The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Banks Scramble for Clients as Mortgage Lending Takes Off

By Delphine d'Amora

February 17, 2014

More mortgages than ever are being granted as banks lower their interest rates and begin lending more freely. **v. volkov**

Correction appended

Mortgage lending is soaring as banks lower their rates, carrying with it both the benefits and potential drawbacks of a mortgage-greedy banking system.

Until recently, Russian banks and consumers alike were skeptical of mortgages, and the rapidly escalating price of real estate did not help matters.

Now, stable housing prices and cultural acceptance of mortgages have opened up a new and dynamically growing market that banks are eager to capitalize on.

The country's dominant mortgage lender, state-run giant Sberbank, issued 55 percent more mortgages in January this year than in the same month in 2013, and is keen to keep the momentum, said the bank's director of retail loans, Natalya Alymova.

"The January lending was the result of our work at the end of last year. To maintain the pace of growth throughout this year, we have decided to lower rates," Alymova told Vedomosti.

Last week, Sberbank shaved 0.5 percentage points off all of its basic mortgages, knocking them down to between 12.5 and 13.5 percent for a standard 10-year mortgage with a 50 percent down payment.

The average rate in 2013 was 12.4 percent, according to the Central Bank.

Fellow state-run bank VTB 24 also saw mortgage lending growth of more than 50 percent, while the market as a whole rose by about 30 percent, said Andrei Stepanenko, deputy chairman of the board of Raiffeisenbank.

The volume of mortgages has skyrocketed over the past three years, from 524,000 in 2011 to 692,000 in 2012 to 825,000 last year, according to the Central Bank. In 2004 it was 14,000, First Deputy Prime Minister Igor Shuvalov said at a recent government meeting.

Back then, the three months that it took to process a mortgage often meant that by the time a loan finally went through, the price of the desired property had already risen beyond the customer's nearly acquired means, said Sergei Zharkov, general director of real estate information and analytics portal Irn.ru.

By comparison, today's market is amenable for homebuyers, Zharkov said.

"Considering that prices on housing have practically stood still for the past two years, this is a good time for final consumers to resolve their living situation," Zharkov said.

Increasing financial literacy and experience in the banking sector have also played a vital role, said Maria Litinetskaya, general director of real estate firm Metrium Group.

"Banks have gradually perfected their practices, their experience with clients has grown ... and people who thought before that mortgages were only for rich people are now using them, leading to the spread of the product among the middle class over the past two to three years," Litinetskaya said.

Litinetskaya expects the growth in lending to continue over the next year as banks' expand their product range and make lending conditions more favorable for borrowers.

However, lending rates may rise later in the year depending on broader economic conditions, she said.

The upside of this development is clear, making housing progressively more accessible to the average consumer — though average mortgage rates are still about 6 percent higher than both the Central Bank's interest rate and inflation — but there may be downsides on the horizon.

"The banks, in pursuit of expanded mortgage lending, have begun offering sub-prime loans. That is, some banks in certain situations offer loans without any checks on income, with a zero-percent down payment. This could turn into what happened in the U.S.," Zharkov said.

Moscow region real estate developer Tekta Group is a prime example, Zharkov said. The company in December began offering mortgages on apartments in its Akvereli complex with zero-percent down payments and minimal proof of income required, and has since extended the program to three further locations.

While these indications are worrying, "the level of debt default on mortgages is so low in Russia that, for now, these factors do not threaten the economy. What happens next is hard to say," Zharkov added.

Banks are certainly lending more flexibly, Litinetskaya said, but this is due to their accumulated experience in selecting clients.

Rather than simply rejecting customers who have previously defaulted on a debt, banks can now take the conditions of the default into consideration and use their experience to predict clients' behavior while minimizing risks, she said.

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Editor's note: An earlier version of this article online and in the Feb. 18, 2014, print edition misstated the job title of Igor Shuvalov. He is first deputy prime minister, not deputy vice president.

Original url:
https://www.themoscowtimes.com/2014/02/17/banks-scramble-for-clients-as-mortgage-lending-takes-off-a32202