

## Mortgage Loan Market in the First Half of 2017

In the first half of 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 July 2017, the number of participants in the primary mortgage loan market fell by 76 credit institutions year-on-year to 423 credit institutions.

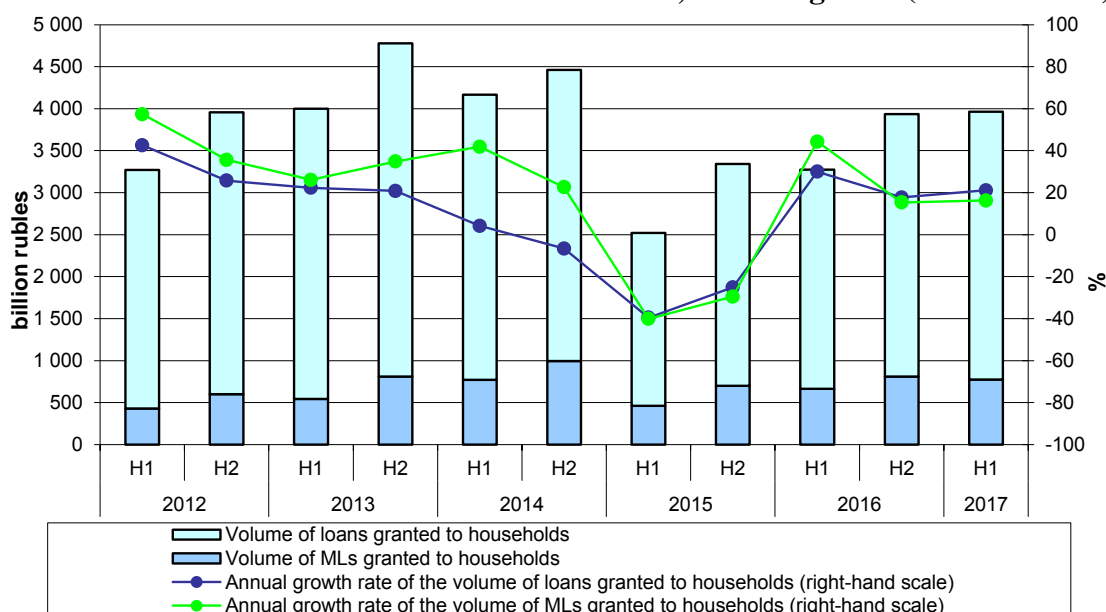
The highest number of credit institutions granting MLs (218) is located in the Central Federal District, of which 186 – in Moscow; 66 participants are located in the Volga Federal District, of which 15 – in the Republic of Tatarstan.

**The volume of granted MLs has increased.** The volume of granted MLs, which had been declining in the first months of 2017 following the end of state program of interest rate subsidy, has increased by 16,3% over the first half of 2017 compared to the first half of 2016, surpassing the results of the same period of record-breaking 2014.

In the first half of 2017, credit institutions granted 423 486 MLs in the amount of 773.0 billion rubles. The share of MLs in the total volume of household loans volume reached 19.5% decreasing by 0.8 p.p. in comparison with the respective period of the previous year (Chart 1). The average size of granted loans increased from 1.70 to 1.83 million rubles, while in Moscow it reached 4.01 million rubles.

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 the Central Federal District, constituted 31.8% of the total volume of granted MLs in the Russian Federation.

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



In the first half of 2017, the share of MLs, granted against the pledge of claims under share construction participation agreement (MLs under SCPAs), constituted 34.2% of the total volume of MLs. Since the beginning of the year, there were 127 489 granted MLs under SCPAs in the amount of 264.0 billion rubles, exclusively in rubles.

