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FINANCIAL PROBLEMS

Bank Consumer Lending in Russia from the Point of View of Foreign Experience: Competition and Ways of Development

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Abstract—Macroeconomic statistics of the bank sector of Russian consumer credit is analyzed, the consumer credit experience of the United States and Great Britain is studied and compared with Russian indices, competition features are studied in the area, its influence on the development of high marginal lending in Russia is estimated, and the prospects of bank consumer crediting are determined in the article.

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Consumer credit is an important area of the loan market in any developed or developing country. This financing tool is able of temporary increasing a borrower's effective demand, which can be used to satisfy their current needs for accommodation, transportation, household appliances, or other urgent needs. Consumer credit can also be used for demonstrative consumption (the will of emphasizing a special status).

According to Rosstat data, the average per capita income in Russia for the first quarter of 2013 was 21 000 rubles or, excluding taxes, around 18 500 rubles [1]. For those having average wages, consumer credit gives an opportunity of purchasing expensive nonessential things, such as cell phones costing over 20 000–30 000 rubles, etc. The Russian consumer credit market is practically competitive in big cities: most banks offer their own ways for consumer credit for people. This market can be divided into a relatively transparent bank market and a not quite transparent nonbank market. The latter includes microfinancial organizations, pawnshops, illegal money lenders, etc.

Macroeconomic situation in the segment of Russian bank consumer credit. Both banks and other professional participants in consumer crediting[1] are for profit organizations, the expenses of which are financed by their income. Therefore, the level of past-due debt is an important feature to be considered while giving a loan because its part will be finally transferred to special debt collection agencies for a little cost or deducted from the bank balance with the created stock. If clients, for whom credit organizations strive, are capable of repaying their own loans, the consumer credit market is not completely loaded. The general macroeconomic situation in Russian bank consumer crediting can be analyzed based on statistics from the Bank of Russia using the volume and current indices of the sector (Table 1).

In fact, consumer loans can be divided according to the level of repayment risk into the following groups:

—mortgaging;

—loan for motor vehicles;

—loans without a purpose, divided into traditional and express credit;

—credit cards.

Unfortunately, the statistics of the Bank of Russia considers consumer credit as subdivided only into residential loans (including mortgages) and other kinds, the information regarding which is presented jointly. According to the data in Table 1, the level of past due debt on residential loans is rather low: during the crisis in 2009–2010, it was over 3%. Now it tends to go down to 1.86%. It should be noted that, according to accounting rules, credit organizations transfer only the sum, which has not been paid on time, to the past due debt accounts. For example, if the remainder of a principal mortgage debt is 2 mln rubles and a monthly payment of 10 000 rubles has not been made on time, accounting transaction D-t 45 815 will be formed (past due debt on credit and other invested assets of citizens) K-t 455 (credits and other assets for citizens) in the sum of 10 000 rubles. Thus, only its small part will be represented in the past due debt statistics. Obviously, a sufficient share of lending with short-term delays causes no problems, according to Sections 3.7.2.3 and 3.7.3.1 of Act no. 254–P On the Order of Assets Formed by Credit Services Organizations with Possible Losses on Loans, Lending, and the Equivalent Debt as of March 26, 2004. The quality of credit services provided to citizens is considered to be "mediocre" or "bad" for arrears over 30 and 60 days for the

[1] Excluding microfinancial organizations, which can be registered as a "fund, autonomous nonprofit organization, institution (excluding budgetary institutions), nonprofit partnership, and business association or cooperative," according to Article 2 151 of the Federal Act On Microfinancial Activities and Microfinancial Organizations as of July 2, 2010.

Table 1. Quantitative indices of bank consumer credit in Russia on December 31, 2008–2013

Index	2008	2009	2010	2011	2012	2013 (4 months)
Volume granted, bln rubles						
consumer loans*	3308	2433	3212	4669	6154	2208
residential loans	757	182	437	770	1072	351
Debt, bln rubles						
consumer loans*	2729	2381	2769	3910	5588	6058
residential loans	1270	1181	1295	1625	2123	2273
Past-due debt, bln rubles						
consumer loans*	N/a	204.1	237.7	245.0	271.1	315.9
residential loans	11.5	37.0	41.6	45.4	41.5	42.2
Share of past-due debt, %						
consumer loans*	N/a	8.57	8.58	6.27	4.85	5.21
residential loans	0.91	3.13	3.21	2.79	1.95	1.86
Reference:						
Share of past-due debt, %						
big businesses	N/a	5.37	4.38	3.17	3.43	3.40
small and medium businesses	N/a	7.55	8.80	8.20	8.39	8.51
Turnover, month						
consumer loans*	9.9	11.7	10.3	10.0	10.9	–
residential loans	20.1	77.9	35.6	25.3	23.8	–
Share of consumer loans in the portfolio, %	75.90	75.10	75.84	77.30	78.41	78.56

* The following loans granted to persons are considered to be residential, according to the Bank of Russia: (a) purchase and land planning for the expected housing construction (land credit); (b) construction financing (construction credit); (c) purchase of housing (housing credit). On May 1, 2013, over 95% of all residential loans belonged to section c.

