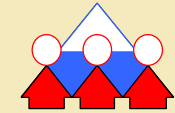


# **Agency for the Housing Mortgage Lending**

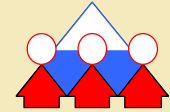


## **The federal program of residential mortgage loan refinancing in the Russian Federation**

**Alexander Semenyaka, CEO**

**Berlin - 23 September 2004**

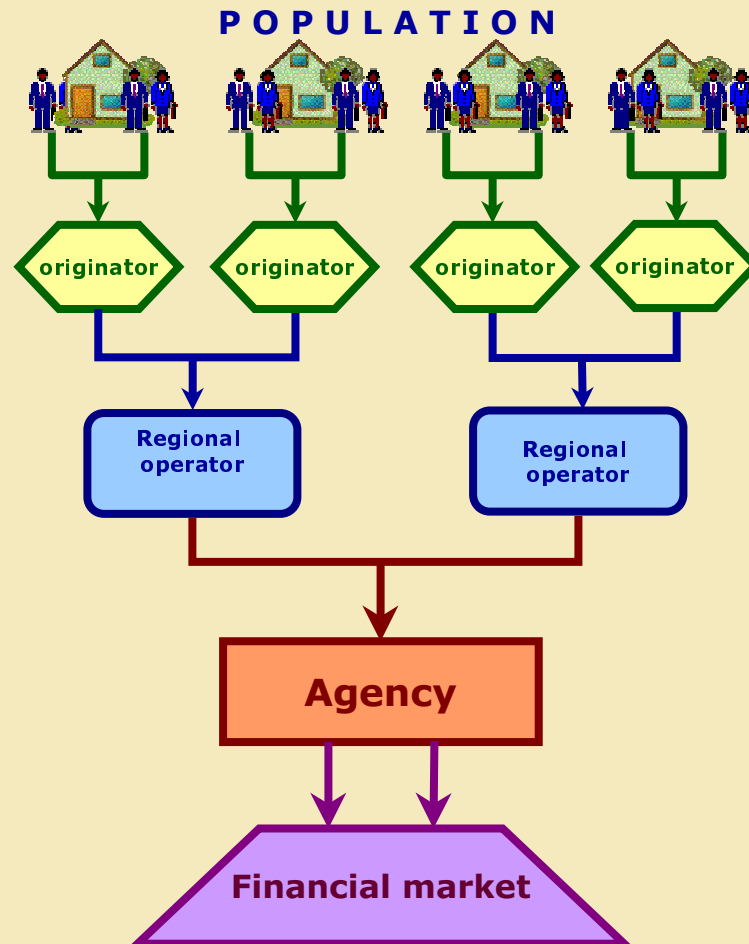
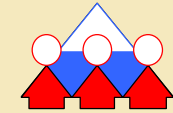
# The concept of development of residential mortgage lending in Russia



## Government program of housing affordability.

- Complex legislation improvement in 2004.
- The Agency was created by the Government of the Russian Federation specifically for the purpose of development of the mortgage lending system in Russia.
- Bi-level market structure:
  - Primary mortgage loan market
  - Secondary market of Mortgage-backed securities

# Federal mortgage origination and refinancing system

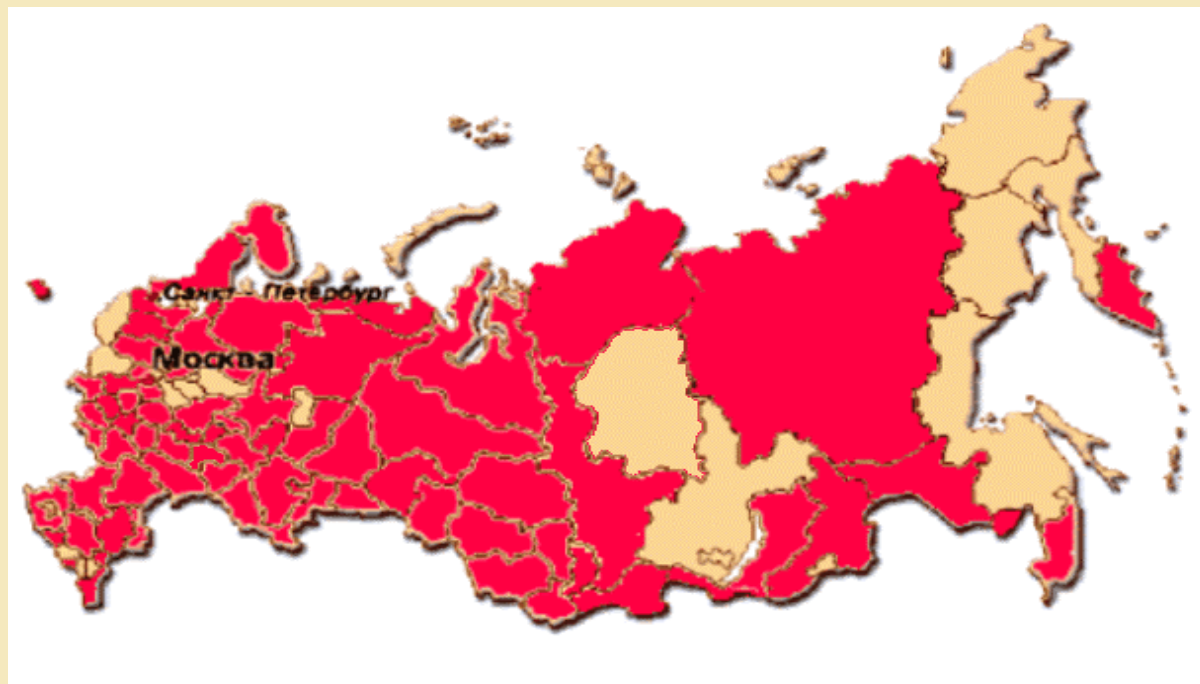
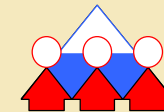


