

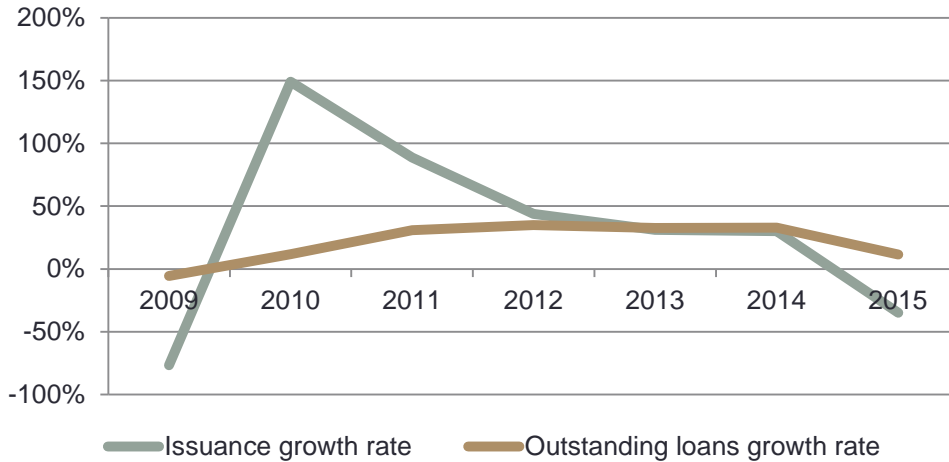
# RUSSIA'S EXPERIENCE WITH MORTGAGE STANDARDS

