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Mortgage Legislation Progresses

By The Moscow Times

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The government on Tuesday approved legislation aimed at encouraging trade in Russian mortgage-backed bonds that are now worth $3.3 billion, a top securities official said.

A boost in the demand for these bonds could help finance more home purchases and ramp up the construction industry.

The legislation is a set of amendments that would make investment in senior tranches of such bonds more secure, while allow more risk for the junior tranches, said Dmitry Pankin, director of the Federal Financial Markets Service.

The holders of senior tranches have first claim on the collateral to cover their interest and principal payments. Those with junior tranches would have second claim.

"These changes may appear technical, but they make life easier for market players," Pankin said in announcing the decision to reporters.

One of the amendments, which will have to gain approval from the parliament and could enter into force next year, would remove the need for the issuer — a bank or a government agency — to secure collateral for the junior tranches, Pankin said.

Another would cancel the requirement for mandatory interest payments on junior tranches, he said.

The government's Mortgage Lending Agency issued 55 billion rubles ($1.9 billion) worth of mortgage-backed bonds, most recently in 2010, when it reopened the market after the crisis, Pankin said.

Banks have sold another 37 billion rubles worth of the bonds, he said.

Vneshekonombank, the state development bank, is one of the buyers.

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