Bank of Russia [2] statistics, calculations performed by the author.

Table 2. Mortgage debts divided in terms of payment delays, %

Period	No delayed payments	With delayed payments			
		from 1 to 30 days	from 31 to 90 days	from 91 to 180 days	≥180 days
Feb. 1, 2010	85.77	4.90	2.39	1.75	5.19
July 1, 2010	85.50	5.23	2.17	1.55	5.55
Jan. 1, 2011	87.83	4.37	1.55	1.14	5.11
July 1, 2011	90.68	3.80	0.78	0.60	4.14
Jan. 1, 2012	94.06	1.29	0.59	0.40	3.66
July 1, 2012	94.52	1.54	0.58	0.30	3.06
Jan. 1, 2013	95.93	1.11	0.44	0.26	2.26
May 1, 2013	95.96	2.03	0.52	0.28	1.21

Bank of Russia statistics [2].

last 180 days, respectively. In this case, the question is how important the share of long-term past-due debts in residential loans is in Russia (Table 2).

The data in Table 2 are presented, taking into account that debt "becomes fully included in the past-due debt with the maximal nonpayment time before payment, if the part (share) is not paid back in time." Hence, the share of "real" overdue debt appeared to be more than twice (2.17) higher than the accounting debt (4.04 compared to 1.86) on May 1, 2013. However, to consider past-due debt toxic, it has to be more than 91 days overdue; i.e., 0.28 + 1.21 = 1.49%. The

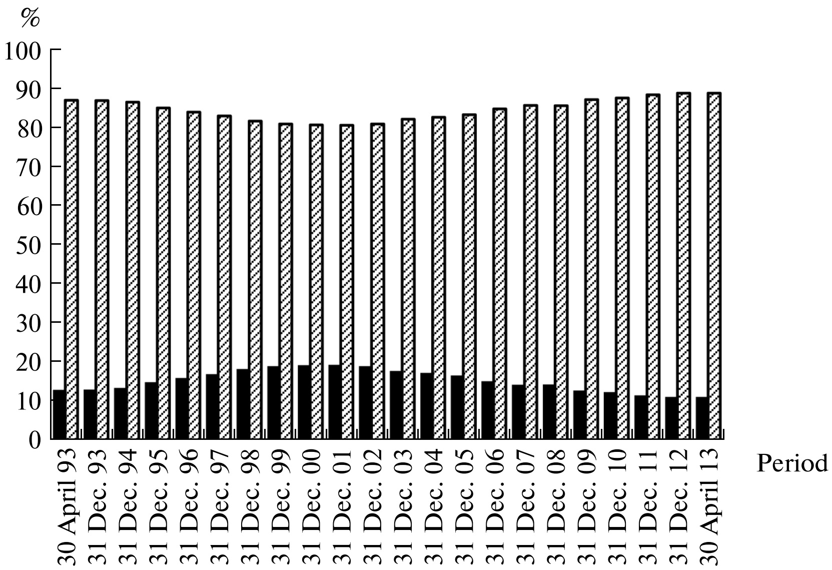

Fig. 1. Structure of the British consumer credit market (excluding student loans) in 1993–2013: ■ unsecured loan debts of individuals; ▨ loan debts of individuals and householder associations, secured by real estate.

level of past-due debt has been decreasing since 2010 (no data for earlier periods) which means the situation has become more stable and the residential loan risks have decreased.

The risk of financing is sufficiently higher in other types of consumer credit: the level of accounting overdue debt was 2.8 times higher for nonresidential loans than for residential ones (5.21% compared to 1.86%) on May 1, 2013. The statistics of the Bank of Russia do not provide information concerning the "real overdue debt." However, to obtain less accurate data, the 2.18-fold difference between the financial assets turnover in the previous period (2012) could be considered[2]. The average debt in the form of nonresidential credits for 2012 should be divided by the total volume of lending for the same period. The same calculations should be performed for residential credits. The statistics of the Bank of Russia are used as initial data: 5588 bln rubles/6154 bln rubles = 0.91 year and 2123 bln rubles/1072 bln rubles = 1.98 year. In fact, the turnover of nonresidential credit is 1.98/0.91 = 2.18 times higher than that of residential one. In other words, the level of real past-due debt for nonresidential credit must be 2.17 higher than the accounting one (in equivalent units to the residential one) and 2.18 lower (based on the faster turnover). Judging from the statement above, on May 1, 2013, the level of "real" overdue debt was $5.21 \times (2.17/2.18) = 5.18\%$.

How sufficient is this number? In banking, the level of past-due debt (often it also concerns bad debt) of 5% is not critical for retail segments. It is necessary to emphasize that the issue of an acceptable level of past-due debt is important not only for a credit organization but also for the Bank of Russia as a market regulator. The consequence of Russian private banks accumulating a sufficient number of problematic commitments can be a scenario similar to the mortgage crisis in the United States, the default in Greece and Cyprus, etc.

