Bank of Russia

POLICY PROPOSAL: MACROPRUDENTIAL LIMITS ON UNSECURED CONSUMER LOANS

Information and analytical commentary

Moscow
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This document was prepared by the Financial Stability Department.

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1. PARAMETERS OF MACROPRUDENTIAL LIMITS

The Bank of Russia Board of Directors approved the regulation[1] governing the establishment and application of macroprudential limits (hereinafter, the MPLs) on unsecured consumer loans (issued by banks and MFOs, hereinafter UCLs) with certain parameters. In this regard, the Bank of Russia plans to set the following MPLs on UCLs, including credit cards.[2]

PRELIMINARY VALUES OF MPLS FOR UCLS *Table 1*

(%)

	UCLs with DSTI above 80%*	UCLs for 5 and more years*
Banks	25	25
MFOs	35	–

* MPL caps the share of loans with certain parameters in the total amount of UCLs issued and acquired over the quarter. The MPLs on UCLs, excluding credit cards, and MPLs on credit cards are expected to match.

The established MPLs will be applied to all UCLs issued with DSTI above 80% (regardless their maturities) and, on a separate basis, to all loans issued for five and more years (regardless their DSTI).

The proposed MPLs will help mitigate the risk of regulatory arbitrage between banks and MFOs as their application will prompt reduction in the share of loans with high DSTI simultaneously in the both lending segments. The difference between MPLs for banks and MFOs is conditioned on the current differences in their customer profiles (credit risk related to MFO loans is higher than that of bank loans).

2. RISK FACTORS INCREASING DEBT BURDEN

The risk factors increasing debt burden specified in the regulation indicate the escalation of Russian household debt overburden.

RISK FACTORS INCREASING HOUSEHOLD DEBT BURDEN *Table 2*

Indicator	Ratio, %	Sequence number under Appendix 8 to Bank of Russia Ordinance No. 6037-U, dated 24 December 2021
The share of loans with DSTI above 80% in total loans issued over the quarter	30.3[1] (2021 Q2) 31.0 (2021 Q3)	1
The share of loans with DSTI above 80% in total loans issued by MFO over the quarter	44.2[2] (2021 Q3)	6
Annual growth rate of outstanding UCLs	19.2[3] (as of 1 October 2021)	2, 3
Annual growth rate of outstanding UCLs issued by MFO	39.6[4] (as of 1 October 2021)	2, 3
Household income growth	15.5[5] (2021 Q3 vs 2020 Q3)	2
Annual growth rate of the number of consumer loan borrowers	2.4[6] (as of 1 July 2021)	3
Annual growth rate of the number of MFO consumer loan borrowers	23.0[7] (as of 1 July 2021)	3
NPL generation ratio on unsecured consumer loans[8]	1.8 (as of 1 December 2021)	4
The share of 5+year UCLs in the total amount of issued loans	24.5[9] (2021 Q1) 29.1 (2021 Q2)	5

[1] According to reporting form 0409704, including outstanding loans with lending limits that occurred over the quarter.
[2] According to reporting forms 0420840, 0420846 in relation to loans with DSTI calculated.
[3] According to Section 3 of reporting form 0409115. With regard to operating credit institutions (including reorganised ones).
[4] According to reporting forms 0420840 and 0420846.
[5] According to Rosstat.
[6] According to data provided by the three largest CHBs on borrowers with outstanding amounts above 10,000 rubles under consumer loans and/or credit cards.
[7] According to data provided by the three largest CHBs on borrowers with outstanding amounts payable to MFO.
[8] Calculated as a ratio of a 12-month increase in outstanding amount including 90+day past due payments and debts under written-off and sold loans to the average outstanding amount under unsecured consumer loans over the said period.
[9] According to data provided by the three largest CHBs on borrowers with outstanding amounts above 10,000 rubles.