---

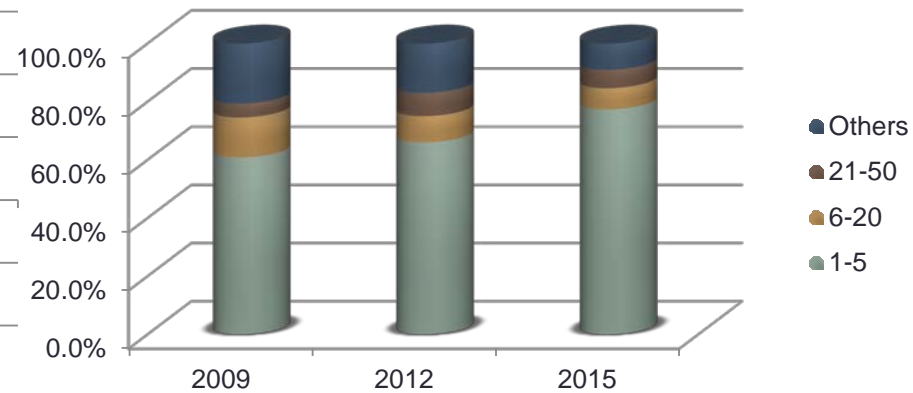
Anna Lyubimtseva

# Russian mortgage market development

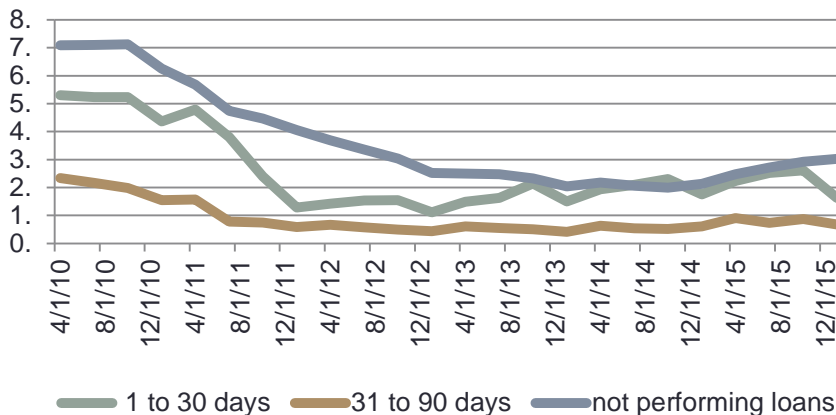
## Annual growth rate



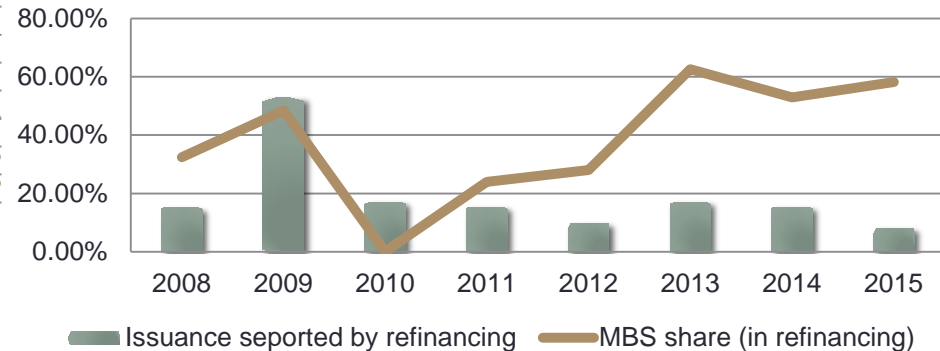
## Market share of the banks ranked by assets



## Delinquent payments



## Refinancing

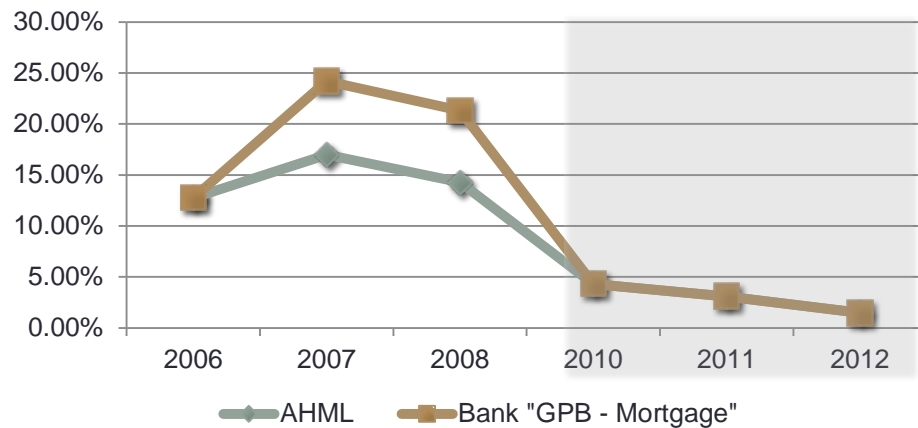


# Minimum quality standards in 2008-2014

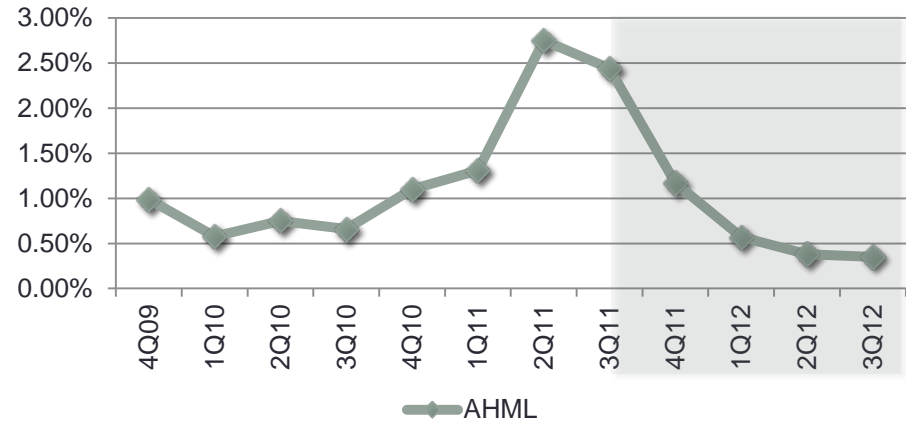
	AHML	MARKET
<b>LTV</b>	$\leq 70\%$	up to ~ 90%
<b>PTI</b>	$\leq 45\%$	up to ~ 70%
<b>Income confirmation</b>	official tax form confirmed by the employer	any form
<b>Lending under construction</b>	NO	YES