Consumer credit: some macroeconomic aspects of foreign experience Russian market of bank credit has been developing for over twenty years, becoming more civil compared to the 1990s of the 20th century. However, for the development of the banking system, the age plays an important role. It conditions the traditions of entrepreneurship and the succession of economic policy. For example, in England, the Bank of England, founded in 1694, has been granting interest loans [3]. As S.Yu. Glaz'ev noticed fairly, "there are a lot of ways to develop the bank system...but, clearly,...we cannot wait another 300 years" [4]. To handle the consequences of the objective time gap, the banking experience of developed countries should be considered to the full extent.

As represented on Fig. 1 [5], the market of consumer credit in *Great Britain* differs fundamentally from the Russian one because of prevailing mortgages: on April 30, 2013, their share was 88.94%.

Obviously, mortgages granted to natural persons for real estate are mostly long-term. According to our cal-

[2] Applying the scaling factor 2.17 = 4.04/1.86 (in equivalent units to residential credit) is not quite accurate because the size of residential loans is sufficiently higher than that of other kinds of loans, so the size of accounting overdue debt should be increased by a higher coefficient. For instance, a client has two past-due payments of 10000 rubles each on a mortgage and consumer credit with 2 mln and 200000 rubles loan balances, respectively. Accordingly, the accounting overdue debt for both credits is their same: 20000 rubles. The real one is however: 2.02 mln and 220000 rubles.

Table 3. Statistics on consumer credit written off in British banking

Period	Bad debt written off/Quarterly average debt load, mln GBP				Written-off loans, %	
	loans ensured by housing	credit cards	other	total	in loans granted	in loan debt
First quarter 2012	132	568	588	1287	1.55	0.09
	1249026	55834	104104	1408964		
Second quarter 2012	143	567	435	1146	1.42	0.08
	1255713	55478	102699	1413890		
Third quarter 2012	124	473	445	1041	1.32	0.07
	1263977	55362	101815	1421154		
Calculated:						
Annual average level of debt written off, %	0.03	2.89	1.43	0.25	–	–

culations, the turnover of mortgages in Great Britain in 2010–2012 was 97–109 months, which is substantially higher than the Russian index (Table 1). How high is the level of past-due debt in Great Britain? It should be noted that bank statistics are gathered in a quite different manner there. In particular, instead of the level of current overdue debt, data on the level of canceled debt are presented which is unlikely for Russian banking (Table 3) ([5], the authors' calculations).

According to the data in Table 3, the level of losses in the financial sector from mortgage defaults (ensured by real estate) is only 0.03% a year, which undoubtedly influences the level of interest in a positive manner. The level of uncollectible debt for other kinds of credit is sufficiently higher with even higher values in 2011: 6.36% for credit cards and 2.4% for other credits not ensured by real estate. Of course, based on the total losses of the banking system in consumer crediting (0.25% in 2012), it would be easier to conclude that there was no risk in these banking activities. It is a common fallacy because the level of losses from nonmortgage operations in England is high, especially from bank cards. However, it is sufficiently lower than the level in Russia which can be judged based on expert estimates because there are no official statistics. The second common fallacy is the assumption that other countries have very low interest rates (Fig. 2).

As presented in Fig. 2 [5], low interest rates are offered in Great Britain on mortgage products with nearly similar current rates for floating and fixed models, but now the floating rate for nonmortgage debt is even lower than the fixed rate for mortgages. In general, the rates are not higher than 3–5 p.p. In fact, even 3–4 times lower than the Russian ones. However, the fixed rates for other loans and credit cards are sufficiently higher: 10–17%.

Based on vanishingly low past-due debt for mortgages, such credit might partake in pure financial (risk-free) deals. In this case, the interest contains two main components: bank fonding and marginal payments financing all bank expenses. Given that on June 7, 2013, the Libor yearly rate for pound sterling was

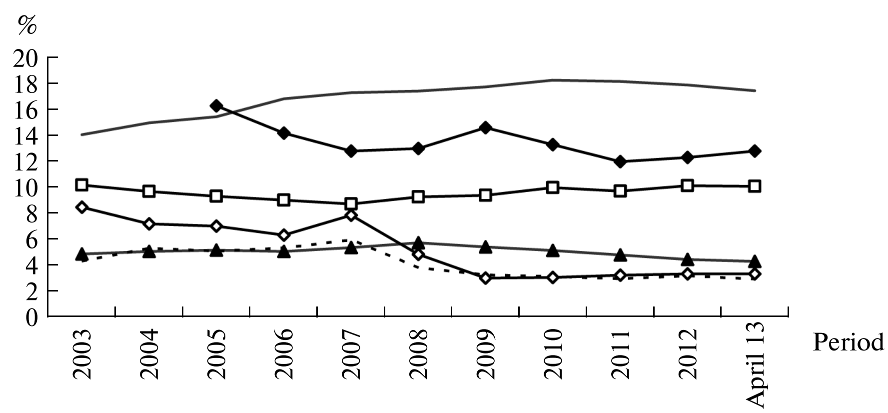

Fig. 2. Dynamics of the interest change for different types of consumer loans in Great Britain in 2003–2013: — credit cards; –◆– mortgage interest in Russia (for reference); –▲– fixed interest for loans secured by real estate; –□– fixed interest for other loans; - - - —floating interest for secured loans; –◇– floating interest for other loans.