[1] *Bank of Russia Ordinance No. 6037-U, dated 24 December 2021,'On the Types of Loans Subject to Macroprudential Limits, on the Parameters of the Said Loans, on the Procedure for Setting and Applying Macroprudential Limits in Relation to the Said Loans, on Risk Factors Increasing Individual Borrowers' Debt Burden, and on the Procedure for Applying Measures Provided for by Part Five of Article 456 of Federal Law No. 86-FZ, Dated 10 July 2002, 'On the Central Bank of the Russian Federation (Bank of Russia)'.*

[2] *The MPLs have been calibrated net of data on loans with lending limits.*

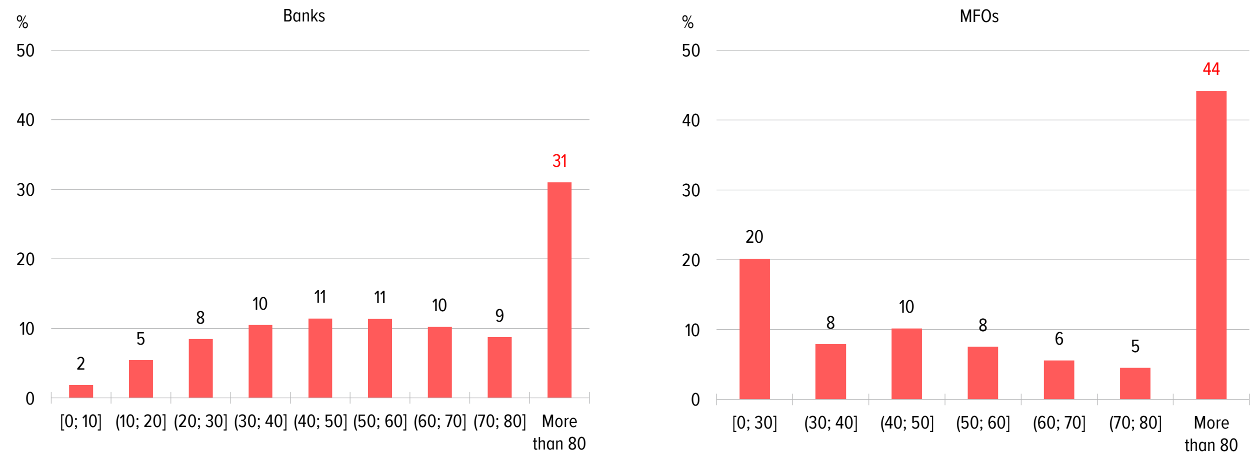
3. MPL ON UCLS WITH DSTI ABOVE 80%

In 2021 Q3, the portion of loans with DSTI above 80% in bank issuance of UCLs was 31%, in MFO – 44%. However, the situation greatly differs from one organisation to another. This portion did not exceed the average figure at 75% of banks but at individual banks, especially large ones accounting for 70% of the issued loans, it was significantly higher (30–50%), so these banks will have to amend their lending standards to comply with the 25% MPL.

The number of MFOs with the portion of loans with DSTI above 80% exceeds 35% and is 226. This is 42% of the total amount of issued loans.

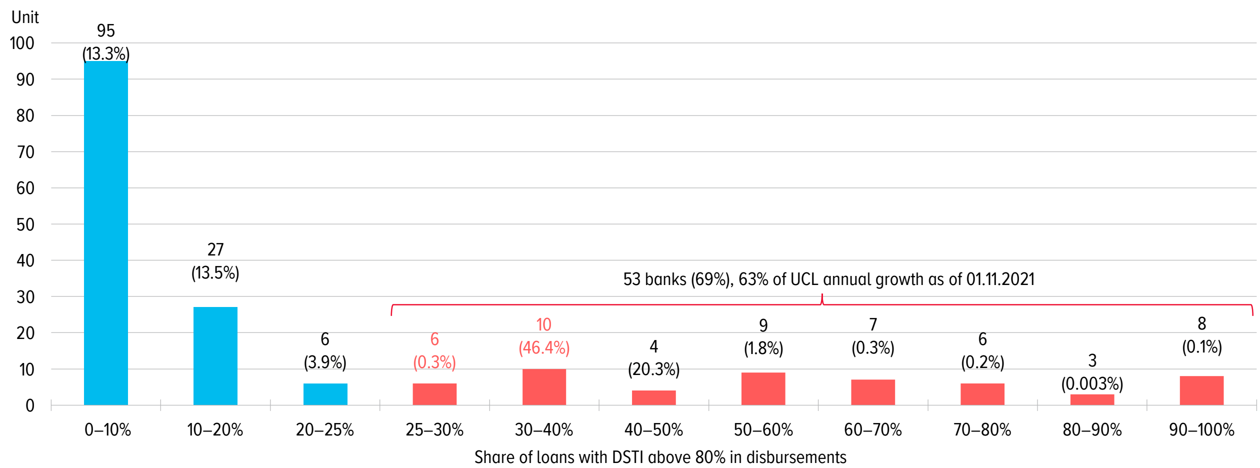
In the conservative scenario[3] the share of loans subject to MPL restriction[4] based on the current issuance distribution is estimated at 10% for banks and 11% for MFOs.