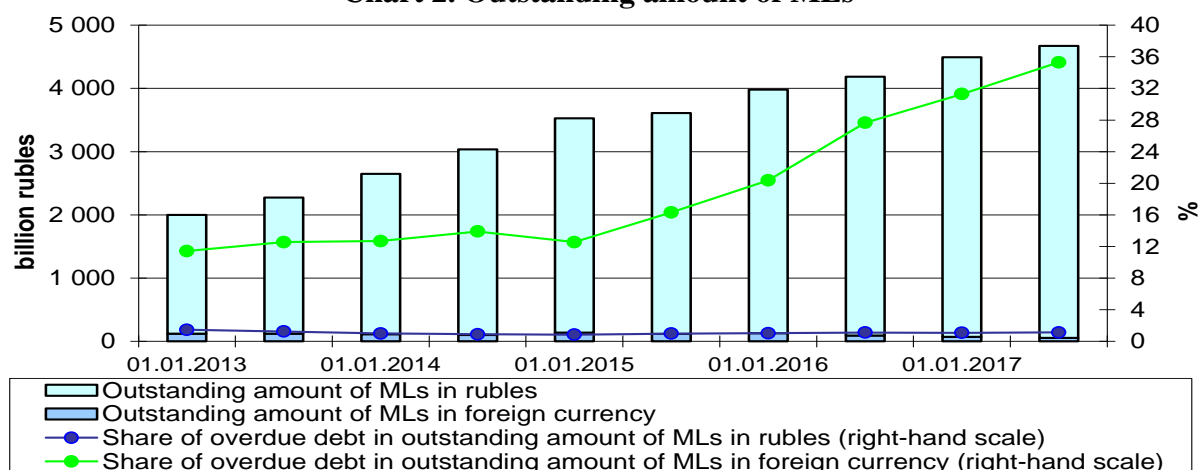
**The share of MLs granted in rubles continued further growth.** In the first half of 2017, 423 482 MLs in rubles were granted for a total amount of 772.7 billion rubles. Their share in the total volume of MLs reached 99.96%. In comparison with the first half of 2016 the number of granted MLs in rubles went up by 8.6 % against the volume increase by 16.3%. At the same time the number of granted MLs in foreign currency dropped by 6.0 times to 4 loans; the volume of MLs in foreign currency reduced by 2.3 times to 0.3 billion rubles (in ruble equivalent).

**Outstanding amount of MLs in rubles increased, while outstanding amount of MLs in foreign currency reduced.** As of 1 July 2017, outstanding amount of MLs in rubles rose by 12.8% year-on-year to 4616.3 billion rubles. At that the share of overdue MLs in rubles in outstanding amount insignificantly increased by 0.01 p.p. year-on-year to 1.13% (Chart 2). The overdue debt of MLs in rubles rose by 14.2% attaining the amount of 52.3 billion rubles.

The outstanding amount of MLs in foreign currency fell by 1.7 times to 54.6 billion rubles (in ruble equivalent). The share of overdue MLs in foreign currency in outstanding amount grew up by 7.65 p.p. year-on-year reaching 35.3%. The overdue debt of MLs in foreign currency reduced by 26.0% to the amount of 19.3 billion rubles (in ruble equivalent).

The outstanding amount of MLs under SCPAs in rubles and foreign currency reached 970.0 billion rubles and 1.5 billion rubles (in ruble equivalent) respectively at the end of the first half of 2017; the share of it reached 20.8% of the total MLs portfolio. The outstanding amount of MLs under SCPAs in rubles and foreign currency was marked by lower level of overdue loans (as of 1 July 2017 – 0.4% in comparison with 1.5% for all MLs).

