

## THE PART OF THE GOVERNMENT IN THE DEVELOPMENT OF THE SECURITIZATION ON THE RUSSIAN FINANCIAL MARKET

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The lines of the development of loan products and especially of mortgages depend a lot on state policy. That's why the understanding of the role that the government plays in such programs is initially important. For the last few years the government and the parliament have done a lot for the development of the mortgage, but we can't be satisfied with what has already been achieved as we are still lagging behind in this area.

Currently the most important question concerns the effect that the problems on the world financial market will have upon the development of the Russian mortgage lending sector and what the government can do in order to minimize the negative trend. I will try to answer them.

Financial market. According to the opinion of some financial analysts, the situation on the worldwide capital market, which is strained due to the crisis in some sectors of the capital market in autumn 2007, now has led to the substantial reduction of the abilities to finance Russian banks on the international market and to the great appreciation in the costs of financing.

Thus, the demand for Eurobonds of Russian banks has sharply declined. The Russian bank should have changed from the Eurobonds to the syndicated loans as a source of financing.

It should be mentioned that the situation is worse in terms of the funding base of medium and small banks, as the main growth of core banking system was due to major banks. During 2007 the capital of banks increased by 65% but discounting of Sberbank of Russia and OJSK "VTB Bank" only by 39%.

Besides, the second issue of mortgage securities of "Residential Mortgage Agency" (=Agency) that received state registration in autumn 2007, hasn't been officially placed on the market. The Agency believed that the demand for mortgage securities didn't allow them the valid location.

It's important to know that the valid location means that the rate per cent, serviced by the investor on the mortgage loans, is sufficient for both the covering of the returns on the yield and the margin of the emitter, which is used to cover the current expenses (minimum

2%), and also for profit from the commercial sales.

There are also some problems connected with the location of previously registered corporate bonds and mortgage securities. As it was estimated by the Agency, in 2007 the location of mortgage securities to the amount of 30 billion rub was deferred due to poor market conditions.

Some emitters realized the location of their issues only with the help of big investors.

Concerning Russian mortgage securities there are certainly some psychological problems: as a result of the crisis in the US mortgage sector the very word "mortgage" is associated with high risk and the possibility of the rise of a crisis in the minds of Russian investors.

In consideration of mortgage and securitization legislation there are always some fears that the development of mortgages will stimulate the approach of Russian mortgage system to the crisis similar to the American one. In our opinion this conclusion is unreasonable: the Russian mortgage securities of the emitters differ greatly from the ones of the American subprime market. That's because the Russian mortgage loan market is in the beginning of its development and the niche of the highly proficient borrowers, that are given the main part of the mortgage credits, hasn't been chosen yet. Thus, the mortgage securities that are issued today in Russia, as a rule, have secured claims on such mortgage loans.

At the same time, the problems of the strain on liquidity in banking and the sharp slump in demand for the mortgage securities exist and lead to several backlashes:

◆ the reduction of the possibilities to finance the emitters on the market of capital is-

\* Olesya A. Fisyun, postgraduate student, Samara State University of Economics.

sues for account of the reduction of the activity of Russian investors and the runoff of foreign investors from the developing markets;

- ◆ the yield increase of the financial instrument in both the corporate bond market and the mortgage securities market for account of the runoff of the investors and reconsideration of the risk estimate;

- ◆ the increase in the cost of mortgage credit in order to support the profitability of the transaction in refunding and securitization of the mortgage.

How can the government help in the solution of problems in the mortgage sector? Some actions have already been taken by the members of the mortgage market. But at the same time, not all of them are regarded as reasonable.

On the one hand, this will lead to the increase of demands in refinancing of mortgage credits from the Agency's part, which will hinder the development of the Agency due to the absence of the demand on mortgage securities. But on the other hand the increase of the Agency financial resources will lead to the increase of its portion in the loan refinancing sector which contradicts with the Agency strategy and the program of the development of the refinancing loan system on the market principals.

Besides, the offer of the Government of the Russian Federation to accept the decision to invest temporarily surplus funds from some banks and organizations into the mortgage securities of Russian emitters and Agency corporate bonds is rather unacceptable.

The goal of such investment, for the institute of the development, is not the sponsorship of the mortgage security market but the acquisition of income together with the instrument of liquidity. And thus, the possibilities of the investment of the temporarily surplus funds into the mortgage securities can be accepted only after considering the results of all above mentioned factors and not on directions of the government.

The ways of supporting and developing the mortgage loan sector can be divided into two classes:

- ◆ the upgrade of the home demand for the mortgage securities;

- ◆ the reduction of the expenses on the securities issue.

The first class includes:

1. The possibility to include the mortgage-backed securities into the pawn list of Bank of Russia. In this case the Bank of Russia should alter the Directive of Bank of Russia d.d.28.07.04 №1482 "About the list of securities that are included into the pawn list of Bank of Russia" in order to expand the very list.

2. The raise of the possibilities for the institutional investors to invest into the mortgage securities. Here we speak about the investments of pension savings of those who didn't use the option of the investment portfolio. The Government of the Russian Federation has already developed a project about the changes in the current Federal law. Within this law it's supposed to change the ways of investment of pension savings in order to increase the profitability of investments and to create the circumstances for market competition. According to the law, people can invest their unused pension savings not only into the mortgage securities but also into the bonds of Russian emitters. The alterations in the Russian legislation can solve two problems: the supplying of the growth in demand for mortgage securities and the supplying of profitability of the investment into the pension savings.

3. There should also be some alterations in the Government decree of the Russian Federation d.d. 01.09.03 №540 in terms of lifting of restrictions upon the investment of pension savings into the mortgage securities and bonds.

4. The increase in the possibilities for the investment of insurance reserves into the mortgage securities. For this purpose some alterations are to be done to the order of the Russian Ministry of Finance d.d. 08.08.05 № 100.

The second class includes:

1. The approval of a Federal law about the moderation of a "Mortgage Act", "Mortgage Security Act" and "The State Registration Act about the rights on immovable estate". With the help of this legislation it's possible to convey the rights on the mortgages through the records per account in depository.

2. The approval of a federal law "About some Moderations in the statute of the Russian Federation". The goal of this draft law is to supply and develop the securitization of the financial assets and also the introduction of special standards focused on:

- ◆ the establishment of a nominal bank account into the Russian legislation that provide the safeguard assets incoming for the repayment and belonging to the dealer account;

- ◆ the establishment of some standards concerning the meetings of bond holders in order to ensure protection of the bond holders' rights in case of their bankruptcy and other financial problems.

3. The formulation and approval of the variety of moderations in the effective legislation focused on:

- ◆ the perfection of the principals of mortgage certificate involvement in order to give an opportunity for the effective issue of mortgage securities;

- ◆ the simplification of the procedure of the recovery of penalty for the pledged item including the mortgage credit;

- ◆ the simplification of the procedure of the redemption of the mortgage;

- ◆ the perfection of the general conditions of a mortgage;

- ◆ the perfection of the tax legislation including the system of a tax assessment method of mortgage certificates.

In conclusion I'd like to say that there isn't a similar sector in Russia and in the near future it won't appear. The only danger is a general strain on liquidity in the Russian financial market and in banking. The above mentioned efforts and the state policy are directed at this very problem.

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