

Combating the debt load of the population in Russia

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Abstract: I summarize the current regulatory decisions aimed at combating the debt load of the population in Russia. Further, I show that the level of delinquency of the population on loans is growing despite the regulatory measures taken. In my opinion, the basis of regulatory policy should move from de facto pushing personal bankruptcies to preventing them. I put forward a hypothesis and statistically prove the expediency of quantitative restrictions on one borrower. It is necessary to introduce reports to the credit bureaus of some types of overdue debts, which are not actually reported now. It is also necessary to change the order of debt repayment established by law, allowing the principal and current interest to be paid first, which will prevent the expansion of the debt.

Keywords: debt load; Russia; restrictions for new contracts; credit reporting; order of repayment; JEL classification G21; G28; G51; K23; P16

1. Introduction

There is no global standard that determines the critical level of debt and credit burden. It depends on the level of income. For a person with a large income, 20% of income is enough for a comfortable life and the rest can be painlessly given to pay off debts, but for another person with a small income even 80% of income is not enough for a moderate life. So, the amount of income remaining after paying off loans compared to the subsistence level is considered more correct. In Russia, a gradual increase in the number of personal bankruptcy applications has been observed since 2017. In 2017–2019, the growth of consumer loans issued in Russia was several times higher than the growth of median household income. An increase in debt is a common cyclical phenomenon in the economy, subject to expectations of income growth. But when the economy stagnates, paying off old debts becomes an exorbitant burden for a person, since his debt grows faster than his income (Palashenkov and Matveev, 2020).

According to Altunyan (2021) in order to maintain a minimum level of consumption, the Russian population is forced to resort to consumer lending, which leads to an increase in the cost of current consumption, and in the context of falling incomes, aggravates the already existing plight of citizens. As a result, a vicious circle is formed so poverty reproduces and aggravates poverty, reducing consumption and compressing aggregate demand. Against the backdrop of a prolonged decline in household incomes, people have less and less free money, and a relatively large part is spent on servicing debts. From the point of view of potential risks, we should highlight a group of Russian borrowers who have been actively accumulating debt since 2017, attracting new loans before repaying old ones (Safronov and Verшинina, 2020).

As Tibilova (2022) demonstrated, consumer loans from microfinance organizations have taken on a large presence against the backdrop of stagnation of real incomes of the Russian population since 2014, which is accompanied by inflationary processes in the national economy.

Zhuravleva et al. (2023) claim that the debt of individuals on loans, including overdue ones, is growing at a faster rate than the real disposable income of the Russian population. Most regions of Russia are characterized by a high level of debt among the population. Despite this, banks continue to increase lending volumes, which increases the debt obligations of borrowers. The level of debt burden of the Russian population is dangerous both for financial institutions and for the national economy as a whole.

Koloskova and Walter (2020) point out that in 2016–2019 in Russia the share of loans for refinancing old debts increased from approximately 10 to 20 percent, which they propose to combat by increasing the level of financial literacy of the Russian population and developing the institution of credit brokers in Russia. Cheremisinova et al. (2020) came to a similar conclusion that the growth of consumer lending in Russia is due to the need to refinance previously taken loans and is not a sign of an expansion in the effective demand of the Russian population.

Reducing loan rates stimulates the process of refinancing. A large number of Russians began to use loans at low rates to pay off debts from previous loans taken at higher rates. All the largest Russian banks offer to use refinancing (Shtepa, 2022). The fall in real incomes of Russians against the background of inflation and the debt burden of the population may become the main factor in reducing the rate of consumer lending in the future (Barsukov and Konorev, 2022).

Some Russian borrowers are trying to repay their loan debt to one bank using loan funds received from another bank. These borrowers often develop a pyramid of bad debts, the total amount of which increases, and these borrowers enter a state of debt overload. There are two trends in the bank consumer lending market, the first is the growing demand for personal loans and the second is the non-declining level of overdue debt on issued consumer loans. The latter factor, if the situation remains unchanged, may have a negative impact on economic growth in the future. Countering these negative phenomena is to increase the accuracy of banks' assessments of the creditworthiness of their potential borrowers (Medvedeva, 2022).