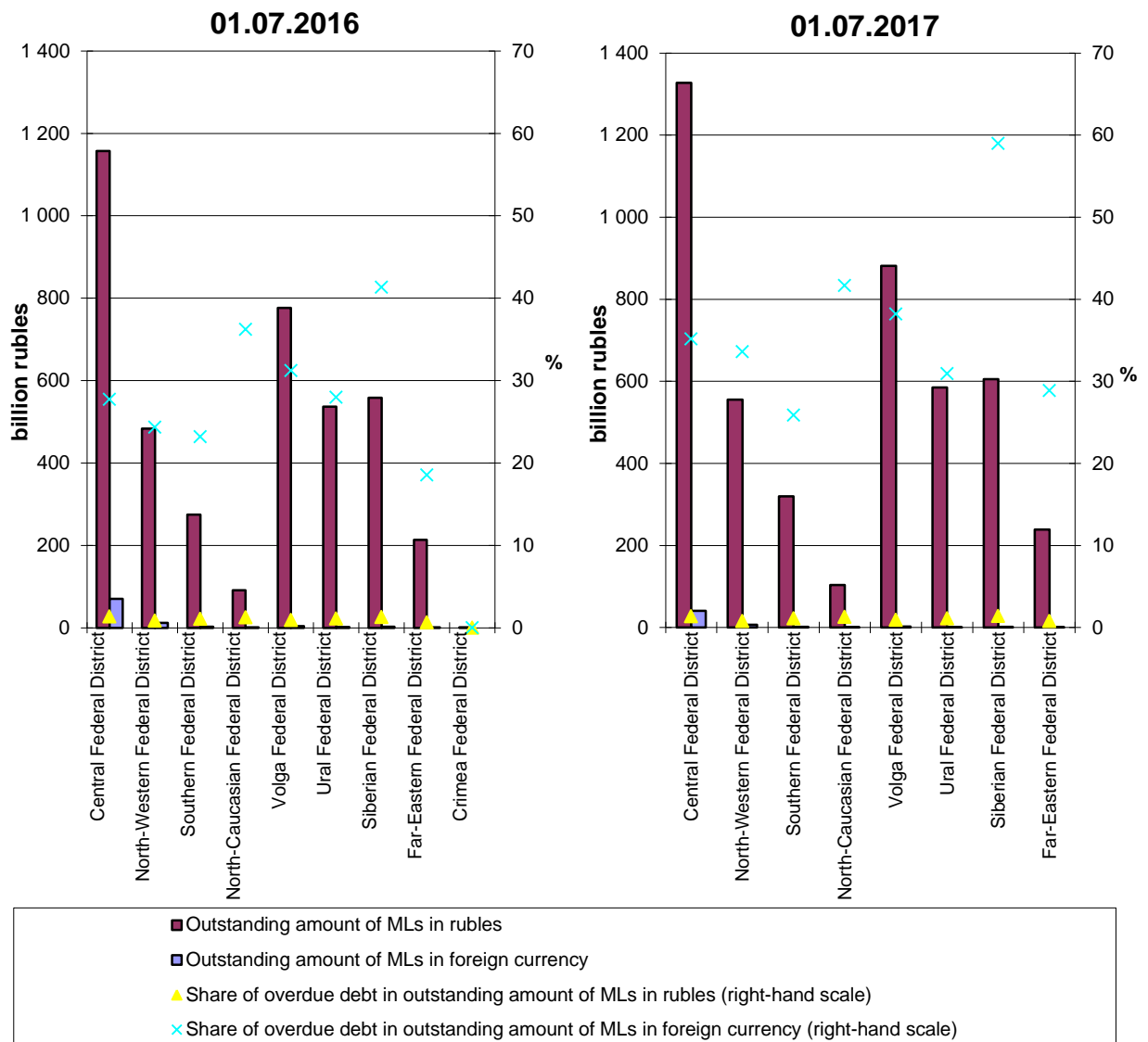
**Chart 2. Outstanding amount of MLs**



The share of loans without arrears in the total volume of outstanding amount of MLs as of 1 July 2017 increased by 0.90 p.p. year-on-year to 94.66%. Yet, the share of loans with overdue payments over 180 days in the total volume of outstanding amount of MLs decreased by 0.37 p.p. to 2.19%.

The data on regional structure of outstanding amount of MLs in rubles and in foreign currency, as well as on the share of overdue loans are presented on Chart 3.

