The features of mortgage lending in Russia in the context of the COVID-19 pandemic

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Abstract. The article examines the main aspects of mortgage lending in the Russian Federation in the context of the COVID-19 pandemic. One of the main directions to fight the COVID-19 pandemic in Russia, as well as almost all over the world, is the introduction of a self-isolation regime. Such decision has led to the fact that in 2020 in the Russian economy in almost all sectors, the reduction in indicators was recorded. The construction industry has become an exception have kept economic performance at the same level. This was made possible through the growth of mortgage lending carried out by commercial banks. The article analyzes the current volume of mortgage loans in Russia. The authors have identified a number of scenarios for the development of the Russian mortgage market developed by experts in the field of economics, and at the moment they have also underlined the main problem in the area. The essence and conditions of mortgage loans as well as the terms of their validity in the context of epidemic were studied. The article has considered the preferential mortgage program approved by the Russian government, which had become the main source of a mortgage bubble. The main conditions and requirements of the program were analyzed. The main reasons having led to emergence of the mortgage bubble in the Russian financial market were identified and analyzed. In addition, the article provides a forecast for the development of mortgage lending in the context of the COVID-19 pandemic.

1. Introduction

Today, against the backdrop of the COVID-19 pandemic, significant changes are taking place in many areas of human life. Without a doubt, most of the changes are negative.

Currently, one can safely argue that the COVID-19 pandemic has had a significant negative impact on the development of one of the most important activities of commercial banks - mortgage lending.

A mortgage is a long-term loan given out directly to physical entity or legal entity by a banking organization and protected by real estate collateral. [1, p. 21]. Mortgage loans are regarded as the most
reliable due to the presence of real estate collateral. Nowadays, many Russian citizens are used to applying the mortgage lending services but in the context of the pandemic some significant changes have occurred.

Against the backdrop of the epidemic the Russian mortgage market in 2020 was under the pressure of many negative factors. In this regard, the authors believe that practically all banking organizations should change the conditions of mortgage availability, introduce new standards for its repayment and solve all other emerging problems associated with mortgage lending.

2. Problem Statement
It is important to note that the majority of the population has faced with serious financial problems directly related to the dismissal of many citizens, job cuts carried out by leaders of some organizations. The situation is associated with the spread of the coronavirus and the introduction of the quarantine measures aiming to prevent such negative phenomenon. As a result of the implementation of the measures companies providing various services to the population have stopped their activities and citizens were deprived of the opportunity to visit public places. As a consequence, a lot of people are losing jobs. Mainly in relation to the people working under informal arrangements while citizens with official employment are not worrying about their wages in the context of the pandemic. All of the above has inevitably influenced the mortgage lending market.

Specialists in the field of economics and finance have prepared a number of scenarios for the development of events in the mortgage market. In concrete terms, there are three such scenarios: moderately negative, crisis and positive.

The moderately negative scenario for the development of the Russian mortgage market in 2020 seems to be the most obvious one. According to the forecast inflation will exceed the established target for 2020 - 4%. As a result, the Central Bank of Russia will be forced to raise the key interest rate to 7-7.5%. At present, the key rate is 4.25% but the authors do not exclude that it will be increased in the future. Thus, the volume of new mortgage loans will fall by 10-12% and will amount to approximately 2.5-2.6 trillion rubles [2]. In its turn the interest rate on mortgage loans will significantly exceed 10 %. At the same time, Russian banks will have to face serious problems in managing the quality of their mortgage portfolio directly related to a decrease in the purchasing power of the population against the backdrop of a general downturn in the economy and prices growth as well as the reduction of many jobs in some industries especially affected by the pandemic.

Despite forecasts and the crisis situation in the country the mortgage lending sector was the first one of those that returned to pre-crisis parameters. Deferred demand and the state program of preferential mortgage have become growth drivers [3].

As for deferred demand the authors can assume that demand was formed under the fact that during the coronavirus pandemic the country's leadership had shut down air traffic to many countries of the world including those where Russians are used to spending their summer holidays. As a result, the population has saved some money which was invested later including in the purchase of housing.

So, a few months after the restrictions of activities in relation to many organizations had been introduced demand for mortgage in June became nearly a third higher compared to last year. According to United Credit Bureau in June 2020 the banks have issued more than 109,000 mortgage loans for a total amount of 258 billion rubles (table 1).

| Table 1. A number of mortgage loans issued in 2020. |
|---------------------------------------------------|
| **January** | **A number of loans issued, thousand units.** | **Annual dynamics, as a percentage** |
| January     | 78                                      | 8                                  |
| February    | 109                                     | 15                                 |
| March       | 123                                     | 34                                 |
| April       | 87                                      | -13                                |
| May         | 80                                      | 2                                  |
The number of issued loans exceeds June 2019 by 22% and volume - by 28%. Compared to May, mortgage lending has increased by 37% in quantity and 39% in volume (table 2).