# Do the minimum quality standards work on their own?

## Early default rate: comparison \*



## Early default rate AHML

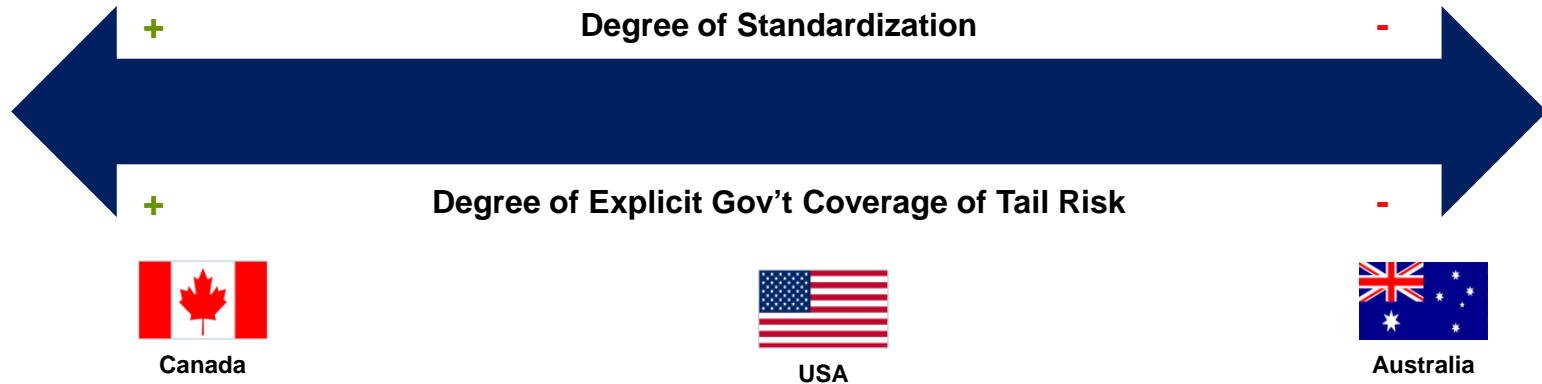


*Early default rate = default within the first 12 months, loans issued in given period*

- National Credit Reporting Bureau was founded in 2005, but accumulated sufficient data and became a real market tool in 2010
- Loan quality improved in the post-crisis period, with better underwriting practices and tightened mortgage standards in banks
- Start of active risk-management system in AHML in 2011

\* 2009 is excluded, because the Bank did not issue any loans in this period.

# MI Standardization – Across Markets



Canada	USA	Australia
Mandatory Mortgage Insurance >80LTV	MI a CRM for GSE Mortgages	MI is Commercially Accepted Best Practices
Explicit Sovereign Guaranty of MI Co.'s	Pre-Crisis Implicit / Post Crisis Explicit	No Explicit Guaranty Exists
UW / Product Design Controlled / Standardized	High Degree of Standardization Through GSEs	Historically High Degree of Variation But Prudent Practices Followed

## Summary

Standardization Can Prevent Borrowers From Taking Loans That They Cannot Afford (e.g., “QM”)  
 However, Standardization Can Lead to Systemic Increase in Risk, too ... Depends on Risk Appetite  
 Standardization Is a Tool ... The Goal Is Good Quality Underwriting

# MI Standardization Mexico



## Post “Tequila Crisis”

- Close CNBV Supervision
- Highly Capitalized Banks
- Mortgages With Fixed Interest Rates
- Payment History Reports
- UW Standardization
- Renewed Asset Recovery Practices
- Mortgage Guarantee Products (MI)

## UW Standardization

### Standardized UW File:

- Credit analysis (quantitative & qualitative)
- Parametric methodology (Scores)
- Payment experience (Credit Bureau)
- Asset UW done by Independent appraisal units with CNBV supervision

## GNW MI In Mexico

- Target First Time Homebuyers (HLTV)
- Capital & Reserve Relief
- No Government Guarantee
- “Second Pair Of Eyes”
- Loss Mitigation ... Help Borrowers Keep Homes
- New Products & Global Best Practice Sharing
- Contribute To A Better Portfolio Quality