**Chart 3. Regional Structure of Outstanding amount of MLs**

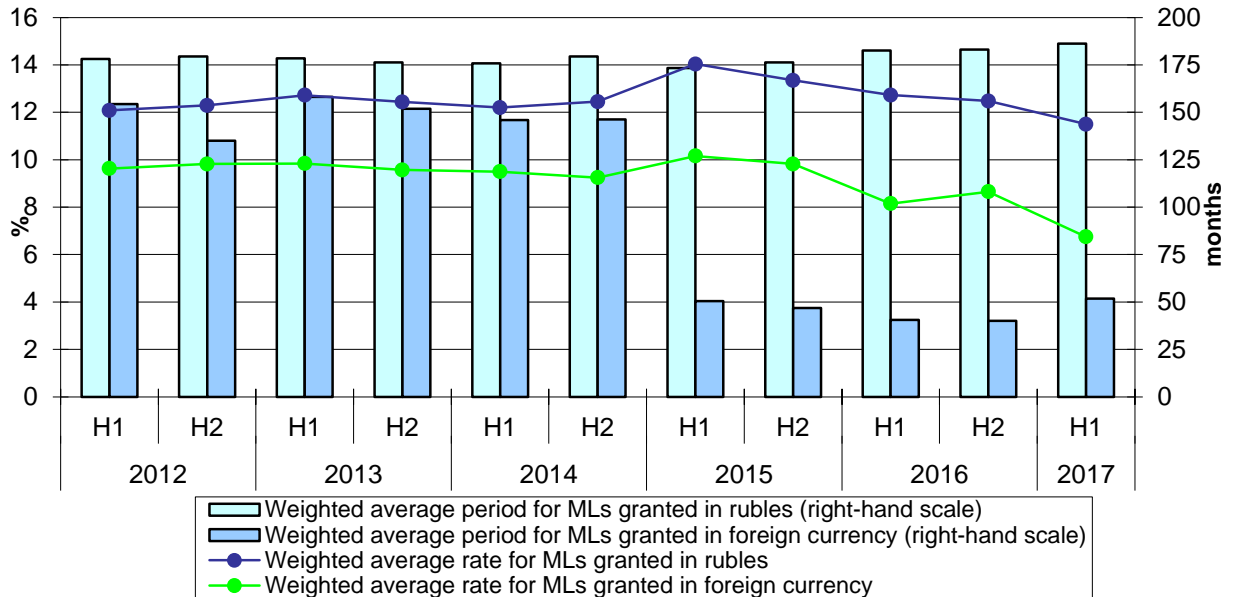


**An interest rate decline for MLs in rubles and foreign currency while an extension of weighted average maturity for MLs were registered.**

In the first half of 2017, the weighted average maturity for MLs granted by credit institutions in rubles went up by 4 months year-on-year to 186 months (15.5 years) and MLs in foreign currency – 11 months to 52 months (4.3 years). In comparison with the same period last year, the weighted average interest rates on MLs has drastically diminished: MLs in rubles slipped by 1.23 p.p. to 11.50%; and

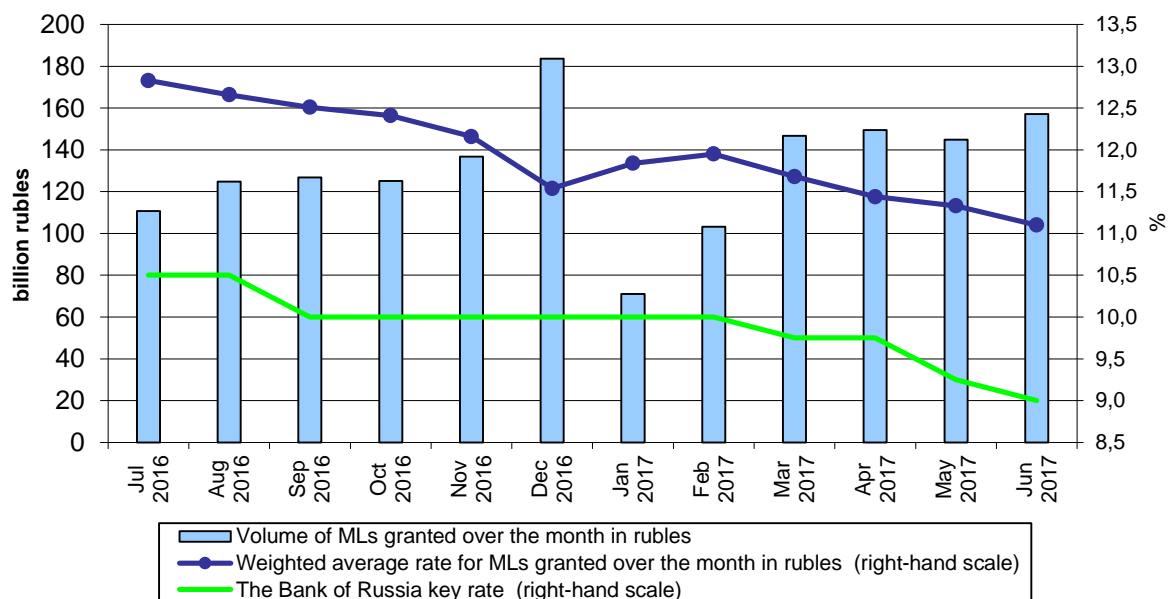
for MLs in foreign currency – by 1.40 p.p. to 6.75%. The dynamics of weighted average lending periods and interest rates are shown on Chart 4.