The last time when the market had increased at a similar pace (+ 29%) was in February and in March against the backdrop of depreciation of the ruble and the apprehension of quarantine the growth has increased by + 50% compared to the same period in 2019. In April the market has fallen by 12%, in May it has grown by only 6%.

Table 2. A number of mortgage loans issued in 2020.

| January | The amount of loans issued, billion rubles | Annual dynamics, as a percentage |
|---------|--------------------------------------------|---------------------------------|
| January | 189.7                                      | 21                              |
| February | 269.4                                     | 29                              |
| March | 309.1                                      | 50                              |
| April | 197.1                                      | -12                             |
| May | 185.4                                      | 6                               |
| June | 258.1                                      | 28                              |

One can note that the volume of overdue mortgage loans in accordance with the conditions of the so-called moderately negative scenario may amount to 5-10% this year but its share should not exceed 1.5% of the portfolio. At the same time its most significant growth can be expected in two or three years.

Experts also highlight the crisis scenario for the development of the mortgage market which predicts negative events as a result of the outbreak of the COVID-19 and other problems in the country. The main indicators of the scenario include the following:

- inflation will be 7-8% and the key rate of the Central Bank of Russia - 9-10%;
- mortgage rates will approach the value of 12 %;
- the volume of new lending will fall by 20-25 % to 2.1-2.2 trillion rubles;

As a result of this scenario according to the authors the state should intervene in the regulation of the mortgage market and offer preferential credit programs to a significant number of borrowers.

At the same time one should not exclude the implementation of a positive scenario for the development of the mortgage market in Russia. Then in the opinion of the authors the main indicators will be as follows:

The volume of mortgage loans which will have been issued by the end of 2020 grows by 10-15% to 3.1-3.2 trillion rubles (it will exceed the record indicators in 2018 when the volume of loans amounted to 3 trillion rubles);

the weighted average mortgage rate by the end of 2020 will be 8.5%. Average interest rates in the mortgage market will gradually decline due to various government programs whose interest rates are significantly lower than market rates and range from 2% to 5%;

Ruble's devaluation in March 2020 will not lead to a significant increase in inflationary risks, the Central Bank of the Russian Federation will not raise the key interest rate but will only stop its decline [4].

It is important to note that significant changes have taken place in the banking sector of the Russian Federation. According to the report on the development of the banking sector of the Russian Federation for January 2020 the analytical balance of the mortgage loans sector at the beginning of January amounted to 7,705 billion rubles (8.7% of assets) and at the beginning of March - 7,864 billion rubles (8.7% of assets). The dynamics of mortgage lending has also changed. Mortgage growth was 17.2% in early January. As of March 2020 the figure was 15.5% [5]. Thus, the growth rate of mortgage lending in the context of the pandemic is being significantly reduced.
The Central Bank of Russia has also supported the development of mortgage lending in the context of the coronavirus pandemic. In order to support the development of mortgage lending and compensate banks' losses the Central Bank of Russia has taken the following measures:
- premiums to risk ratios for mortgage loans issued before 1 April 2020 were canceled;
- Premiums' size to risk coefficients for mortgage loans and for loans destined for financing of Shared construction participation agreements granted from 1 April 2020 was reduced;
- a number of mortgage bonds having the appropriate credit quality and meeting other certain requirements were added to the lombard list;

In order to widen the possibility of obtaining a mortgage for families with children the procedure of using premiums on low-entry loans (up to 10%) was changed. For these repayable loans with maternity capital the risk premium will be being decreased as far as the loan will be being repaid [6].

A significant problem in the field of mortgage lending is inability to pay off a mortgage due to layoffs as well as introduced quarantine measures aimed to reduce the threat of coronavirus' spreading.

Thus, according to the Central Bank of Russia the overdue debt on loans secured by claim rights on Shared construction participation agreement (the mortgage in the primary housing market) has increased by 541 million rubles in the first half of 2020 having exceeded 6.3 billion rubles. For comparison: according to the data of the collection agency for 12 months of 2019 the growth has amounted 610 million rubles. The maximum growth of overdue mortgage loans in the first half of the year have been recorded in the Republic of Kalmykia, the Republic of the Crimea and Sevastopol [7].

In order to change the situation they have introduced the terms of mortgage holidays.

The essence of mortgage holidays is that a bank decreases the impact of financial burden on a borrower. There are several ways to rich this weakening:
- deferred payments, in that case a borrower temporarily stops to make payments;
- payment of interest only;
- reduction of the amount of payment by a certain percentage (depending on the agreement with the credit organization).

A banking institution makes a decision to reduce a burden on mortgage borrowers in the manner it considers appropriate. For example, Sberbank representatives have already announced that a deferred payment will be granted by their bank against the background of the coronavirus pandemic but it is not yet certain that such approach will become a common banking practice.

Mortgage holidays can last up to six months and their minimum period has not yet been set - a borrower can interrupt mortgage holidays at any time. It is worth noting that a borrower cannot apply the remaining term of mortgage holidays later.