According to Mashkina and Grishina (2020) the greatest concern is the situation in the microfinance services market. For a potential borrower, turning to a microfinance organization rather than a bank is explained by such relative advantages as the speed of obtaining a loan, high approval level and a small number of documents provided, sometimes only a national ID is required. But the downside is the microfinance organization issues loans without properly assessing the solvency of citizens, thereby acquiring risks of non-repayment, which it compensates with huge interest rates.

The psychological state of individuals with credit obligations depends on the assessment of the financial burden as a risk factor or as a development opportunity, which is directly related to the financial situation of the borrower and his ability to repay the debt. Borrowers with a high level of credit burden and average incomes have the highest levels of anxiety and depression, since, on the one hand, these

people need to maintain a middle-class standard of living, and on the other hand, their availability of credit products is higher than that of people with low incomes (Parma and Kozlov, 2021).

2. Current regulatory approaches aimed at combating the debt load of the population of Russia

2.1. Loan restructuring

The population of Russia at the beginning of 2022 was estimated at 145 million people, of which approximately 112.5 million people are aged 18+. The current exchange rate of the national currency is now approximately 100 Russian rubles for 1 euro. The average net salary after income tax in Russia is about 55,000 Russian rubles (about 550 euros), and the median net salary after tax is about 42,000 rubles (about 420 euros), respectively. For the purposes of this article, I will in some cases equate mortgages with consumer loans for convenience, although legally in Russia consumer credit legislation is only partially applied to mortgages.

Starting in 2020, a number of federal loan holiday laws have been enacted that provide for deferrals of loan repayments. In addition, some banks have introduced their own loan restructuring programs that are additional to those prescribed by law. According to the Bank of Russia in a July 2023 survey of large and medium-sized banks, including all systemically important banks (July 2023) during March 2022–June 2023, they received 3.406 million applications from individuals to restructure loan agreements. The statistics of granted applications show that 1.617 million of these consumer loans were restructured for a total of 728.8 billion rubles. Also, 89.8 thousand restructurings were carried out on commercial loans to individuals, including loans to limited liability companies (LLCs) with one individual owner, for a total of 2.047 trn. Rubles (Bank of Russia, 2023). So, the number of commercial loans issued to individuals is less than consumer loans, but commercial loans are on average significantly higher in amount. A certain percentage of borrowers have both consumer and commercial loans, but there are no statistics on these cases. Although some people do not use unsecured loans at all, the Bank of Russia now estimates the average number of such loans for citizens who use them at 2.7 loans (Bank of Russia, 2023).

2.2. Limit of the interest rate and the ratio of the amount of debt/principal of the loan

In accordance with federal law, only professional lenders, namely banks, microfinance organizations (MFIs), pawnshops and consumer cooperatives, are entitled to consumer loans. More than 99.5% of loans by amount are issued by banks and MFIs, so usually the Bank of Russia and experts analyze only them in great detail. In addition, pawnshop loans are low-risk, since they are always fully secured by collateral. For these reasons, I will focus on bank and MFI loans. Consumer loans are not considered: a) that brokers issue to their clients for the purchase of securities (margin trading), b) employers' loans to their employees, c) intra-corporate loans between companies and their founders.

As of 1 January 2023, the Bank of Russia estimated the current number of individuals as follows: a) those who have loans in banks but do not have loans in MFIs at 38.5 million people with a total debt of 26.9 trillion rubles, b) who have loans in MFIs, but do not have loans in banks at 4 million people with a total debt of 1.8 trillion rubles and c) who have a loan from both a bank and an MFI in the amount of 3.6 million with a total debt of 0.1 trillion rubles, respectively (Bank of Russia, 2023). Also, about 0.1 trillion rubles was the total debt of individuals to consumer cooperatives and pawnshops (Bank of Russia, 2023).