**Chart 4. Weighted Interest Rates and Average Lending Periods for Granted MLs (New Business)**



The reduction of the Bank of Russia key rate to 9.00% contributed to reducing of the weighted average interest rates on MLs in rubles granted over the month: in the period from June 2016 to June 2017 rate value reduced from 12.93 to 11.10% (Chart 5).

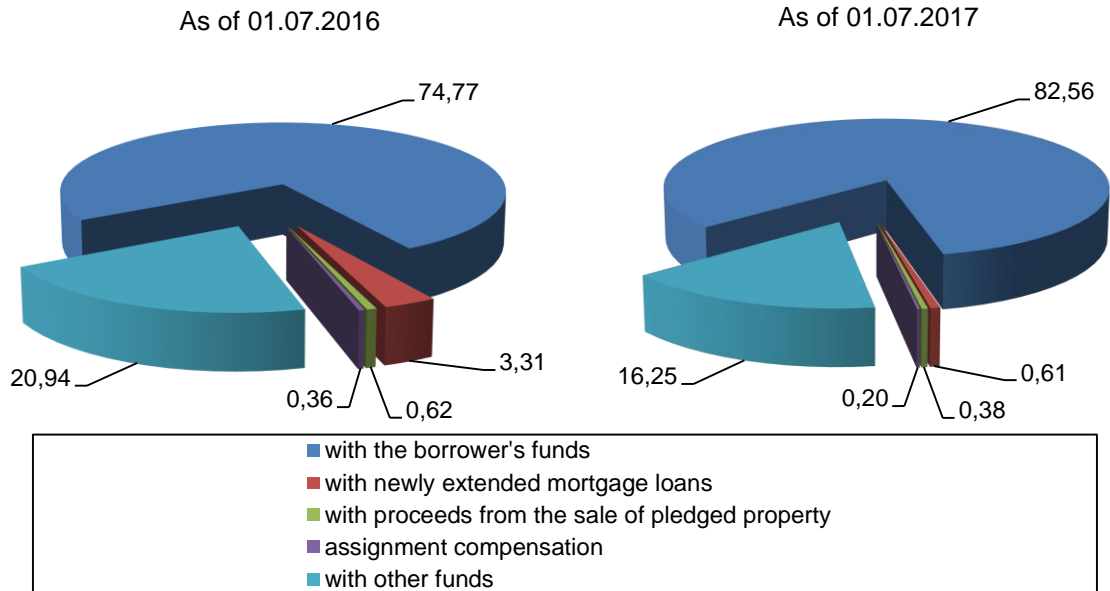
**Chart 5. Volume and Interest Rates for Granted MLs**



**The volume of early repaid MLs has increased.** In the first half of 2017, MLs for an amount of 347.3 billion rubles, including 6.0 billion rubles on claims on MLs, were repaid ahead of schedule and it is 16.1% higher than the respective period of the previous year (299.2 billion rubles). The early repayment was

