

With Car Sales Up, VTB Ponders Bond Sale

By [The Moscow Times](#)

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Banks are mulling new auto loan-backed bonds as the car market recovers. **Vladimir Filonov**

VTB Group's retail arm is considering the country's first sale of bonds backed by auto loans since 2006 after June car sales increased 45 percent.

VTB-24 is likely to offer securities tied to vehicle debt next year as a way of providing credit for car buyers, said Alexei Tokarev, head of the bank's auto loan unit. Toyota Bank, the Russian lending unit of the world's largest auto manufacturer, also may issue the notes in the future, president Alexander Koloshenko said.

Prime Minister Vladimir Putin is deploying 11 billion rubles (\$360 million) of the government's economic stimulus package this year to revive Russia's car market from a slump the Association of European Business says sent car sales plunging 49 percent last year. Russia surpassed Germany in the first half of 2008 as Europe's biggest auto market, before the global credit crisis and the ruble's 35 percent tumble between August and January 2009

choked demand.

“The car loan market is experiencing a kind of resurrection,” said Martin Jahn, managing director of Volkswagen’s sales operations. “The auto loan market was the engine of the Russian car market growth up to the year 2008.”

Russians bought 1.65 million cars in the first half of 2008, a 41 percent increase from the same period a year earlier, according to data from PricewaterhouseCoopers. Sales totaled 174,838 in June, an increase of 45 percent from the year before, according to a report this month from the Association of European Business.

The last Russian securities backed by auto loans were sold four years ago, according to Stanislav Ponomarenko, a fixed-income analyst at ING Group. Securities linked to vehicle debt in the U.S. represent about \$34 billion of the \$55 billion in bonds tied to consumer and business lending this year, according to data compiled by Bank of America.

VTB-24 sold 15 billion rubles of bonds backed by mortgage loans in its most recent asset-backed transaction in December. The bonds due in 2014 with a put option for redemption in 2011 have rallied since their issue, cutting the yield to 6.85 percent on Tuesday from 9.7 percent at the time of the sale, data compiled by Bloomberg show. VTB is rated Baa1 by Moody’s Investors Service and BBB by Standard & Poor’s, in line with the government.

Loans will be used to finance between 45 percent and 50 percent of all car purchases in Russia this year, according to UniCredit and Toyota’s consumer finance unit. About 35 percent of sales are currently financed with loans, according to Volkswagen and car dealership Rolf Group.

Bonds backed by auto loans will probably be used to fund a third of total car loans, or about 150 billion rubles, VTB’s Tokarev said in the July 19 interview.

While Toyota Bank “hopes very much” to issue bonds backed by auto loans, issuing such securities is now too costly, Koloshenko said.

Bonds tied to auto lending are “an interesting and promising instrument, but in practice auto lending is funded directly by means of deposits and bank loans,” said Ivan Syskov, head of car lending development at UniCredit.

Sberbank has no plans to issue bonds backed by auto loans because it has “no difficulties financing the planned lending volumes,” said Natalya Karaseva, the bank’s head of consumer lending.

“I wouldn’t touch it,” said Hakem Saidi, a fund manager at Pioneer Investments Kapitalanlagegesellschaft, which holds VTB’s bonds. “People come out with packaging of this type of loan to enhance the yield. We’ve seen this before in the years of 2003, 2007, and everybody knows it ended up in tears.”

Sales of asset-backed securities will allow banks to keep expanding credit to car buyers without using up their capital, VTB’s Tokarev said.

“The lack of a market for such bonds inhibits loan growth,” Tokarev said. “Many market

players will consider” issuing securities tied to auto lending next year, including VTB-24, he said.

Increases in employment and consumer spending rekindled auto purchases this year. Retail sales rose for a sixth month in June, jumping an annual 5.8 percent, while the jobless rate fell to 6.8 percent, the lowest level in 20 months.

The total amount of Russian car loans will probably increase 19 percent to 500 billion rubles by the end of this year, Tokarev said.

“The global risk appetite will start to improve, and demand should follow,” ING’s Ponomarenko said. “There could be few deals just to satisfy particular demand for that kind of instrument.”

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