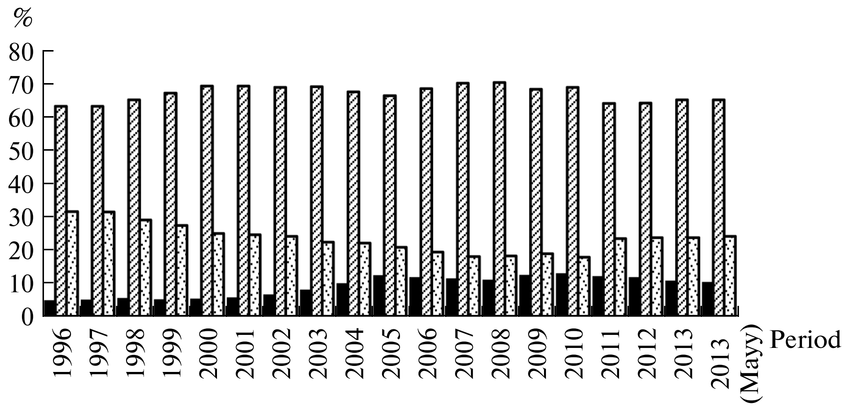

Fig. 3. Structure of consumer credit in the United States on January 1 (1996–2013): ■ consumer loan; ▨ nonrevolving loan secured by real estate; ▦ revolving loan secured by real estate.

0.8925%, the margin of English banks must be ≈1–3% [5]. It is comparable with the Russian market of mortgages, where a 3% margin is quite acceptable[3]. If banks have such cheap long-term financing, it can be concluded that short-term loans cost them less. In this case, both the margin and the planned losses would be 15–16% for "card" credit. Considering the risk of this segment (2.89% in 2012), the average gross margin must be 12–13% in this segment. There is no accurate statistics on the Russian sector, but practical experience shows that commerce banks consider a minimal margin of 8–12% annual interest from "card" offers to usual clients. For subprime products, i.e., granted to non-first-class customers, the margin can be sufficiently higher.

In the *United States*, the system of customer crediting used to be considered one of the most developed ones before the mortgage crisis, as it allowed clients to satisfy nearly all their preferences. The American credit market structure for citizens is presented in Fig. 3 [6].

As the Bank of England, the Federal Reserve Band (FRB) does not include mortgages in the system of consumer crediting either. The Russian methodology does not have a separate segment "consumer credit" as the United States and Great Britain do. Mortgages are considered to be granted to citizens[4].

As presented in Fig. 3, the share of consumer (i.e., nonmortgage) credit in the United States is higher than it is in Great Britain (see Fig. 1) but sufficiently lower than it is in Russia (see Table 1). The level of consumer credit after 2009 is different from the British market with its tendency to increase. At the same time, the dynamics of the share of mortgages in the United States and Great Britain has different directions: the first index (as in Russia) is decreasing, while the second one is increasing. Figure 4 [6] presents the level of completely written-off bad debt is in the United States.

The level of write-offs, i.e., complete defaults of commitments, is closely interconnected between all kinds of loans granted to consumers. If for the period from 1995 to 2007 mortgaging was nearly risk-free (the volume of write-offs was 0.06–0.23% a year), this index increased tenfold during the mortgage crisis. If we compare this index with the British market, we will see even a bigger difference (36-fold), which is still true today: 1.07% compared to 0.03%.

Given that the statistics of the Bank of Russia do not include data on the index of loan wrote-offs, to have a more accurate comparison, let us compare the statistics of the United States and Russia according to the amount of current past-due loans, i.e., the debt, which can still be received from clients (Fig. 5).

As presented in Fig. 5, the current past-due mortgage debt tended to decrease in the United States until 2006; after that, a sharp (6.5-fold) increase followed. In fact, the share of past-due mortgage debt is sufficiently (2–3 times) higher than that of other consumer loans in the United States. In Russia, the level of current past-due mortgage debt is sufficiently (fourfold in 2012) lower than that in the United States, but the share of toxic loans in the segment of others is somewhat higher.

Studying the nonmortgage market of consumer credit in the United States, high risks of bank card credit should be pointed out; its peak was in 2009–2010 period of crisis. However, the mortgage default of 2010–2013 was exacerbated with other kinds of consumer financing (not considering credit cards). Such a situation is typical of neither British nor Russian banking system. Hence, it can be concluded that US banks had too many potentially "bad" commitments, which

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[3] In addition, the margin of some banks is sufficiently higher. For instance, that of Sberbank is 2–2.5 times, because credit market rates are lower than in other credit organizations and because they fund their own financial resources.