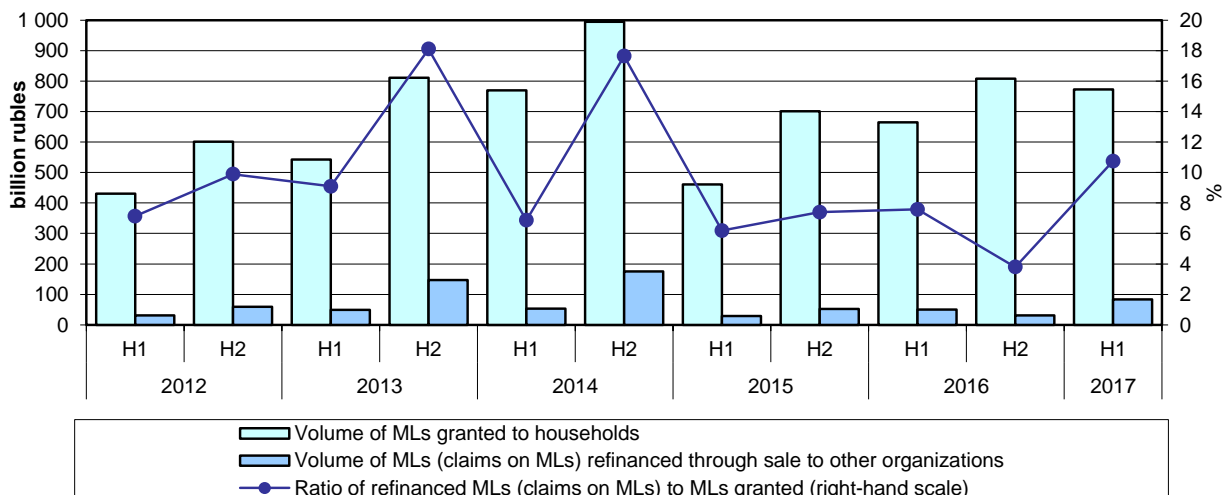
mostly performed on MLs (claims on MLs) granted (acquired) in rubles – 342.1 billion rubles. The share of early repaid MLs (claims on MLs) by borrowers' own funds accounted for 82.6% (Chart 6). The ratio of early repaid MLs (claims on MLs) to granted MLs stood at 44.9% (respective period of the previous year – 45.0%).

**Chart 6. Volume of MLs Granted to Households and Early Repaid MLs (Claims on MLs)**



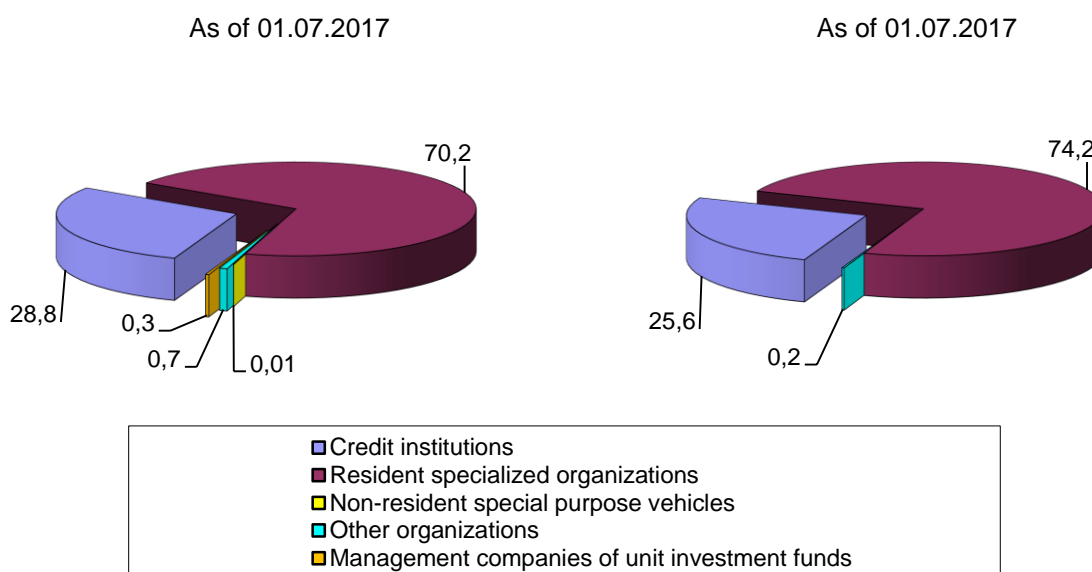
**The volume of refinanced MLs has increased alongside the growth of the volume of the granted MLs.** In the first half of 2017, 56 credit institutions refinanced MLs (claims on MLs) purely by selling to other institutions for an amount of 83.1 billion rubles (in the first half of 2016 – 74 credit institutions for an amount of 77.1 billion rubles, of which sold to other institutions for an amount of 50.4 billion rubles (65.4%). The ratio of MLs (claims on MLs), refinanced by selling them to other institutions, to granted MLs stood at 10.7% (Chart 7).