- Bank originates the mortgage

- Regional operator forms the pool of mortgages and sells it to the Agency.

- Agency structures and issues derivative securities backed by the mortgage pools.

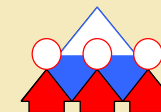
## Development of the network of the regional operators



- In 2004 the Agency has entered into the refinancing agreements with 68 regional agencies
- In 2005 the Agency plans to expand its activity to all 89 regions
- Uniform standards and infrastructure

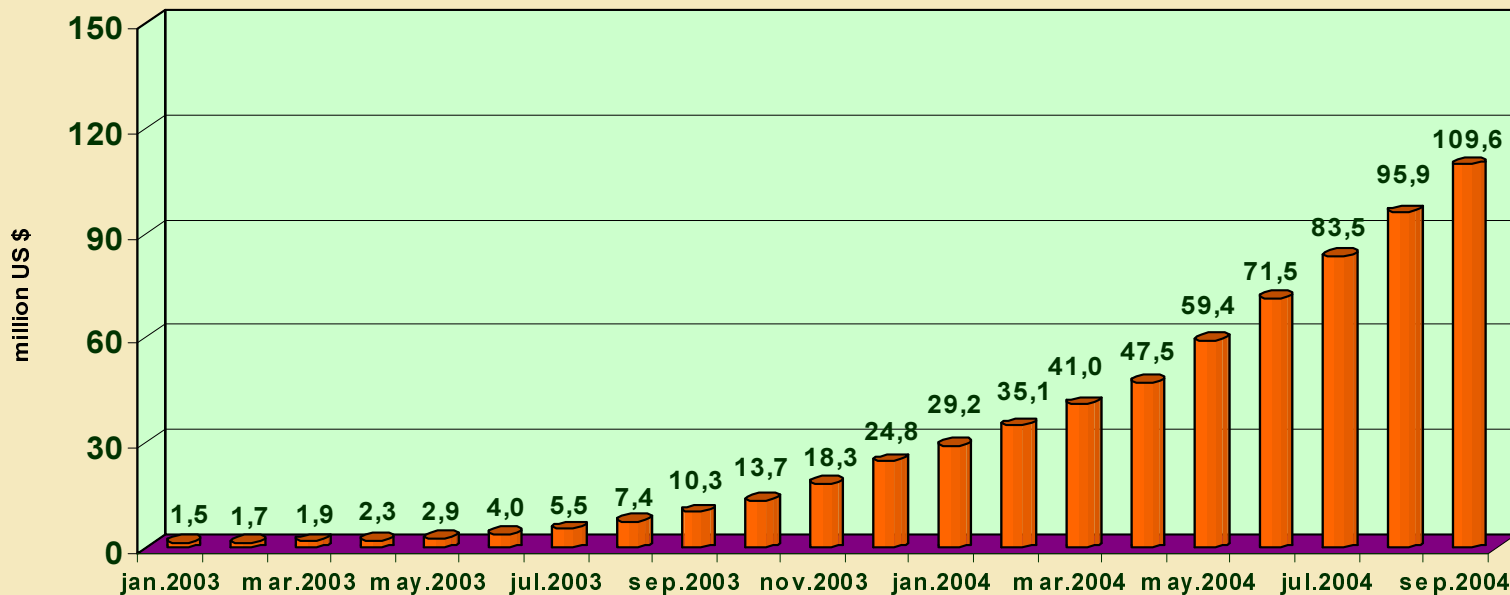
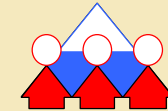


## Agency mortgage loan key points



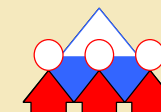
- **Currency – Russian rubles**
- **Term – up to 27 years**
- **Fixed interest rate – 15% p.a.**
- **LTV – up to 70%**
- **Payment to income – up to 35%**

## Mortgage loan refinancing volume dynamics (cumulative result)



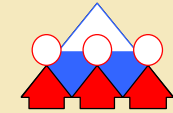
- **Monthly refinancing grows dynamically:**
  - year 2003 – on 5 000%
  - during 9 month of the year 2004 – on 470%
- **Portfolio of mortgage loans:**
  - September 2004 – US\$110 million
  - December 2004 - US\$ 190 million
  - December 2005 - US\$ 570 million