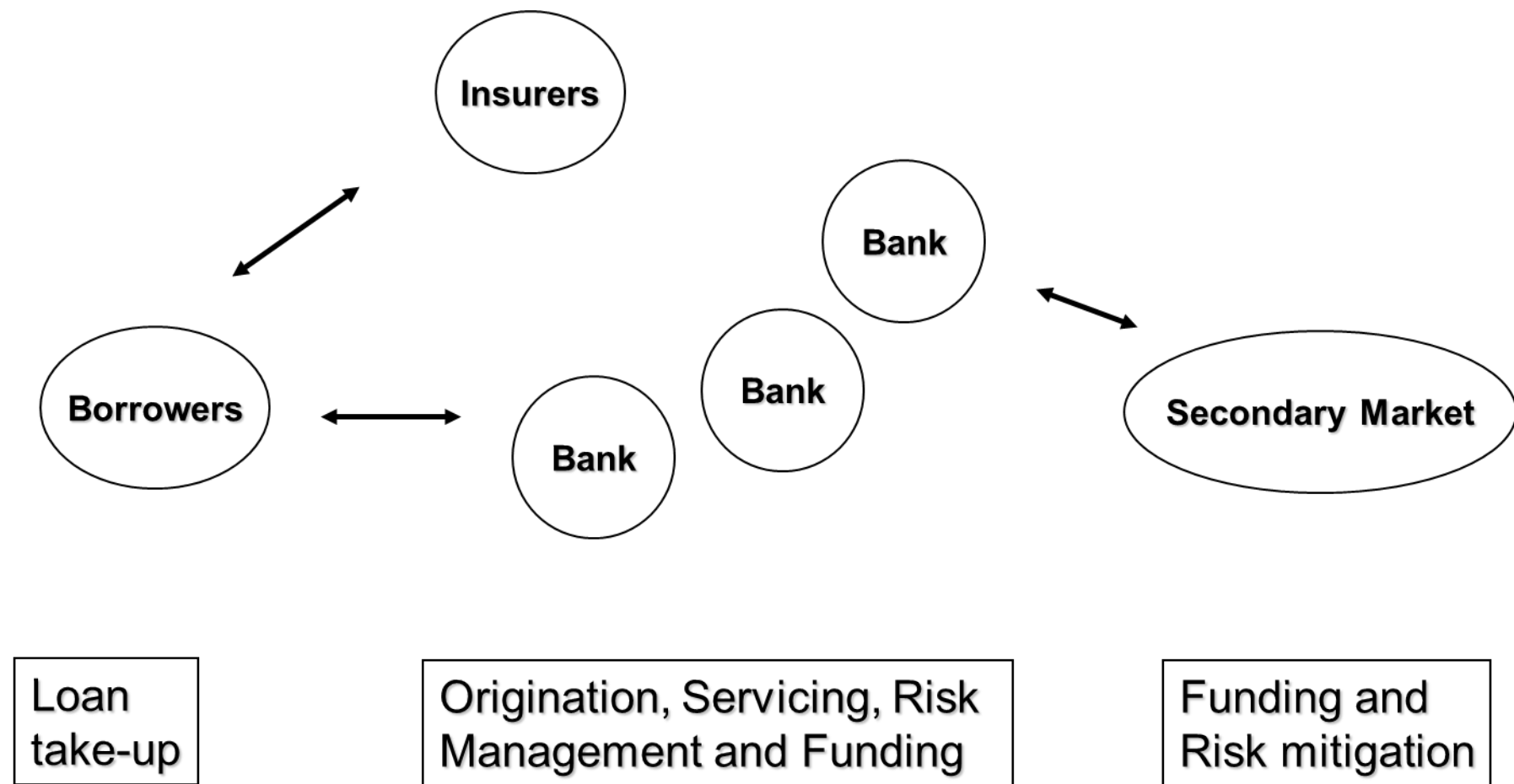
**Facilitating Homeownership For Good Quality, Underserved Borrowers**