According to federal law, the interest rate on a consumer loan cannot exceed two simultaneously applied limits of 292% per annum and also the average rate for the particular type of loans from specific type of creditors two quarters ago, multiplied by 1.33. Clients with bad credit scoring who are not given loans by banks turn to MFIs, where rates are often extreme. For example, now in the III quarter of 2023, the maximum permitted interest rate on unsecured general purpose loans (as usual credit cards when we speak of banks) in the amount of 200 thousand Russian rubles issued for a period of 180 days for banks is 20.46% for payroll clients and is 27.79% for non-payroll clients, respectively. Technically, this is the average market rate for similar loans of the 20 largest professional lenders of this type in Q1 2023, multiplied by 1.33. In both cases, a credit card grace period of 60–180 days is usually offered, but if the loan is not repaid in full, then full interest is charged retroactively for the entire period of using the loan, including for the grace period. However, on 16 August 2023, the Bank of Russia suspended all these ceilings for banks till the end of year. For similar microfinance organizations credits, the ceiling is 104.72%. With the amount of the same loan less than 100 thousand rubles, the permitted ceiling in an MFI will be 292% per annum for new credits issued starting 1 July 2023 (Bank of Russia, 2023). There are still many troubled MFI borrowers on the market with old loans that were issued in previous years at higher rates. Even at the beginning of the 2023, for some MFI loans, the allowed rate was 365% per annum.

Also, the Bank of Russia limits the coefficient ‘total payments on the loan/principal of the loan’ for loans issued for a period of not more than 1 year. As a general rule, for new loan agreements concluded from 1 July 2023, this coefficient cannot exceed 2.3. This means that the amount of accrued interest and fines under the loan agreement cannot exceed the principal multiplied by 1.3. In addition, the default penalty rate is limited to 20% per annum if it is combined with interest (the fine is charged both on the overdue principal and on overdue interest), and 36.5% per annum for interest-free loans, respectively. For example, if the principal is 100,000 rubles, then, as a general rule, the borrower must repay this principal and plus no more than 130,000 thousand rubles of interest and penalties (fines). However, this coefficient of 2.3 is not retroactive. A huge number of overdue old loans, issued earlier at a higher coefficient, remain on the market. Recently, in 2019, this coefficient was 3.5, then it was gradually lowered first to 3.0, then to 2.5, and from 1 July 2023, it was lowered again to 2.3, but only if the loan agreement was concluded starting from this date. Special limits are provided for microloans up to 10,000 rubles and repayment terms up to 15 days.

2.3. Restrictions on the types of collateral for certain types of creditors

Since November 2019, microfinance organizations are not entitled to issue new mortgage loans to individuals. Mortgage lending is allowed to them only when lending to companies.

2.4. Marginal debt burden and macroprudential regulation

From 2023, the Bank of Russia applies increased macroprudential requirements (limits and capital surcharges) if the Debt-to-Income Ratio (DTI) $> 80\%$. The indicator is defined as the ratio of a borrower's monthly payments on all outstanding loans and borrowings, including new loans (borrowings), to his/her average monthly income over six months.

Macroprudential limits is limiting the percentage of borrowers with DTI $> 80\%$ when issuing new loans/increasing limits on previously issued credit cards. This indicator should not exceed 20% for banks for new loans issued from 1 July 2023 (previously 25%), and 30% for MFI loans, respectively. Loans for a period of more than 5 years should not exceed 10% of the volume of consumer loans issued by banks. On the other side from Q3 of 2023, banks can calculate DTI on unsecured consumer loans issued for a period of more than 4 years, without the assumption that such loans will be repaid within 48 months as it was earlier.

Capital surcharges are set for: a) loans with an interest rate above 20% per annum, if DTI $> 80\%$, and b) in all cases, if the loan rate exceeds 35%. From 1 September 2023, surcharges will be applied more strictly, namely if: a) DTI $> 50\%$ regardless of the loan interest rate and b) for any loans at an interest rate above 25% per annum.

I believe that this regulatory approach has a number of disadvantages.

First, lenders, some of whom have accumulated significant excess capital, actually have the indulgence to lend to any junk borrowers until they run out of capital. Statistically, the percentage of clients with DTI $> 80\%$, in Q3 of 2023, although slightly decreased, amounted to 29% in banks and 30% in MFIs respectively (Bank of Russia, 2023).

Secondly, it is likely that wealthy citizens will be able to pay even 90% of their current income on a loan without difficulty. However, the assumption that the low-income part of citizens, after settling with creditors, will be able to live on 21% of their monthly income, is unrealistic. The federal law, adopted in 2022, introduced immunity from the collection of a part of the borrowers' income on loans in the amount of about 15,000 rubles a month, but how is it possible to live a month with children on 150 euros, and even one person without children?