[4] In the Soviet Union, consumer credit included even rentals of consumer products.

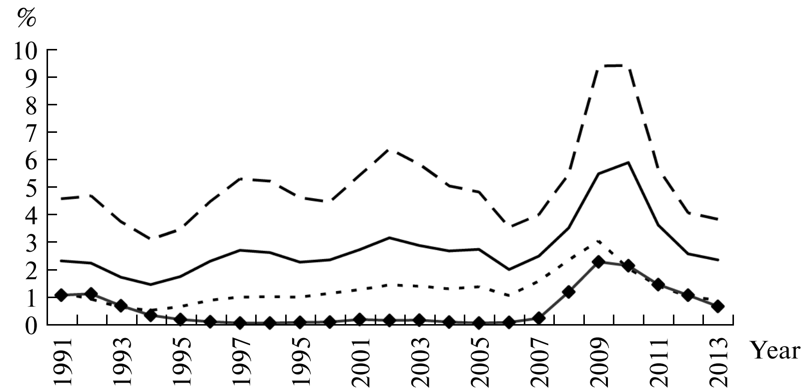

Fig. 4. Dynamics of the average annual level of write-offs for some types of consumer loans in the United States in 1991–2013: ––– credit cards; — consumer loans (jointly); - - - other consumer loans; –◆– loans secured by real estate.

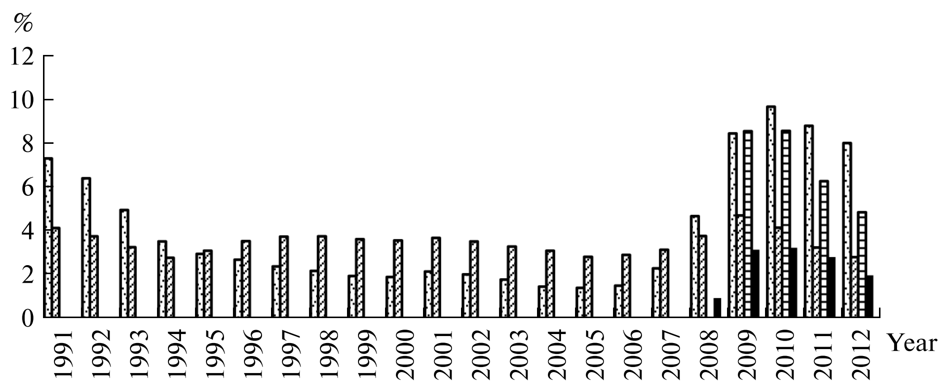

Fig. 5. Current and overdue debt for mortgages and other consumer loans in the United States and Russian in 1991–2012: mortgages in the United States (▦) and in Russia (■); other consumer loans in the United States (▨) and Russia (⊟).

had been defaulting since 2008. Therefore, it can be assumed that this process will not be over in 2013.

Were any drastic changes in the market structure and volume preceding this process? As Fig. 3 shows, the share of nonrevolving mortgages (i.e., granted for real estate) tended to grow insufficiently until 2000; then, for the next ten years, it hardly changed and made about 70% of the market loans granted to consumers. Could the credit market get "overheated" by increasing the volume of grants? To answer this question, the dynamics of the rate of mortgage debt growth in the United States and Great Britain should be compared. There, the level of defaults is very low (Fig. 6) [2, 5–6][5].

As presented in Fig. 6, the rate of annual US mortgage portfolio growth had nearly always been higher than that of Great Britain until 2009. However, no study period revealed an enormous growth rate, as it was in Russia in 2011–2012.

It should be acknowledged that the reason is mostly the "low basis" effect of the Russian banking system.

Thus, the level of risk of US bank consumer credit is sufficiently higher than that of the conservative British market. In some segments, it is even higher than in the developing banking area of Russia. It is known that predicted credit exposure is included in the interest paid by clients. Let us consider by how much the bank financing rates differ in Russia, the United States, and Great Britain [6–7].

As presented in Fig. 7, the interest level for all types of loans granted to consumers has tended to decrease for the last 20 years. Even in the middle of the mortgage crisis, the rates kept decreasing. From the point of view of economics, if credit exposure increases, the interest rate increases as well and/or new mortgages should not be granted. In fact, the volume of granting has decreased insufficiently (see Fig. 6). In addition, the cost of the riskiest consumer loans is sufficiently lower in the United States than in Great Britain and, accordingly, in Russia. The reason for such a paradox is most likely the so-called quantitative easing: suffi-

[5] No data on Russia up to 2009.