# Workshop on mortgage lending in Emerging markets and Minimum Quality Standards



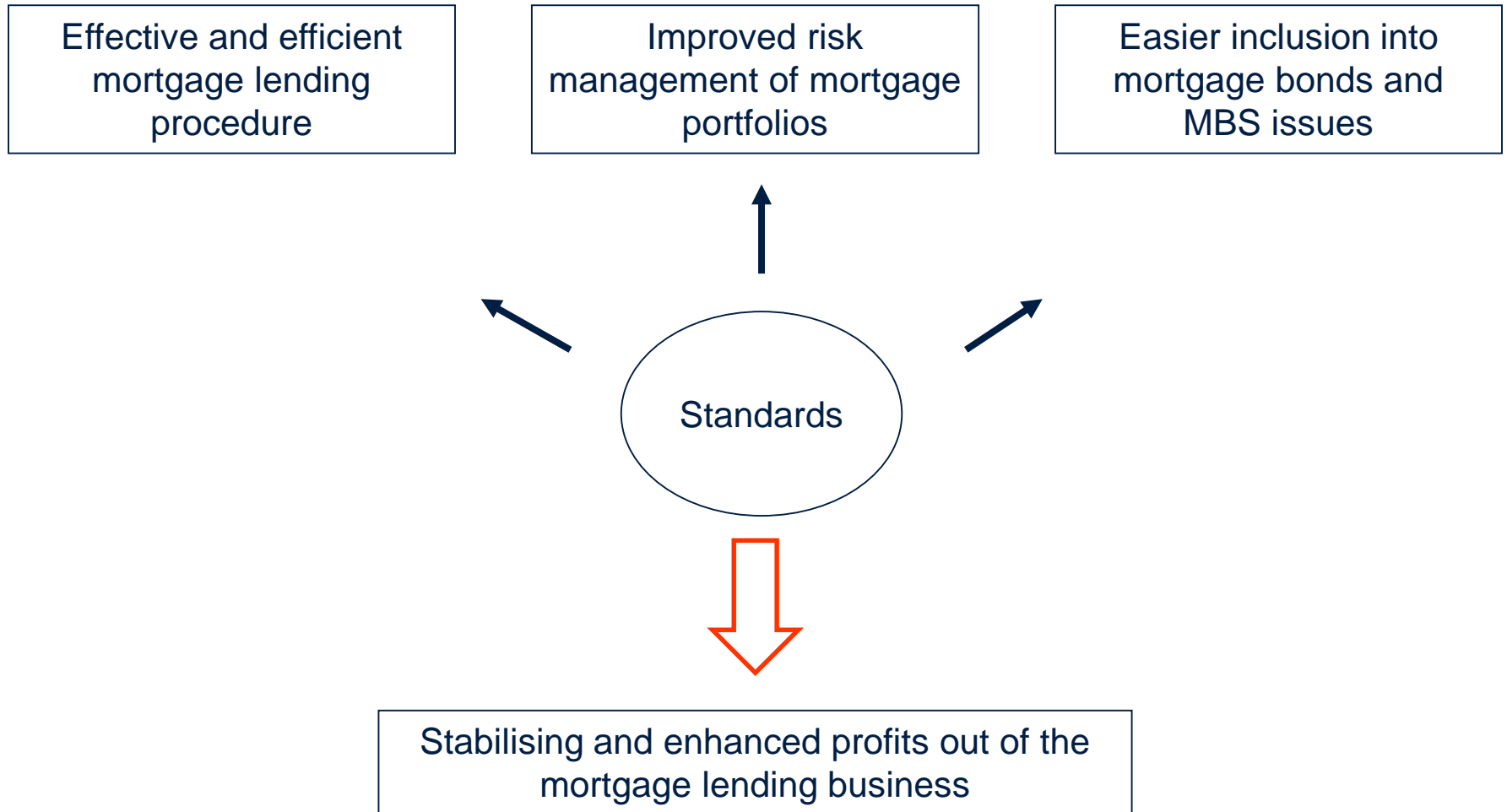
Dr. Friedemann Roy  
IFC – Financial Institutions Group  
Washington DC  
May 24, 2016