Thirdly, how to correctly calculate the debtor's income? There is no unified method for calculating, so each professional lender decides this issue at his own discretion by means of mathematical modeling. At the same time, Russian banks object to the mandatory use in taking into account only the official income of the borrower on which income tax was paid, arguing that this will lead to a strong reduction in consumer lending. In order to maintain the level of lending, banks insist on continuing to use their own estimates of the unofficial income of borrowers. As a compromise, the Bank of Russia does not currently prohibit this practice, but most

likely the banks will be required to validate their methods for assessing the unofficial income of borrowers at the central bank. In addition, from 1 April 2024, the DTI indicator of a particular borrower, calculated by the lender, will be subject to transfer to credit bureaus, but without disclosing the calculation methodology. This will allow new potential lenders to visually see alternative estimates of the borrower's DTI, which were made in the past by previous lenders.

2.5. Simplification of procedures for personal out-of-court bankruptcy

Until 2015, there was bankruptcy in Russia only for commercial debts. Judicial personal bankruptcy for non-commercial debts appeared in Russia in 2015, and out-of-court bankruptcy in 2020 respectively. Judicial bankruptcy is applied: a) for large debts, the amount of which exceeds the limit allowed for out-of-court bankruptcy; b) at the request of creditors in case of serious abuses of the debtor, for example, if he hides assets; c) if 5 to 10 years have passed since the out-of-court bankruptcy of the same debtor, but this rule has just been revised and there will be a unified minimum 5-year interval between any personal bankruptcies.

In July 2023, a federal law was adopted to expand the out-of-court bankruptcy of individuals. The debt corridor at which it is possible has been expanded from 50,000–500,000 to 25,000 - 1 mln rubles, respectively. In addition, the period after which a new out-of-court bankruptcy is possible has been reduced from 10 years to 5 years. For new judicial bankruptcies, the period of 5 years remains, that is, there was a unification of the period through which a second personal bankruptcy is possible. I will come back to personal bankruptcies later.

3. The debt burden of the Russian population

According to the Bank of Russia, the share of individual loans in MFIs overdue by more than 90 days (NPL 90+) was at 35% on 1 January 2023. An increase in the share of extreme interest rate loans has allowed MFIs to improve profitability in 2022 despite the increase in their operating costs. Revenue of MFIs in 2022 increased to 314 billion rubles (annual growth of 60%), their net profit grew to 41 billion rubles (annual growth of 39%) respectively. MFIs portfolio of individuals loans (principal only without interest and fines) as of 1 January 2023 amounted to 291 billion rubles (annual growth of about 9%) (Bank of Russia, 2023).

As official statistics of the Bank of Russia show, in the first quarter of 2023, the microloan portfolio grew due to an increase in the volume of short-term and medium-term loans issued. Most of these loans were issued online. The share of individual loans in MFIs overdue by more than 90 days (NPL 90+) decreased by 1% in Q1 2023 and amounted to 34%. (Bank of Russia, 2023). Unfortunately, the Bank of Russia does not disclose the number of overdue MFI borrowers (NPL 90+) in absolute terms. According to the Bank of Russia, in the first quarter of 2023, the discount on assignments of MFIs to debt collectors averaged 84.6% (79.3% a quarter earlier). At the same time, a significant share of loans with extreme interest rates has allowed MFIs to increase profitability. Net profit of MFIs for Q1 2023 increased to RUB 13 billion, which is 2.7 times higher compared to Q1 2022 (Bank of Russia, 2023).

In fact, the business model of a part of Russian MFIs is not painstaking personal work with borrowers, seeking compromises with them, but assignments of bad debts to collectors with huge (80%–85%) discounts. But the situation with payment discipline is not very optimistic in the field of bank loans, although the quality of borrowers is higher there. In particular, in May 2023, the level of delinquency on bank credit cards increased sharply to 225 billion rubles—it updated its historical maximum, reaching 12% of the portfolio (Trifonova, 2023).

In **Figure 1** the first blue column shows court decisions on declaring citizens bankrupt and selling their assets. The second green column shows preliminary decisions of the courts on debt restructuring, when, in the opinion of the court, there is a chance to avoid full bankruptcy. However, in the future, real successful restructurings (the final decisions of the courts on restructuring is the third black column) are minuscule. After a preliminary decision on debt restructuring, cases move over time to the blue column, that is, citizens are declared bankrupt. In 2023, the growth trend of personal judicial bankruptcies of citizens continues to be observed. In January–June 2023, Russian courts declared 162.9 thousand citizens bankrupt, which is 34% more than in the first half of 2022.