DSTI-BASED DISTRIBUTION OF UCLS ISSUED IN 2021 Q3* *Chart 1*



** Hereinafter, data on UCL exclude credit cards.*
Source: reporting form 0409704.
Sources: feporting forms 0420840 and 0420846.

BANK DISTRIBUTION BY THE SHARE OF UCLS WITH DSTI ABOVE 80% IN UCLS ISSUED IN 2021 Q3 *Chart 2*



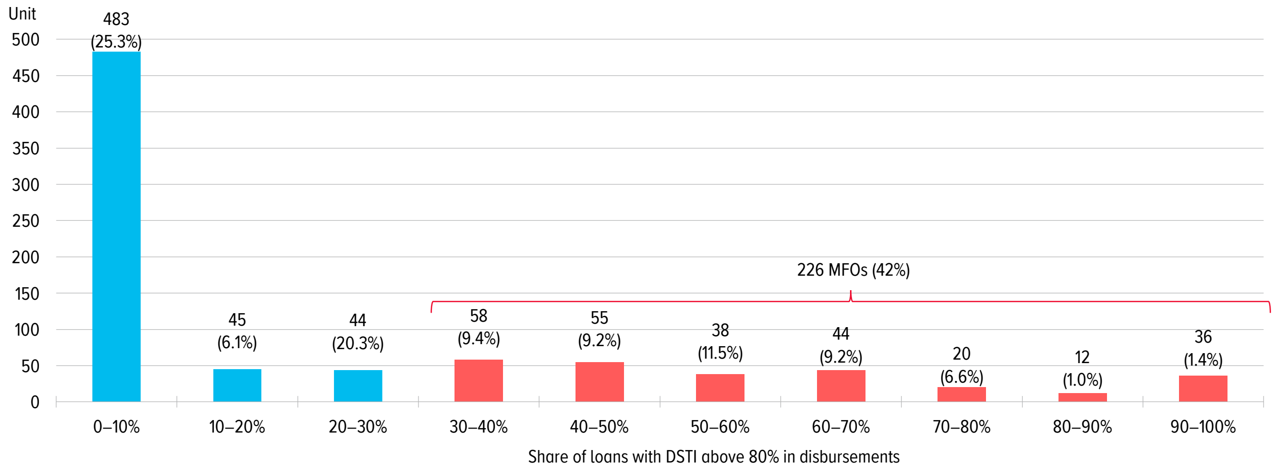
Note. The share of banks in total UCL disbursements over the quarter is presented in brackets.
Sources: reporting forms 0409135 and 0409704.

[3] *A scenario whereby it is impossible to reduce DSTI by amending the loan parameters during the loan disbursement and customers with high DSTIs do not switch to banks and MFOs with the MPL surplus.*

[4] *Loans subject to MPL restriction mean loans that may be issued to borrowers later when their debt burden under the existing loan obligations goes down.*