# Standards in mortgage lending incentivize creation of a fully integrated primary and secondary mortgage market



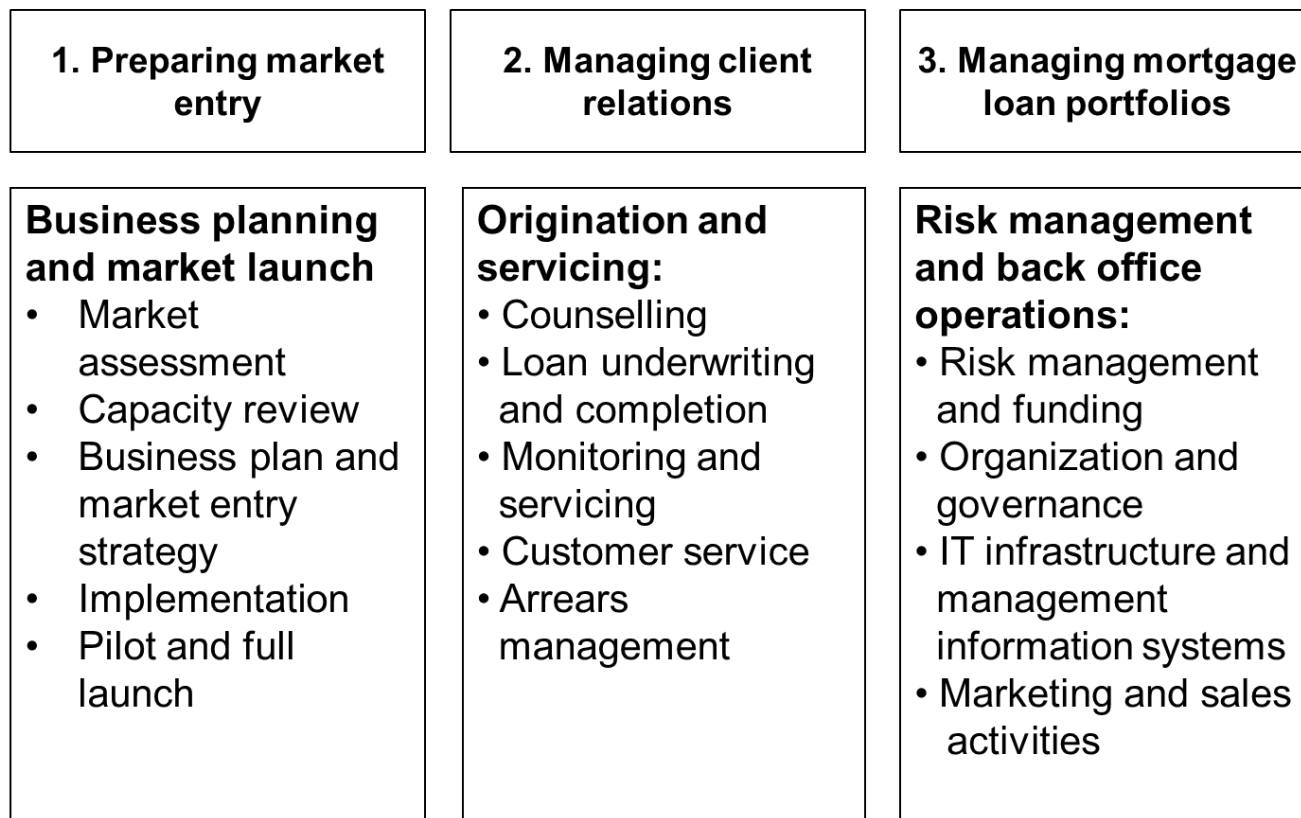


# Why are standards in mortgage lending useful?



# What are IFC and KfW doing to promote standards?

IFC and KfW are partnering to develop the Lender's Mortgage Guide



Dr. Friedemann Roy  
Global Product Lead Housing Finance  
Financial Institutions Group  
International Finance Corporation  
Tel. +1 202 473 9838  
E-mail: [froy@ifc.org](mailto:froy@ifc.org)



