RUSSIA’S EXPERIENCE WITH MORTGAGE STANDARDS

Anna Lyubimtseva
Russian mortgage market development

**Annual growth rate**

- Issuance growth rate
- Outstanding loans growth rate

**Market share of the banks ranked by assets**

- Others
- 21-50
- 6-20
- 1-5

**Delinquent payments**

- 1 to 30 days
- 31 to 90 days
- Not performing loans

**Refinancing**

- Issuance reported by refinancing
- MBS share (in refinancing)

Data course: CBR
## Minimum quality standards in 2008-2014

<table>
<thead>
<tr>
<th></th>
<th>AHML</th>
<th>MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LTV</strong></td>
<td>≤ 70%</td>
<td>up to ~ 90%</td>
</tr>
<tr>
<td><strong>PTI</strong></td>
<td>≤ 45%</td>
<td>up to ~ 70%</td>
</tr>
<tr>
<td><strong>Income confirmation</strong></td>
<td>official tax form confirmed by the employer</td>
<td>any form</td>
</tr>
<tr>
<td><strong>Lending under construction</strong></td>
<td>NO</td>
<td>YES</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>USA</th>
<th>Degree of Standardization</th>
<th>-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>+</td>
<td>Degree of Explicit Gov’t Coverage of Tail Risk</td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mandatory Mortgage Insurance &gt;80LTV</th>
<th>MI a CRM for GSE Mortgages</th>
<th>MI is Commercially Accepted Best Practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explicit Sovereign Guaranty of MI Co.’s</td>
<td>Pre-Crisis Implicit / Post Crisis Explicit</td>
<td>No Explicit Guaranty Exists</td>
</tr>
<tr>
<td>UW / Product Design Controlled / Standardized</td>
<td>High Degree of Standardization Through GSEs</td>
<td>Historically High Degree of Variation But Prudent Practices Followed</td>
</tr>
</tbody>
</table>

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

Facilitating Homeownership For Good Quality, Underserved Borrowers

Post “Tequila Crisis”

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

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

GNW MI In Mexico

No Government Guarantee
“Second Pair Of Eyes”
Loss Mitigation ... Help Borrowers Keep Homes
New Products & Global Best Practice Sharing
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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

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Genworth
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?

- Effective and efficient mortgage lending procedure
- Improved risk management of mortgage portfolios
- Easier inclusion into mortgage bonds and MBS issues

Stabilising and enhanced profits out of the mortgage lending business
What are IFC and KfW doing to promote standards?

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

1. Preparing market entry
   - Business planning and market launch
     - Market assessment
     - Capacity review
     - Business plan and market entry strategy
     - Implementation
     - Pilot and full launch

2. Managing client relations
   - Origination and servicing:
     - Counselling
     - Loan underwriting and completion
     - Monitoring and servicing
     - Customer service
     - Arrears management

3. Managing mortgage loan portfolios
   - Risk management and back office operations:
     - Risk management and funding
     - Organization and governance
     - IT infrastructure and management information systems
     - Marketing and sales activities
Armenia - Minimum Quality Standards in Housing Finance

Hayk Voskanyan, CFA

May 2016, Washington DC
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
## 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), 3rd by NMC, 4th phase is ongoing
- MQS was developed and passed to PFI’s
- Long term funds mortgage market became more affordable
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)
## Minimum Quality Standards

Mortgage product design – Qualified mortgage loans

<table>
<thead>
<tr>
<th>Loans product</th>
<th>Purchase</th>
<th>Renovation</th>
<th>Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount</strong></td>
<td>up to AMD 35mln. (ref. amount AMD 25mln.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Interest rate</strong></td>
<td>no limitation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Maturity</strong></td>
<td>10 - 35 years</td>
<td>5 - 35 years</td>
<td>10 - 35 years</td>
</tr>
<tr>
<td><strong>Downpayment</strong></td>
<td>30%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>10% with additional mortgage</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LTV ratio</strong></td>
<td>max. 70%</td>
<td>max. 70%</td>
<td>max. 70%</td>
</tr>
<tr>
<td></td>
<td>90% with additional mortgage</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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.
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.
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 enterpreuners/small enterprizes/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.
### Total Mortgage market

<table>
<thead>
<tr>
<th>MQS based portfolio</th>
<th>As of March 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>MQS based portfolio</td>
<td>50.2 Billion AMD</td>
</tr>
<tr>
<td>Total Portfolio</td>
<td>198.5 Billion AMD</td>
</tr>
</tbody>
</table>

### Quality of MQS based portfolio

<table>
<thead>
<tr>
<th>MQS Based Portfolio NPL</th>
<th>Total market NPL</th>
<th>Mortgage portfolio NPL*</th>
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<tr>
<td>0.93%</td>
<td>9.99%</td>
<td>6.8 %</td>
</tr>
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</table>

* Estimation by NMC
Thank You!

Questions?