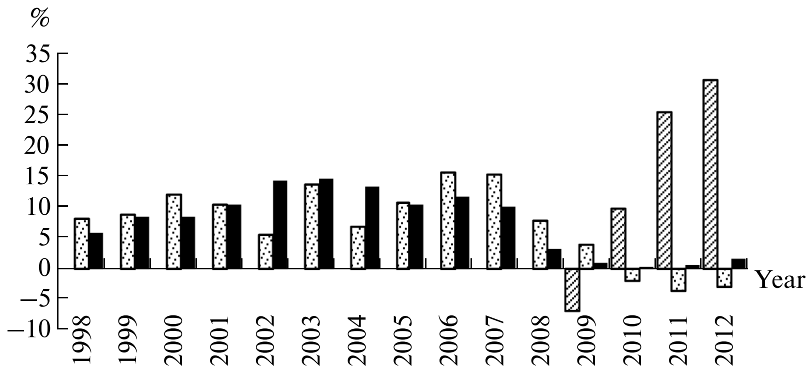

Fig. 6. Annual growth rate of the mortgage portfolio in Russia (▨), the United States (▦), and Great Britain (■) in 1998–2012.

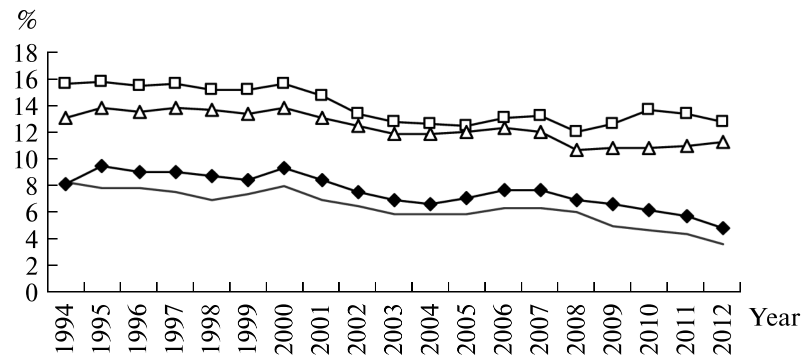

Fig. 7. Average weighted rates for some types of consumer loans in the United States in 1994–2012: –□– credit cards; –△– loans without a purpose for 24 months; –◆– car loans for 48 months; — mortgages for 30 years.

cient additional dollar emission reducing the cost of money. This system has a sufficient imbalance, the elimination of which is most likely to happen during the next crisis (i.e., when debts are written off). Russian banks dramatically reduced the volume of crediting and increased interest rates during the unstable period which is a sign of using a purely market approach, including the aspect of establishing sources for operation funding.

As can be seen, the Russian market of bank consumer credit is sufficiently different from the US and British markets, firstly, in its structure. In Russia, the leading role belongs to nonresidential credit with a higher level of exposure and, accordingly, interests. However, residential credit is impossible without risks which has been proven by American experience. However, Great Britain has a rather insufficient level of losses from mortgages. Such a big difference cannot be explained by the American securitization of mortgage assets, when mortgage-backed securities are issued provided by credit contracts and circulate on the market freely. Great Britain has a similar system. In the Russian Federation, such deals are rare and are only conducted by larger participants, such as the Housing Mortgage Finance Agency and Vnesheconombank.

Why securitizing mortgage assets is not popular in Russia? The reason is the necessity to establish a sufficient mortgage pool for deals to be effective in terms of commerce, according to A. Maksakov, deputy CEO of Absolute Bank. "The least necessary volume for credit pools for securitization is 100 million USD; otherwise, it would not be profitable to conduct because of high additional expenses for the establishment of a special emitting company, services of investment banks, consultants, lowyers, rating agency commissions, etc., which can be 1 million USD in total" [8].

Competitive situation in the segment of Russian bank consumer credit. The problem of a limited "long money" volume of private banks (especially, smaller ones) necessary to implement minimally risky mortgaging in Russia (based on the share of past-due debt) is the reason for the necessary active competition in other segments of the bank market and, first of all, in the segment of consumer credit. The process of considering and granting a nonmortgage loan to a client person is easier than making a deal with a sole proprietor, small enterprise, or a representative of big busi-

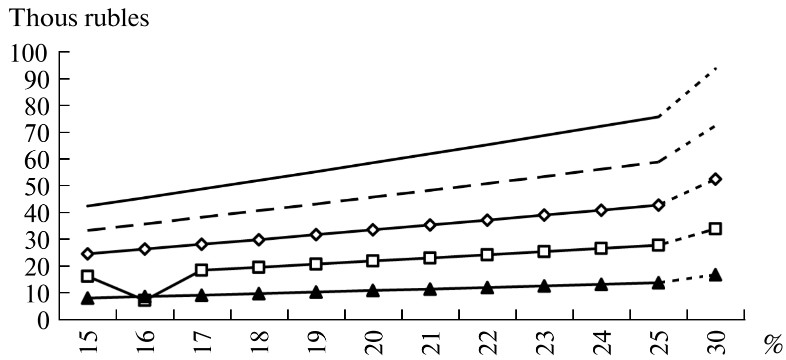

Fig. 8. Dependence of the total overpayment of each 100 000 rubles of credit from its period and rate: — 60 months; – – – 48 months; –◇– 36 months; –□– 24 months; –▲– 12 months.

ness. The reason for it is a sufficiently small volume of information that is to be analyzed in a credit organization. In conventional credit, the main sources of information, except a brief survey, are income certificates and copies of employment record books. Apart from the credit techniques used for enterprises, banks conduct a remote (unrelated to the workplace) analysis of the data received. For express loans, only the passport (sometimes, a second document, for example, the driver's license), is needed. A decision is made by a scoring program.