**Chart 7. Volume of MLs Granted to Households and Refinancing of MLs (Claims on MLs) through Sale to Other Institutions**



Resident specialized organizations are among the main sources of refinancing MLs through sale to other institutions: in the first half of 2017 they accounted for 74.2% of the total volume of refinanced MLs (claims on MLs). In comparison with the respective period of the previous year, the share of operations conducted by resident specialized organizations increased by 4.0 p.p.. At the same time the volume of MLs (claims on MLs) refinanced by these organizations increased by 74.3% to 61.6 billion rubles. The share of credit institutions in refinancing sources reduced by 3.1 p.p. to 25.6%, while the volume of MLs (claims on MLs) refinanced by these organizations considerably increased by 1.5 times to 21.3 billion rubles. The share of other organizations accounted for 0.2% or 0.1 billion rubles. Refinancing MLs (claims on MLs) by selling to management companies of unit investment funds and non-resident special purpose vehicles had not provided (in the first half of 2016 their volume accounted for 0.3% (0.2 billion rubles) and 0.01% (0.005 billion rubles) respectively) (Chart 8).

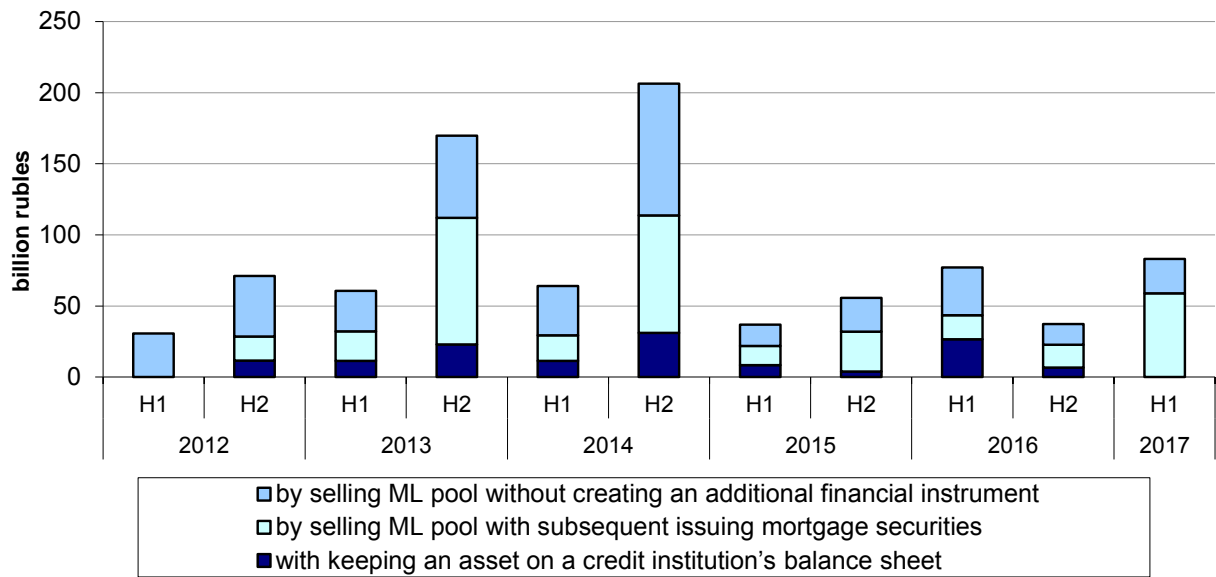
**Chart 8. Sources of Refinancing MLs (Claims on MLs) by Selling Loan Pool**



Refinancing MLs (claims on MLs) through issuing mortgage-backed bonds with keeping an asset on a credit institution's balance sheet in the first half of 2017 had not provided by credit institution. However, in the first half of 2016 their volume stood at 26.6 billion rubles (by 2 banks).

Thus, in the first half of 2017, almost the entire volume of MLs (claims on MLs) was refinanced on the domestic financial market. The dynamics of the volume of MLs refinancing are given on Chart 9.

**Chart 9. Refinancing MLs (Claims on MLs) with Selling to Other Institutions and with Keeping Asset on a Credit Institution's Balance Sheet**



Credit institutions are allowed to use both bonds issued by the Agency for Housing Mortgage Lending (AHML) and mortgage-backed bonds 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 July 2017, 64 mortgage-backed bonds for a total value of 335.6 billion rubles and 22 bonds issued by the Agency for Housing Mortgage Lending for a total value of 158.0 billion rubles were included in the Bank of Russia Lombard List.