	15.9
Kostroma Region	9.3	27.2	13.5
Krasnodar Territory	8.0	27.5	11.7
Krasnoyarsk Territory	9.6	31.0	14.6
Kurgan Region	10.7	33.0	15.3
Kursk Region	8.3	23.3	11.5
Leningrad Region	10.9	38.2	16.7
Lipetsk Region	8.4	22.9	11.5
Magadan Region	6.9	20.1	10.0
Moscow Region	10.1	37.5	15.5
Murmansk Region	9.1	21.8	11.0
Nizhny Novgorod Region	8.4	25.0	12.7
Novgorod Region	9.9	29.6	14.1
Novosibirsk Region	9.7	35.7	15.9
Omsk Region	10.3	31.6	14.5
Orenburg Region	10.3	31.5	15.6

Region	Debt burden (consumer loans, excluding credit cards)	Debt burden (mortgage)	Debt burden (total*)
Orel Region	9.2	26.4	13.3
Penza Region	10.7	30.6	15.7
Perm Territory	9.4	28.2	14.5
Primorye Territory	8.9	37.0	12.8
Pskov Region	9.5	28.5	12.6
Republic of Adygeya	10.7	34.2	14.0
Altai Republic	8.2	25.7	8.8
Republic of Bashkortostan	12.6	41.5	20.2
Republic of Buryatia	9.5	29.3	11.9
Republic of Dagestan	8.4	44.6	10.5
Republic of Ingushetia	7.6	38.0	8.0
Republic of Kalmykia	15.7	54.6	22.3
Republic of Karelia	16.1	43.5	22.0
Republic of Komi	10.6	29.2	15.7
Republic of Crimea	5.5	42.2	5.3
Mari El Republic	10.5	31.7	15.9
Republic of Mordovia	11.4	34.2	16.9
Republic of Sakha (Yakutia)	19.9	73.1	33.3
Republic of North Ossetia – Alania	5.3	22.8	6.8
Republic of Tatarstan	8.1	30.0	14.0
Republic of Tuva	17.2	73.4	20.6
Republic of Khakassia	11.0	33.8	15.3
Rostov Region	8.7	31.0	13.0
Ryazan Region	10.3	30.0	16.0
Samara Region	9.5	27.2	13.5
Saratov Region	10.3	30.8	14.8
Sakhalin Region	7.0	27.0	10.0
Sverdlovsk Region	8.3	27.6	12.7
Smolensk Region	9.4	27.5	13.5
Stavropol Territory	11.2	30.6	15.4
Tambov Region	9.0	26.3	12.7
Tver Region	9.8	31.0	14.8
Tomsk Region	10.4	30.6	14.9
Tula Region	10.5	30.5	14.8
Tyumen Region	8.4	24.7	13.6
Udmurt Republic	10.4	27.2	16.1
Ulyanovsk Region	9.9	25.5	14.8
Khabarovsk Territory	8.3	30.0	11.9
Chelyabinsk Region	10.5	30.2	15.8
Chechen Republic	9.1	44.3	9.9
Chuvash Republic	11.6	34.4	19.8
Chukotka Autonomous Area	6.7	17.0	9.6
Yaroslavl Region	9.4	26.9	13.6

** Including debt on microloans, car loans, and credit cards.*