## Basic characteristics of the mortgage portfolio

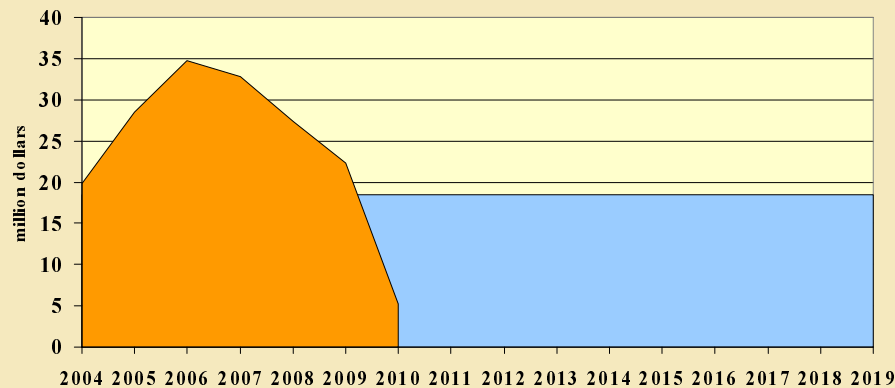


<b>Weighted average term to maturity</b>	<b>16 years</b>
<b>Expected life</b>	<b>Up to 6 years</b>
<b>Weighted average interest rate</b>	<b>15% p.a.</b>
<b>Average LTV</b>	<b>56,3%</b>
<b>Average loan size</b>	<b>US\$ 12,5 thousand</b>
<b>Average size of property pledged</b>	<b>51,9 square meters</b>
<b>Average value of property pledged</b>	<b>US\$ 22,3 thousand</b>
<b>Average family income</b>	<b>US\$14 600 per year</b>

# Annuity payments and prepayment rate



Planned and fact payments

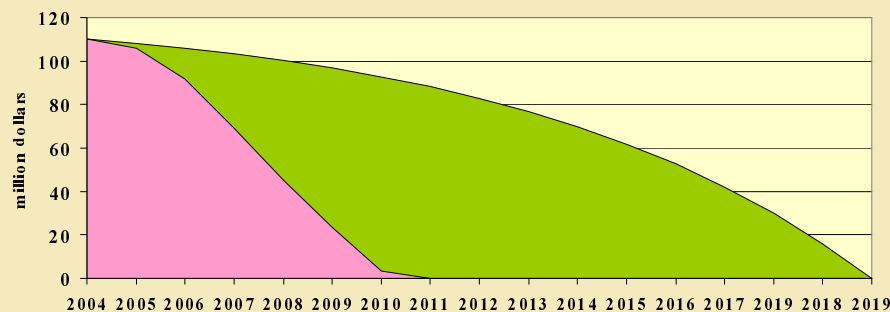


- Accelerated loan amortization

- 400% PSA (preliminary estimation)

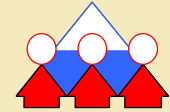
- Expected term of a portfolio - 6 years

Principal repayment



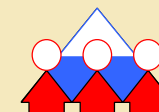


## Market pricing and interest rates



	<b>Financing of a portfolio with 6-year bonds covered by the federal guarantees</b>	<b>12% p.a</b>
+	<b>Agency margin</b>	<b>1% p.a.</b>
+	<b>Servicing fee</b>	<b>2% p.a.</b>
=	<b>Agency refinancing rate</b>	<b>15% p.a.</b>
=>	<b>Mortgage lending interest rate</b>	<b>15% p.a.</b>
=>	<b>loan origination fee</b>	<b>1%-3% up-front</b>

# Prospects of mortgage lending



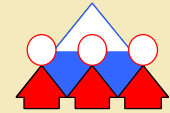
## Goals of Government of Russia:

	2005	2010
Mortgage loans outstanding (US\$ billion)	2,0	12,0
Number of borrowers (thousands)	150	1 000

## By 2010 it is expected:

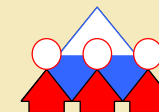
Mortgage loans outstanding/GDP	5,0%
Borrowers/households ratio	6,8%

## Measures on increase of availability of mortgage loans



- As the sovereign rating increases, the interest rate falls
- As the rate falls and the mortgage derivative instruments market matures, average loan term increases
- progressive payment structure for first time home-buyers
  - state subsidies for young families and state employees
- equal installments payment structure for families who improve their living conditions

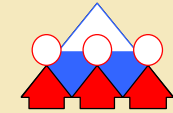
# Mortgage loan refinancing



- **Weakness of the Russian bond market**
  - **Corporate bonds – up to 3 years**
  - **Government bonds – up to 15 years**
- ⇒ **Long-term mortgage lending demands state participation**
- ⇒ **Agency transforms the short-term capital into long-term loans with the support of the government**



## Debut of Mortgage-backed securities in 2005



- On the Russian or international capital markets
- For the sum of US\$50-100 million
- Additional credit support
  - Subordinated structure
  - Overcollateralization
  - Buy-back of default loans