

## MORTGAGE LENDERS GIVEN A HELPING HAND

BY GALINA KOVALISHINA, IFS SENIOR ANALYST, December 11, 2008

Vice Premier A. Kudrin stated that in 2009 the Agency for Housing and Mortgage Loans will be given RUB 200 billion to repay mortgage loans.

The source of financing has not been chosen so far (there is likelihood that the funds will be taken from the National Wealth Fund), but the goals of AHML funding have been voiced. This will be done, primarily, to support homebuyers who are or will be not able to repay mortgage loans. Also, this is another attempt of the state to aid the banking system that remains depressed because of the sliding demand for mortgage loans.

The value of the aid accounts for around 20% of the total value of Russia's credit market (according to the data of the Bank of Russia, as of November 1, 2008, the amount due to banks against mortgage loans totaled 974.5 billion rubles). The number of mortgage loans delinquencies is growing. In the third quarter of 2008, such loans averaged 9.1% in the AHML - up from 7% in the second quarter. Bad loans account for 20% of the total loan number in many regions across Russia. In value terms, late mortgage loans account for 2% of the total amount. Thus, the funds allocated by the state are sufficient to cover ten times the amount of current bad loans - the authorities must have projected that loan delinquencies will grow at this rate.

In Europe and the US, measures like this cause the opposition to question the consistency of allocating taxpayers' money and tackle monitoring of the use of the money. Meanwhile, a non-transparent mechanism of selecting recipients and instruments of state support in our country does not rouse any reaction in the society. All information about the usage of such state donations is always kept in the backroom.

The mortgage stimulus plan is unlikely to prove efficient. It is impossible to settle this problem through financial injections. On the one hand, developers lack funding; on the other hand, potential customers postpone home buying for an unknown period. The state's aid to the mortgage market only can rescue banks from snowballing loan delinquencies.

Prices for homes are not likely to fall (however, more competitive prices could revive the demand). Unlike European and US markets, the Russian market still faces the demand exceed the supply. That is why developers are reluctant to lower the prices. Therefore, the state's aid will hardly have any positive impact on the mortgage market; yet, it will not trigger off any negative trends that could deepen the crisis or cause social unrest.