The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Effects of Crisis Linger in Mortgage Market

By Natalya Biyanova

February 07, 2011



The state's mortgage agency has helped about 45,000 people restructure their mortgages in the last two years. **D. Grishkin**

During the financial crisis, one in seven mortgage loans issued in 2006 and 2007 had to be restructured, and now one in 10 is in default.

In the past two years, the Mortgage Loans Restructuring Agency has assisted more than 63,400 borrowers looking to restructure their mortgages, said Andrei Yazykov, the agency's director.

Of those, 45,000 were able to restructure their loans. About 8,500 restructured via the agency, and the rest came to agreements with banks. According to Yazykov, the majority of applicants for restructuring loans came from borrowers who took out loans in 2006 or 2007.

According to Federal Registration Service data, roughly 328,000 mortgages were issued

in 2006 and 2007. Thus, every seventh loan later underwent restructuring.

Some banks issue loans without full documentation, which means that the actual proportion of unpaid loans could be lower, said Anna Lyubimtseva, head of analysis at the Mortgage Lending Agency. But she pointed out that, according to her agency's data, by 2010 every tenth mortgage was overdue.

Before the crisis, the proportion of overdue loans was less than 1 percent.

There were several reasons for overdue mortgage payments during the crisis, said Raiffeisenbank board member Andrei Stepanenko. A significant number of loans were in a foreign currency, businessmen collateralized loans with their apartments, and many loans had floating interest locked in to money market rates.

During the crisis, the ruble fell 30 percent, business ground to a halt, and interest rates doubled, Stepanenko said. That is why so many loans needed to be restructured.

The level of deferrals is still high. As we recover from the crisis, people's salaries are growing slowly but their savings have been spent, Lyubimtseva explained. And if someone defaults on one loan, it's difficult to get another one. Because of this, many borrowers have been unable to restructure their loans, and they are paying off their loans the best they can, Yazykov said.

Yazykov considers the restructuring program a success. By year-end 2010, more than half of borrowers who restructured via the Mortgage Loans Restructuring Agency stopped needing the agency's support and regained financial stability, and 266 people paid off their loans before they were due.

"We expected that there would be more repeat defaults," Yazykov said.

Thanks to correctly selected parameters — such as the interest rate on new loans and the size of payments — 87 percent of restructured loans were paid off without a single deferral.

But there are several banks where, because of poorly designed payback schemes, the burden on borrowers turned out to be far too heavy. As a result, almost half the restructured loans went into default again, Yazykov said. The restructuring agency has had to perform more than 3,000 repeat restructurings for borrowers at those banks.

Original url:
https://www.themoscowtimes.com/2011/02/07/effects-of-crisis-linger-in-mortgage-market-a4822