Theoretically, rational clients should take loans from banks with lower interest rates. Is this what is happening in the consumer credit market? In Russia, there is a paradox, when even though the interest rate does not go down, there is competition because of nonfinancial indices. Among them, there are the following ones: time for making a decision, the maximal credit amount, an opportunity of applying for a credit through the Internet, fewer requirements for documents (a shorter list and an opportunity for considering unofficial income), etc. In other words, competition, along with the absence of "long-term" equity, brings banks to the market of short- and medium-term consumer credit.

For corporate customers, the borrowing cost is an extremely important factor. Such clients understand the situation on the market, actual credit proposals, and, if another competing bank would suggest a rate by one percent lower, they would likely use its services. The funding cost of the largest banks (Sberbank, VTB, Raiffeisenbank, etc.) is known to be sufficiently (sometimes by several times) lower than that of others, especially in smaller credit organizations. Accordingly, on the market, where the price elasticity of demand is very high, relatively small banks cannot compete with large ones. That forces them to focus more on conventional and high-risk (express) consumer credit. How big is the financial difference between consumer credits granted at different interest rates (Fig. 8)?

As presented in Fig. 8, the total amount of actual overpayments between loans granted for equal periods of time at interest rate changes by 3–5 p.p. is rather small. For instance, for a sum of 100 000 rubles and a financing period of one year, it will be 1700–2900 rubles, i.e., only 142–242 rubles per month. However, for a bank with a sufficient pool of mortgage contracts, a 3–5 p.p. difference in the average portfolio interest rate plays an important role: the annual income change for a credit portfolio with a value of 1 billion rubles (a small credit portfolio for Russia) would become 30–50 million rubles in a similar situation.

In fact, some clients, who need a loan, especially, for a short period of time (one or two years) are ready to accept a higher interest rate or with more "privileged" nonfinancial conditions rather than in a bank, the office of which is "on the way home." However, based on the calculated interest rate (15–25%), these are conventional loans (i.e., not express loans)

In Russia, a market of express loans has begun developing extensively. These loans appeared in the early 2000s, offered by the Russkii Standart bank. They started a mailout of plastic credit cards with no verification necessary to activate them from the owner. The model of express credit became widespread in Russia, as new highly specialized banks opened: Home Credit Bank (2002), as well as RusfinansBank and OTP Bank (2006).

An important element of the express credit market is loans granted in stores, where goods are purchased. In this case, the attraction of a purchased item (a computer, TV set, fur coat, etc.) can postpone rational thoughts concerning the high cost of the loan. These loans can be granted for a short period of time (15–30 min), i.e., while a potential customer is still under the impression of the item.

A steadily growing number of places (stores, medical centers, tourism agencies, etc.) offering loans for

Table 4. Mains terms of granting some express loans in M.Video stores

Bank	Program	Down payment, %	Loan term, months	Total credit, thous rubles	Annual interest rate, %
Russkii Standart	Standard loan	0–90	3–24	3–200	55
	Credit 32	0–99			32
	Credit 36				36
	Credit 45				45
	1% a month	From 0			23.4
Alpha-Credit	Consumer credit, no commission	0–99	3–36	4–150	42–59
	Regular credit, no commission	1–99			65.95
	10-10-10	10	10		23.48
Renaissance Credit	Classic	From 0	6–12	3–100	70
	Affordable	10–99	6–18	3–150	55
	Affordable +	10–91		3–150	59
Cetelem	Express	0–50	3–21	2.5–450	63
	Mobile light	0–90		2.5–15	70
	Choose overpay	0–50	4–24	2.5–450	37.81

Data from the official website of JSC Company M.Video.

their products and granted by Russkii Standart, which is one of the industry's leaders, proves this segment to be popular[6]. How high the interest of these loans is can be observed on the example of some federal appliance stores (Table 4).

It should be noted that Renaissance Credit has recently started granting more risky distant Internet loans (the Affordable + program). Its main term is that a potential customer fills in an online form and sends a scanned copy of the passport. If it is approved, the customer must provide an original copy of the passport to a courier who delivers appliances and sign the credit contract given with the purchased items.