**NMC**

National Mortgage  
Company

# **Armenia - Minimum Quality Standards in Housing Finance**

Hayk Voskanyan, CFA

May 2016, Washington DC

+37410 560974

info@nmc.am

www.nmc.am

Armenia 0010, Yerevan  
Hanrapetutyan St., 22-7/1



# NMC

National Mortgage  
Company

## Overview Housing market

- Main housing stock was built during Soviet times
- New construction started to be a factor after couple of big state projects ongoing in Yerevan
- Still most of the real estate transactions are done without mortgage
- The state with the help of IFIs started to trigger mortgage market development by providing long term resources to banking system (National Mortgage Company (NMC) and Home for Youth (HFY) RCOs were established)
- Introducing minimum quality standards for mortgages refinanced by NMC and HFY
  - Led to longer term mortgages
  - Decreased the risk related to mortgages
  - Increased local currency share in mortgages



# NMC

National Mortgage  
Company

## Housing finance in Armenia

### *Up to 2007*

- Only several Financial Institutions were involved in mortgage lending
- A few FI's had underwriting standards in place
- High interest rates and low maturities were operating in market
- Mortgage loans were not affordable for many

### *From 2007 up to now*

- KfW housing finance project started (phase 1) **2007**
- First two phases were implemented by GAF (German Armenian Fund), 3<sup>rd</sup> by NMC, 4<sup>th</sup> phase is ongoing
- MQS was developed and passed to PFI's
- Long term funds mortgage market became more affordable



# NMC

National Mortgage  
Company

## Minimum Quality Standards

### Policy level standards

- Mortgage product design (currency, term, amount, etc.)
- Types (purchase, construction, renovation)

### Credit risk management standards

- Borrower's creditworthiness assessment (income, credit history (rating, score etc.))
- Collateral valuation
- Insurance for borrowers and mortgage
- Other (loan/mortgage contracts, statements, doc's)



# NMC

National Mortgage  
Company

## Minimum Quality Standards

Mortgage product design – Qualified mortgage loans

Loans product	Purchase	Renovation	Construction
Amount	up to AMD <b>35</b> mln. (ref. amount AMD <b>25</b> mln.)		
Interest rate	no limitation		
Maturity	<b>10 - 35</b> years	<b>5 - 35</b> years	<b>10 - 35</b> years
Downpayment	30% 10% with additional mortgage	-	-
LTV ratio	max. 70% 90% with additional mortgage	max. 70%	max. 70%





# NMC

National Mortgage  
Company

## Minimum Quality Standards

Borrower's creditworthiness (incomes, credit history)

- Incomes, OTI ratio
  - OTI ratio (Debt to income) should not exceed 45%,
  - Registered incomes are weighted 100%,
  - Secondary/non-registered incomes are used with 40% discount
- Credit history
  - All current loans of borrower/coborrowers are calculated with their monthly payments in OTI ratio,
  - All current loans are classified as “standard” and do not have overdue amounts,
  - During last 12 months, day counts for overdue payments does not exceed 30 calendar days for all loans of borrower/coborrowers.



**NMC**

National Mortgage  
Company

## Minimum Quality Standards

Insurance of borrowers and mortgage

- Borrower/coborrowers are insured against accidents with loan outstanding amount coverage. Each of borrowers participates in insurance policy contract with his/her income portion,
- Pledged property is insured at least with its market value,
- In both cases beneficiary is lender.



# NMC

National Mortgage  
Company

## Challenges to be met

Income verification is challenging for secondary and/or non-registered income of borrower/co-borrowers. Several examples are shown below:

- Contract employees with full or partially non-registered income,
- Sole entrepreneurs/small enterprises/family businesses with full or partially non-registered income,
- Remittances/money transfers from abroad

Monitoring of purpose, fraud is possible as our rates and terms are preferential compared to other products.



# NMC

National Mortgage  
Company

## Statistics

### Total Mortgage market

	<b>As of March 2016</b>	
MQS based portfolio	50.2 Billion AMD	25.3%
Total Portfolio	198.5 Billion AMD	100%

### Quality of MQS based portfolio

<b>MQS Based Portfolio NPL</b>	<b>Total market NPL</b>	<b>Mortgage portfolio NPL*</b>
0.93%	9.99%	6.8 %



NMC

National Mortgage  
Company

Thank You!  
Questions?