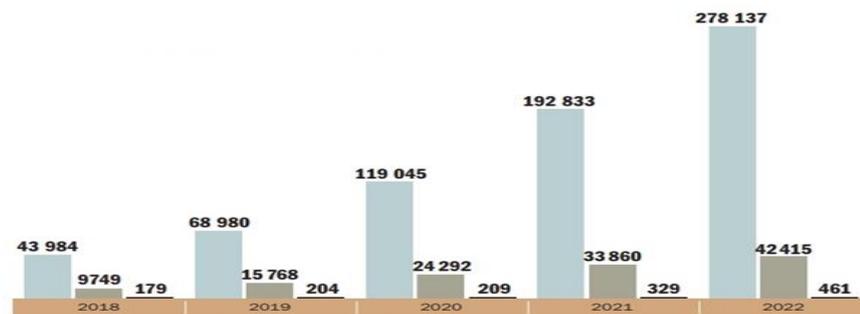


Figure 1. The statistics of judicial personal bankruptcies in Russia in 2018–2022 (Gerashchenko, 2023).

In January–June 2023, an insignificant number of Russians, 5.13 thousand, were admitted to out-of-court bankruptcy, and 2.17 thousand applicants were denied. In total, from the moment of out-of-court bankruptcy appearance in Russia from 2020 to June 2023, 18.7 thousand Russians underwent this procedure with a total debt of 6.44 billion rubles, that is, an average of 344.4 thousand rubles per person (Almakunova, 2023).

These figures confirm the existence of a huge overhang of ‘bad debts’ in the Russian economy, which, most likely, will be settled through judicial or out-of-court bankruptcy. As already noted, Russian citizens have the right to re-initiate their bankruptcy only 5 years after the previous bankruptcy. It is not clear what will happen when, 1–2 years after the previous bankruptcy, these people will again fall on excessive credits?

Professional lenders are required by law to report to credit bureaus all loans and all delinquency, even if not confirmed by a court or notary order. Bailiffs have the right, at their discretion, to report to credit bureaus information only about citizens’ debts for utilities and alimony, but in practice they almost never do this, since this is additional optional work for them. Information about any other debts of citizens,

including compensation for damages from crimes, cannot be reported to the credit bureaus by law. I believe that the introduction of obligatory bailiff reports to credit bureaus for overdue debts, other than loans, would improve the quality of credit scoring and give a more adequate picture of the personal financial situation of individual borrowers. True, for the Bank of Russia, in terms of scoring, it is now the first priority to try to introduce a report of retailers on installment plans for the purchase of goods.

According to Russian Federal Bailiff Service (FSSP), which executes all court and notarial orders for debt collection, the enforcements of orders on debt collection is mainly hampered by the low solvency of citizens with obligations for taxes and utilities, their debt load and the lack of collateral for loans issued (Almakunova, 2023). According to Russian law, federal bailiffs have the right to prohibit debtors from leaving the country until the debt is fully repaid/restructured/individual declared bankrupt, if the amount of the overdue debt of an individual exceeds 30,000 rubles (except for alimony, where this amount is lower and is 10,000 rubles). These bans are seen by officers of the Federal Border Service at checkpoints on state borders in their database, so they do not allow such citizens to leave the country. Unfortunately, the FSSP officially disclose only the total amount of bans and separately the amount of alimony based bans. I summarize this data in **Table 1**.

Table 1. Bans on traveling abroad due to overdue debts, citizens (borrowers).

	31 December 2018	31 December 2019	31 December 2020	31 December 2021	31 December 2022	31 December 2023
Total bans due to overdue debts incl. alimony	2,614,261	3,208,800	3,825,124	4,596,759	6,533,547	8,500,000* (*my personal estimation)
Alimony only	515,859	532,693	532,604	512,404	501,461	

Source: The Russian Federal Bailiff Service (FSSP).

Part of 2022 increase is due to the automation of the travel ban procedure that FSSP implemented in 2022, which allowed older debts from previous years to be more fully accounted for. On the other hand, this growth is largely due to new credit debts. I expect further growth in 2023 in the rate of citizens who are prohibited from traveling abroad for overdue debt.