MFO DISTRIBUTION BY THE SHARE OF CONSUMER LOANS WITH DSTI ABOVE 80% IN UCLS ISSUED IN 2021 Q3

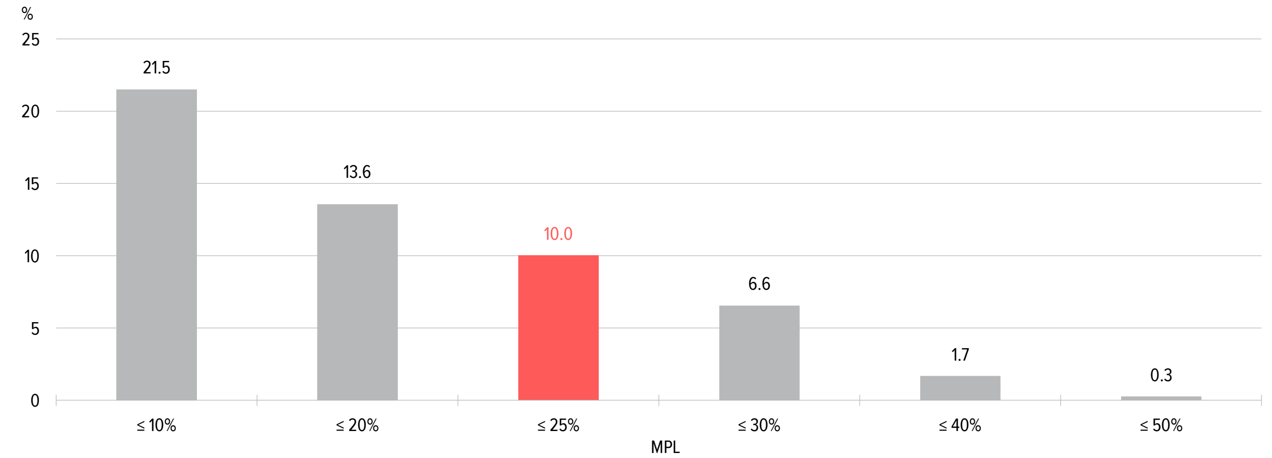
Chart 3



Note. The share of MFOs in total consumer loan disbursements over the quarter is presented in brackets.
Sources: reporting forms 0420840 and 0420846.

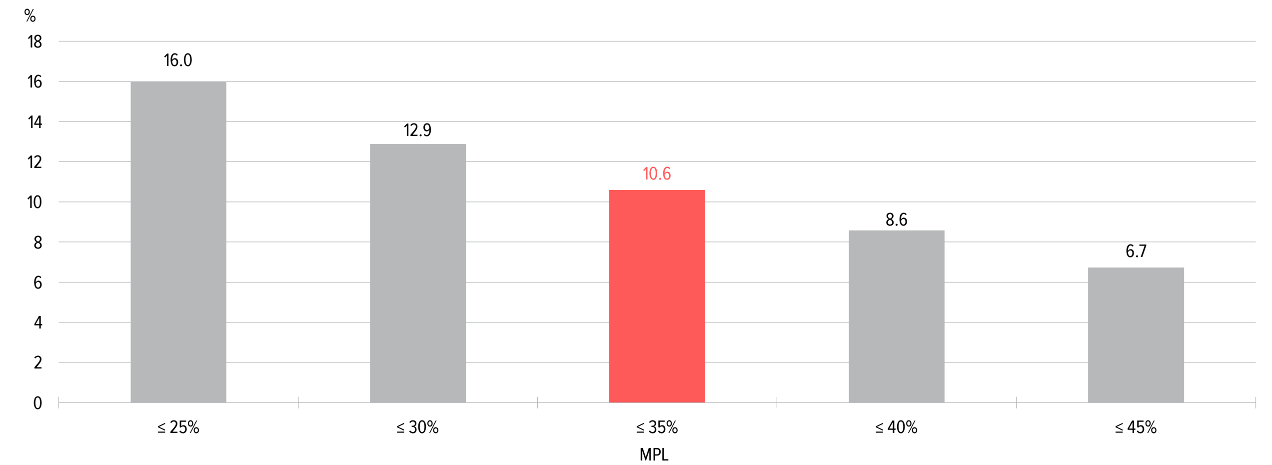
THE SHARE OF LOANS SUBJECT TO MPLS IN TOTAL UCLS OF BANKS OVER THE QUARTER UPON INTRODUCTION OF MPLS ON DSTI ABOVE 80%