In addition to mortgage holidays during the coronavirus outbreak the government has approved the preferential mortgage programme with an annual rate of 6.5% [5]. One could get that mortgage loan under the program before 1 November 2020. But in October 2020 the President of Russia Vladimir Putin has decided to extend the program since it had been recognized by the government as successful - 220 thousand loans were issued in the amount of 630 billion rubles [8].

Mortgage loans under the preferential programme are granted subject to a number of conditions, the main of which are the following:
- the maximum size of a mortgage loan in Moscow Oblast - 8 million rubles;
- the rate of 6.5% is valid for the entire term of the loan, but can be increased if a borrower refuse to take out an insurance policy.
- minimum deposit 20%;
- annuities for the entire term of the loan.

However, the authors share the concerns of the analysts that the mortgage bubble is being inflated in our country thanks to this very programme. The point is that under the programme loans are granted literally to all citizens applied sometimes even without a down payment. The credit history and solvency of a borrower are hardly taken into account - benefit outweighs risks [9]. Rising unemployment is a cause for concern, its dynamic is shown in Table 3 for the first six months of 2020.
Table 3. The dynamics of unemployment in January-June 2020 [9].

| January  | Unemployment rate |
|----------|-------------------|
| January  | 4.7               |
| February | 4.6               |
| March    | 4.7               |
| April    | 5.8               |
| May      | 6.1               |
| June     | 6.2               |
| July     | 6.3               |

The table shows that at a current level of unemployment growth mortgage borrowers will not be ably simply to repay their loans that were rashly taken out under the preferential lending program in a timely manner. One cannot ignore another negative consequence of the program expressed in the fact that increased demand for housing quite expectedly has led to an increase in its value. On average prices for primary housing in the country have increased by 6.2% compared to the level of 2019. This is undoubtedly a lot but in Irkutskaya oblast the cost of primary housing has risen even more - by 38 %. It is one of the highest rates among all 85 constituent entities of the Russian Federation.

The situation on the domestic mortgage market along with the factors already mentioned is seriously complicated by the fact that the real incomes of the population have been constantly falling over the last five years. This will inevitably lead to an increase in Russian commercial banks' overdue debt on consumer loans including mortgage loans and possibly to a crisis in the banking services market [10].

The rise in real estate prices has made some difficulties in the purchase of housing for those of our compatriots that earn and save money in good faith not considering it appropriate to use loan funds. Now these people are deprived of opportunity to purchase housing whereas banks have issued hundreds of unsecured loans [11]. All of the foregoing indicates under the second wave of the pandemic that the mortgage bubble is inevitable being inflated in the financial market of the country.

The authors' conclusion on the impending mortgage bubble is based on preliminary data given by United Credit Bureau. According to the mortgage lending data several records have been set in July 2020 compared to the same month in 2016-2019. As one can clearly see from Table 4 in July 2020 the number and amount of loans in value terms became record levels for the summer months in doing so the average term of mortgage loans reached maximum values and the total cost of loans reached minimum values.

Table 4. The volumes of mortgage loans issued in July for the period 2016 - 2020.

| Years | A number of credits, thousand units | The amount of loans issued, billion rubles |
|-------|-------------------------------------|------------------------------------------|
| 2016  | 55                                  | 95                                       |
| 2017  | 74                                  | 138                                      |
| 2018  | 116                                 | 237                                      |
| 2019  | 94                                  | 209                                      |
| 2020  | 129                                 | 320                                      |

In total 129 thousand mortgage loans have been issued in July 2020, that is 15% more compared to June of the same year and 37% more compared to July 2019. The volume of funds provided has amounted to 320 billion rubles having exceeded the indicators of the previous month by 21% and the indicators of the last year by 53%.

It should be noted in fairness that during 7 months of 2020 the issuance of mortgage loans has decreased by 14% in number and by 11% in volume compared to the same months of last year. It happened due to a significant reduction in issuance in April.
The average size of mortgage loans issued in July 2020 has amounted to almost 2.5 million rubles. The average credit term has exceeded 200 months and the average total cost of credit in this segment has decreased to 9% [12, p. 4].

3. Conclusion

Thus, the coronavirus epidemic has brought numerous changes concerning literally all aspects of human society activities. These changes are quite negative and influence adversely on people in many countries especially in Russia. In particular, the changes have affected such an important sector as mortgage. This situation is a matter of some concern to the population, as jobs are being reduced and layoffs are taking place against the backdrop of the pandemic resulting in a significant drop in real incomes. Many citizens having taken out a loan are not able to make repayments. In this case government is going to implement special programs and activities to support and help the population. One of them is a mortgage holiday which allows anyone to defer loan payments. Aside from that additional requirements are being formed to obtain a mortgage. All measures above despite the rather negative conditions associated with the current epidemiological situation allow the population to cope with the repayment of their mortgage loans also due to the fact that many programs supporting the population are being realized within the country. However, the analysis carried out in the article provides reasonable evidence that the financial bubble is being inflated in the mortgage market.

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