There is no doubt that the level of non-credit debts of citizens is a factor that affects the payment discipline for loans. According to FSSP, more than 95% of overdue non-commercial debts of citizens fall into four categories: a) loans to professional lenders, b) utilities, c) alimony; d) compensation for damages to victims of crimes in criminal proceedings. There are many people with debts of several of these categories at the same time, but unfortunately, there are no statistics on overlaps.

Table 2 below shows that debtors usually fall into categories a) or b). Category c) is characterized by high stability. Category d) is growing in the number of debtors while reducing their consolidated debt. It is possible to assume that the number of very petty criminals is growing, but this issue requires a separate analysis, which is beyond the scope of this article.

Table 2. Judicial and notarial orders to recover non-commercial debts from individuals on enforcement of the Russian Federal Bailiff Service (FSSP).

	Amount of files (debtors) 31 July 2023/ 1 January 2022	Total debt (billion Russian rubles) 31 July 2023/ 1 January 2022
a) Loans to professional lenders, excl. commercial loans	12,951,991/9,182,652	2010 /1803
b) Utilities	3,694,741/3,112,924	89.7/82.8
c) Alimony	786,933/782,505	162.3/170.0
d) Compensation for damages to victims of crimes in criminal proceedings	396,750/293,951	623.9/684.2

Source: My calculations based on the Russian Federal Bailiff Service data.

Table 2 does not take into account the commercial debts of individuals, which may be important since some individuals have both commercial and consumer debts simultaneously. The problem is that the FSSP technically treats individual commercial debts of small entrepreneurs as corporate debt on a consolidated basis, without splitting it between companies' corporate debt and individual commercial debt. A similar methodology is followed by the Bank of Russia in its official statistics on overdue commercial debts (Bank of Russia, 2023). This may lead to an underestimation of the level of personal debts of individuals. However, indirectly through the statistics of applications for debt restructuring, which was given above at the beginning of the article, it can be argued that the number of such borrowers in absolute terms is insignificant.

Russian mortgage lenders are better protected than non-mortgage lenders, but there is a problem of an increase in cases when borrowers take a down payment on a mortgage loan from another bank as a separate consumer loan. The law prohibits underwater mortgages, namely, if, when issuing a mortgage loan, the property is valued not lower than the principal of the loan being issued, then the borrower in the future in case of default does not owe the lender anything, except for the collateral. The only dwelling of the debtor, as a general rule, is immune from foreclosures on the claims of creditors, if it has not been directly transferred to the mortgage. As an exception, if a single residence is found to be luxurious, it may be collected in personal bankruptcy for a non-mortgage debt, but in this case, creditors are required to buy and transfer ownership to the debtor for living in another reasonable level apartment. In practice, this rarely happens.

Russian banks do not consider mortgages to be a high-risk type of loan, for reasons including the fact that, in accordance with the federal law, the preservation of the subject of mortgage is always insured at the expense of an individual borrower in favor of the bank. However, the apparent constant expansion of mortgages, including those under various preferential government programs, obviously reduces the ability of households to service other loans normally. The reason is that households usually have only 20,000–25,000 rubles (200–250 euros) per person monthly left after paying the mortgage and utility bills. Most often, these programs support the purchase of only primary housing, because there are two political goals

at the same time to support the construction industry and improve the housing level of the population.

There are currently 6 credit bureaus in Russia, but two of them are very small and will likely leave the market. In fact, individuals' credit reports are concentrated in 'Big Four' bureaus, which the Bank of Russia has assigned the official status of 'qualified'. Their databases overlap, as a significant proportion of professional lenders voluntarily report their loans to several bureaus. The systemically important banks are required by law to report every loan issued to individuals to at least two bureaus simultaneously.

The banks which are the stock market brokers and the non-bank brokers do not report their margin loans to the credit bureau. This probably leads to the fact that information about some of these borrowers is not in the credit bureaus.

4. Expediency of quantitative restrictions on the issuance of loans to specific borrowers

At my request, the Scoring Bureau, one the Russian 'Big Four' bureaus (until August 2022 called Equifax Russia) provided me with consolidated data.