According to the data in Table 4, the interest rates in one and the same bank may vary (by several percentage points), depending on the program. What is the difference between them? Any reasonable person would choose the Credit 32 program among the offered Credit 32, Credit 36 and Credit 45 programs. When a client applies to get a loan, the scoring program evaluates the credit risk and makes a decision on the possible interest rate that can be offered by the bank, depending on the credit history and the information indicated in the CV. An interesting feature of some banks is the possibility of manually changing the credit program for a more expensive one. In this situation, a bank consultant can tell a customer that their application for the minimal interest rate has not been approved and offer to try again but for a more "expensive" program, which would obviously get approved. In practice, the income of bank consultants depends directly on the program of express loan, so banks "inspire" their employees to sell the most "expensive" loans by any means.

Such situations are most frequent, when there are "0-0-24" deals for some goods, i.e., "credit without overpayment." In this case, a store makes a nonrecurring clearance for an item, so the total payments would not be higher than the initial cost of the item. The level of interest in such offers is extremely low, for example, in Eldorado it is 8.22–10.63%; i.e. in fact, the bank obviously does not get profit or its profit is even negative. In some banks, such loans would cause the cancellation of bonuses for an employee.

Apart of those "small tricks," express credit uses other ways of increasing bank income:

—life, health, and involuntary job loss insurance;

—opening of a deposit account, causing the issuing of a plastic debit card, for which nonrecurrent and periodical commissions, etc., are collected.

Can a conclusion be made concerning the vector of development in this sector based on macroeconomic statistics of bank consumer credit development and the features of competition? Except for absolute and relative indices, it should be understood who is granted credit (Table 5) [9].

A high competition level is shown by the opinion of an expert in the area O. Lagutkin, chief executive officer of the Bureau of Credit History: "more and more people begin suffering from credit promiscuity and take loans from any bank with the best terms or look for an easier way of obtaining a loan." In this seg-

[6] For example, there were 928 items on June 26, 2013, in Novosibirsk (http://www.rsb.ru/novosibirsk/credits/credits_goods/magaziny).

Table 5. Dynamics of the share of borrowers with loans from one and five banks, %

Index	April 2007	April 2008	April 2009	April 2010	April 2011	April 2012	May 2013
Loans from one bank	54.89	45.44	42.18	38.81	33.24	29.02	25.13
Loans from five and more banks	0.1	0.26	0.42	0.54	1.03	1.91	3.52

ment of banking, an important problem is that there are hardly any people who can afford a credit and who need consumer loans on the existing terms which is proven by the words of Yu. Andersov, deputy chair of Bank Home Credit: “our bank grants up to four loans to one borrower” [10].

* * *

The main difference between the Russian market of consumer credit and that of developed countries, such as the United States and Great Britain, is in the ratio of long-term (housing) to relatively short-term financing. If in developed countries most part of the credit portfolio is mortgages, in Russia, their share is sufficiently low. This ratio is conditioned by the structure of equities in Russian credit organizations.

Currently, the Russian banking market is officially not overwhelmed with toxic loans, but banking accountant reports do not reflect information on loans granted for separate items. The absence of any opportunity for healthy competition for big corporate clients obviously pushed smaller banks to focus on riskier consumer credit with lower price elasticity of demand. Competitiveness can either be based on prices or not which is shown in lower requirements for borrowers, a smaller list of necessary documents, less time to consider credit applications, etc. It causes an increase in the share of past-due debt, compensated by higher interest rates.

The problem of a limited number of credible customers must soon push banks to increase their requirements, slowing down the growth rate of loan profile. Besides, to attract new clients, banks will have to decrease the level of interest rates, firstly, on conventional loans, where the cost factor is more important than it is on the market of consumer credit. Banks, which will get access to long-term resources (including the use of the securitization system), will transfer their retail business to mortgages, as their exposure is much lower in Russia.

The Russian bank sector is a reflection of its economy’s disproportions and the escape of capital abroad. To a large extent, credit organizations, taking a rather conservative position in crediting, especially for small and medium enterprises, are very active in competition in conventional and high-risk consumer crediting. The problem of unsecured-debt accumulation, disclosed in accounting reports, can quickly become obvious at the next dramatic change in the world economic situation. It might have negative consequences for banks with undiversified loan portfolios and for the stability of banks in general.

The decision taken by the Bank of Russia to increase refinancing rates on unsecured loans, which reduces the reserve norm of bank capital, was made only to support bank stability. However, taking into account that the cost mechanism of granting and accompanying such loans is unlikely to be reduced, the level of express-loan interest can tend to grow. As an effect of a limited number of credible clients, there is a paradox situation in Russia, when competitive consumer credit market development will force more banks to grant riskier loans (i.e., with higher interest rates) to clients who have been refused by other banks because of a bad credit history, no permanent workplace, etc. This leads to a dead end and might cause a scenario of mass mortgage defaults in the United States.

A solution to the problems stated above could be found in the area of legislative changes concerning the maximal interest rate for consumer credit. This should have a positive effect because unlimited competition “is spinning the momentum wheel” faster by granting loans with higher risks. This forms a potentially dangerous “bubble” of high marginal loans which can explode during the next financial crisis, if the world and local economic situation becomes unstable.

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