Building savings banks: opportunities in Russia

Building Savings Banks (**"BSBs"**) may be introduced into Russia based on the German 'Bausparkasse' model.

Draft legislation is currently being reviewed by the Duma after a previous draft was rejected in 2007.

BSBs differ from traditional banks in that they are a bank specialising in attracting an individual's monetary funds into deposits and provide depositors with loans for the purpose of building or buying a house, refurbishing or rebuilding residential buildings or acquiring land for development.

BSBs have a long tradition in Europe, although they did not arrive in Eastern European countries such as Hungary and the Czech Republic until the 1990s. BSBs are attractive to depositors as they tend to offer cheaper mortgages and better mortgage interest rates than traditional banks.

The provision of affordable housing has been a government policy objective for most of this decade. BSBs are a means of addressing this, as it is still difficult to get a mortgage in Russia even though Russian banks have been actively engaged in mortgage lending since at least 2004. This is due to high interest rates on loans and strict requirements on borrower income levels.

Russian BSBs are expected to work in the same way as German BSBs: depositors will enter into a fixed term agreement to deposit certain amounts, along with interest accrued, into their savings account each year. As soon as the amount of savings constitutes 30-50% of the value of the property (an 'agreed payable amount' that means the amount of deposit, interest accrued, loan amount, state bonus and serves as a base for calculation of the loan), they will become entitled to a loan for a specific purpose which they will be required to repay by the end of the fixed term.

Although the draft has a number of discrepancies that will need to be ironed out, key features of the current proposals are:

- no direct restrictions on non-Russian companies setting up BSBs;
- a requirement for BSBs to obtain a licence to carry out certain banking operations;
- BSBs will be regulated by the Central Bank of the Russian Federation which is expected to set out different operating and financial standards and regulations than those for regular banks;
- BSBs will only be able to perform limited banking operations, among other functions, BSBs may provide advisory services and suretyships for depositors guaranteeing their obligations under loans payable to other banks;
- depositors in BSBs may be Russian citizens, foreign citizens, stateless persons or legal entities;
- depositors with certain amounts of savings in BSBs will be granted annual bonuses by the State out of the federal budget;
- interest rates will be fixed throughout the term of the saving and loan agreement;
- the loan interest rate may not be more than 3% p.a. above the deposit interest rate;
- all transactions must be in Roubles;
- a two-year minimum savings term;
- BSBs may require security under a loan agreement;
- the State will act as a guarantor of deposits in BSBs under the conditions set out by Russian legislation ; and
- each BSB will have to set up an insurance fund (regulated by the Central Bank) to cover any losses resulting from a reduction in the number of depositors.

It is envisaged, perhaps somewhat optimistically, that the introduction of BSBs into Russia will provide 90% of the population with access to mortgages. This would go some way to aligning the ratio of residential mortgage debt to GDP with that of other European countries: according to the European Mortgage Federation, Russia's residential mortgage market is worth less than 2% of GDP, whereas it is

86% in the UK, 47% in Germany and more than 10% in eastern European countries such as the Czech Republic and Hungary.