Chart 4



THE SHARE OF LOANS SUBJECT TO MPLS IN TOTAL CONSUMER LOANS ISSUED BY MFOS UPON INTRODUCTION OF MPLS ON DSTI ABOVE 80%

Chart 5



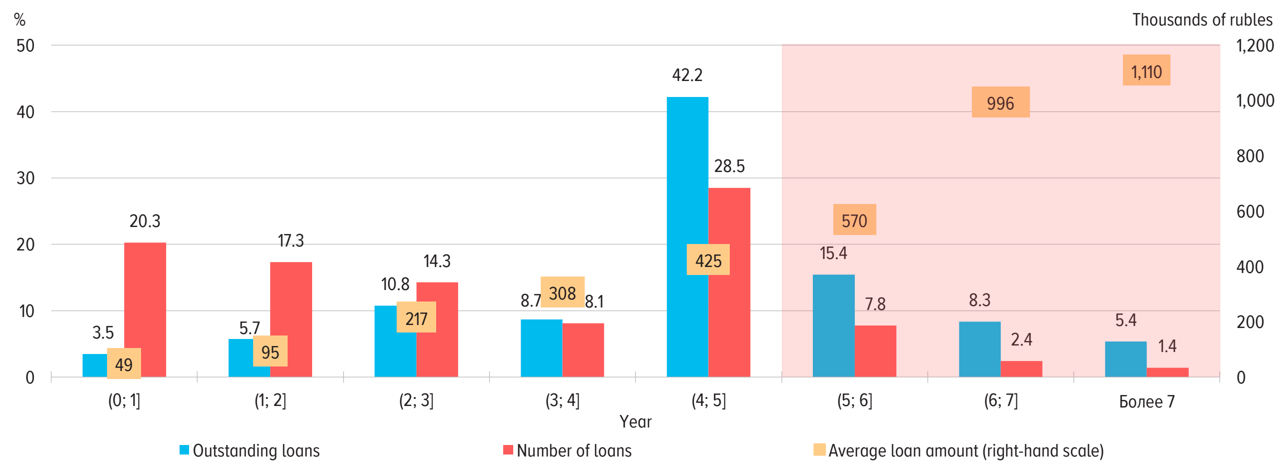
4. MPLS ON UCLS WITH 5+ YEAR MATURITY

UCLs with long maturities tend to have higher risks of default than those with shorter maturities in part due to the larger average loan amount. The average default rate of loans for 5+ year is considerably higher. The share of loans with 5+ year maturities persistently increases (up to 29% in 2021 Q2)[5] as banks try to issue loans for the maximum possible amounts permitted by their credit policies.

The share of 5+ year UCLs at most banks did not exceed 10%. However, this figure greatly differs across banks: there are multiple large banks that do not virtually issue such loans, but at individual banks, the share of these loans exceeds 50%.

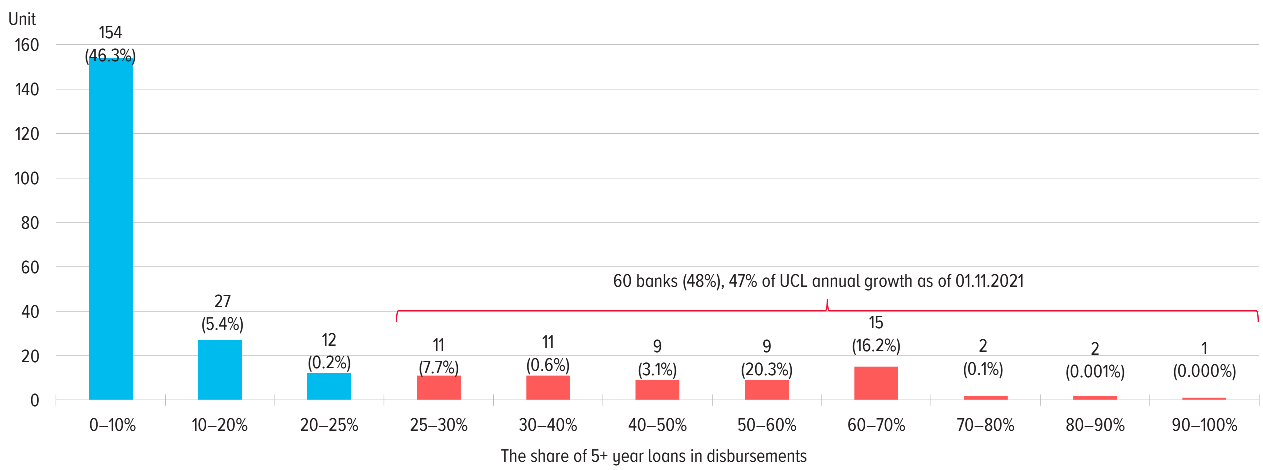
If the MPL on loan maturity was applicable in 2021 Q2, 13% of the issued loans would be out of scope of this limit.