My methodological assumptions. Undoubtedly having a mortgage can negatively affect a debtor's ability to service his other loans. However, from the point of view of current public policy, it is completely unrealistic to prohibit citizens from taking even one mortgage loan, because people cannot live on the street. Of course, not all housing is mortgaged, however, former state-owned housing, built in 1950–1980, which citizens massively received for free from the government during privatization in the 1990s, is usually small in size and gradually deteriorates. In addition, Russian families usually have 2 children, who, when inheriting their parents' old housing, most often prefer to sell it, divide the money equally and buy themselves more comfortable housing. In such situations, it is not uncommon to have 3 sales and 3 mortgages under each of these sales respectively. Alternatively, one of the children moves into the inherited premises and becomes its sole owner, but in this case takes a bank loan secured by inherited property to pay half the market value of the house or apartment to a brother or sister. Also, I take into account that only a small number of wealthy people in Russia have two mortgages at the same time, so they can be ignored in order to develop a mass political solution. For these reasons, I conditionally assume in my model that a borrower always has a 1 mortgage loan.

It is better, other things being equal, to evaluate households rather than individuals, but this is impossible in relation to my study for two reasons. The first reason is that credit bureaus in Russia record loans from individual borrowers, not households, and credit scores are calculated on a per-person individual basis. The second reason is that if a Russian borrower is married, then as a general rule, unless the contract establishes a different regime, the borrower's spouse is not obliged to pay the mortgage loan and has no rights to the subject of the mortgage. Accordingly, both spouses are a) co-borrowers of the mortgage loan, or b) alternatively, from a financial point of view, the spouse has nothing to do with this loan.

In the Russian expert community, no one disputes that if a borrower has 5 or more non-mortgage loans at the same time, then this often means a default, on the

contrary if there is only 1 non-mortgage loan this rarely leads to a default. Therefore, I focus on the controversial borderline situations of a borrower having 2–4 non-mortgage loans at the same time. For the purposes of my research, I treat bank borrowers and MFI borrowers as two separate categories. This approach is justified by the fact that in Russia, bank borrowers are trying to avoid expensive loans from MFIs. Sometimes bank clients occasionally situationally take one loan in parallel from an MFI and repay it normally, however, such people are less than 5% of the total number of clients of Russian MFIs. If the borrower has two or more loans at the same time in the MFI, then banks will usually further qualify him as an unreliable borrower. Accordingly, the tolerance limit for banks is one current loan in an MFI, provided that there are no overdue payments on it.

In **Table 3**, I demonstrate the rate of current Russian borrowers who has taken a current loan to default (NPL 90+ on at least one loan) with the following combinations of his/her loans, 31 August 2023, N = 54.2 mln (about 48% of the Russian population 18+).

Table 3. Default rate of Russian consumer credits borrowers.

	N = number of borrowers of relevant group, mln	Defaults, mln borrowers	Default rate, %
2 non-mortgage bank loans	10.782	0.798	7.4
3 non-mortgage bank loans	6.213	0.455	7.3
4 non-mortgage bank loans	3.668	0.268	7.3
2 MFI loans	1.849	0.683	37.0
3 MFI loans	1.363	0.504	37.0
4 MFI loans	0.971	0.365	37.6

Source: The Scoring Bureau at my request.

5. Conclusion

I propose to introduce such measures in order to combat the debt load of the Russian population.

1) Establish a legislative ban on issuing to individuals the 2d MFIs loan.

2) Cases should be eliminated when overdue debts executed by bailiffs, including non-credit ones, as well as margin loans, may not be reported to credit bureaus. This will require a change in legislation and the introduction of an automatic system for the exchange of information between bailiffs and credit bureaus, since bailiffs are not physically able to submit this information manually.

3) It important to change the order of payments of the debtor, since the current order established by the federal pledge (first the overdue amounts, after them the penalty, after them the current interest, then principal) is mistaken. It contributes to the indebtedness of debtors, since they cannot stop the expansion of debt if they do not have enough money to pay all current debt.

Acknowledgment: In part 3 of the paper, I use data provided at my request by the credit history bureau Scoring Bureau (previously until August 2022 called Equifax

Russia). I express my sincere gratitude to this company. The specified company can confirm the correctness of my presentation of the statistical information provided to it at the request of the editors of the journal. Publication of the consolidated results of statistical processing of personal credit reports does not violate the Russian law. The personalized credit reports of individuals that have been processed are confidential and cannot be disclosed.

Conflict of interest: The author declares no conflict of interest.

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