DISTRIBUTION OF UCLS BY MATURITIES IN 2021 Q2 *Chart 6*



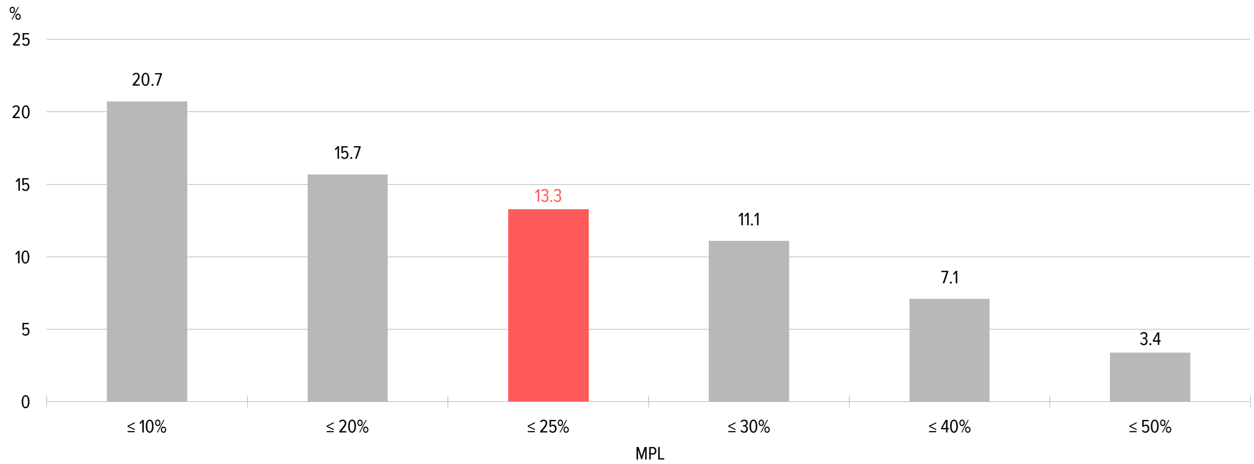
Source: CHB data.

BANK DISTRIBUTION BY THE SHARE OF 5+ YEAR LOANS IN UCLS ISSUED IN 2021 Q2 *Chart 7*



Note. The share of banks in total UCL disbursements over the quarter is presented in brackets.
Source: CHB data.

THE SHARE OF LOANS SUBJECT TO MPL RESTRICTION IN TOTAL LOANS OVER THE QUARTER *Chart 8*



5. KEY EFFECTS OF MPL INTRODUCTION

The introduction of MPLs will bring about tougher lending standards but will make no significant impact on the accessibility of loans to households except borrowers with large debt burdens who may have to postpone taking a new loan. Borrowers with moderate debt burdens willing to take an additional loan which may bring their DSTIs above 80% might have to decrease the requested loan amount to reduce their debt burden. Notably, borrowers may provide banks and MFOs with more comprehensive information on their income to ensure that DSTI reflects their actual debt burden more accurately.

MPLs will generally encourage banks and MFOs to obtain more comprehensive and accurate information on borrowers' income – for example, through the Citizen's Digital Profile. Also, there is some potential for shortening maturities of consumer loans and maintaining acceptable debt burden at the same time.

Concurrently, there will be partial redistribution of risky borrowers among banks. This will lead to a more smooth risk distribution across the system without risk concentration in individual market participants.

Consumer lending will slow down but the rate of this process will depend on the ability of banks and MFOs to modify their loan parameters to reduce DSTI/maturity, and on the scale of customer redistribution among market participants. Another important factor is the margin of market participants' compliance with MPLs.

As long as market participants adapt to the new conditions, MPLs may be additionally reduced, since the 25% MPL for banks and the 35% MPL for MFOs are not target values.

6. FURTHER MPL CALIBRATION

The Bank of Russia will continue to calibrate MPLs. As consumer loans may have both high DSTIs and long maturities, it is necessary to assess the collective impact of the MPL on maturity and the MPL on DSTI on consumer lending. Also, the Bank of Russia will make a thorough analysis of the distribution of credit card limits by DSTI and maturity.