INFRASTRUCTURE, HOUSING & SME FINANCE DEPARTMENT

# Quarterly Housing Finance Review

## January-March 2011


**Team Members**

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The Infrastructure, Housing & SME Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ending March 31, 2011.

This review contains data on housing finance, collated on a periodic basis from public sector banks, private banks, foreign banks, DFIs and House Building Finance Corporation (HBFC). It portrays trend of different parameters like disbursements, outstanding and recoveries. Some news pertaining to housing & housing finance are also presented in it.

# Contents

## State of Housing Finance

In Pakistan, rapid urbanization has become a challenge for increasing number of people. Studies indicate that lack of finance from a formal source is primarily a supply-side problem. Most of the housing finance is arranged through personal resources. The formal financial sector caters to only 1 to 2 percent of all housing transactions in the country, whereas the informal lending caters up to 10-12% of such transactions. Presently, the formal financial sector provides housing support through two major sources namely the Government owned House Building Finance Corporation (HBFC) and private commercial banks.

The property development industry suffers from low public confidence. Financial weaknesses and the absence of clear, uniform and fair business practices have affected its credibility contributing to the reluctance of financial institutions in providing development and construction finance. There is a strong need to strengthen the property titling and land administrative procedures including improvements of the legal provisions, standardization of processes, and computerization of all relevant revenue records. These steps will enhance the financing by the formal sector. Weakness in the existing legal framework also impedes the financing opportunities of the formal financial sector. Though the Financial Institution Recovery Ordinance, 2001 empowers the financial institutions in case of default to foreclose a mortgage property without recourse to the court of law, lack of full implementation of the recovery law in its letter and spirit dilutes its effectiveness in protection of rights of the respective parties, i.e., the financial institutions, mortgagors, landlords and tenants, thus needing a major improvement.

Although the regulatory framework for land registration and transfer regime exists in Pakistan, the process by which land is acquired and registered is cumbersome at times, because of number of institutions and registration procedures required to execute property transactions. Land records are manually maintained leading to errors and omissions and resultantly they have modest commercial value for the mortgagee financial institutions especially in rural and some urban areas. The lack of efficient and reliable system of ascertaining the bona-fide of property titles has forced banks to limit the access of housing finance to a certain number of urban localities within the urban centers.

National and local master plans for town planning and housing facilities are either inadequate or poorly enforced, which lead to inefficient allocation of land and uncontrolled urban development. Lack of transparency and accountability in the planning process also give opportunities to land grabbers/mafias to have valuable inside information as to future infrastructure developments or to be able to influence such plans so that value of its land increases. Over-restrictive building codes and laws on subdivision limit the efficient use of urban land and increase the price to consumers, especially in zones having relatively higher prices of lands in high land price zones. Moreover, the large scale projects often get delayed due to failure of utility companies in connecting new housing developments in time.

The "property valuers" have professional conduct requirements that were established by SBP and the Pakistan Banks' Association (PBA), whereas majority of real estate builders and developers are working as sole proprietorships or partnerships with limited capital and informal corporate governance structures. Absence of sound governance structure within the housing developer industry creates lack of good practices, illegal construction, unreliable building permits, and legally unprotected advance purchase of units that are required to be built in future. The unstructured and unsupervised nature of business of real estate brokers/ agencies, which could serve as natural arrangers for the provision of financial services, is also a significant constraint to the provision of housing and housing finance. Consequently, it is difficult for financial institutions to verify the character, capital, and capacity of potential clients. Risk assessment and portfolio valuation is also fragile, which is another factor for the lenders' extreme caution for transaction initiated by these venture. As a result, financial institutions are reluctant to enter this market, which in turn causes scarcity of finance and constraints in the supply of housing. In the absence of the formal arrangements between the housing developers/real estate agents etc and financial institutions, the protection of individual purchasers remains limited as the market is dominated by cash transactions with limited availability of systematic information in a transparent manner. Without using a strong regulatory authority to enforce corporate governance and allied standards for this stratum of business entrepreneurship, the quality of availability of housing facilities across population spectrum will not improve.

At present, 27 commercial banks, House Building Finance Corporation (HBFC), one DFI and two microfinance banks are catering to housing finance needs. HBFC is the only specialized housing bank in the country, which has been providing housing finance to public since 1952. Commercial banks entered the mortgage business during 2003 contributing very small share in the housing finance system. Although HBFC's share in the total housing finance has reduced in absolute terms, it is still the only institution that continues to cater to the lower-middle and low-income groups and enjoys the largest customer base. Recently microfinance banks have also started serving the lower-middle income groups.

After demonstrating a promising growth trend till 2008, the housing finance sector has recently been showing a declining trend. The total outstanding reported by banks and DFIs as on March 31, 2011 was Rs. 65.43 billion as compared to Rs. 71.97 billion as on March 31, 2010 (a decline of 9.08**%**) and Rs. 67 billion at the end of Dec, 2010. The total number of outstanding borrowers has also decreased from 110,512 to 94,497 since March 31, 2010; showing a fall of 14.49%.

Approximately 1,403 new borrowers were extended house finance during the quarter (Jan-Mar, 11), accounting for Rs. 4.31 billion of new disbursements. HBFC accounted for 25.58% of these new borrowers and contributed 10.48% of the new disbursements equivalent to Rs. 452 million.

Financing for outright purchase continued to dominate financing for construction and renovation by comprising almost 57% share in gross outstanding portfolio. Outstanding portfolio for construction and renovation was 34% and 9**%** respectively.

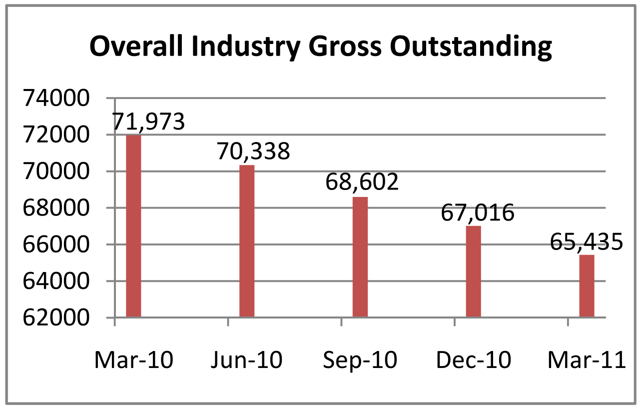
Non-performing loans have increased from Rs. 16.83 billion (March 31, 2010) to Rs. 18.93 billion (March 31, 2011); a 12.48% increase over the year. The stock of NPLs as on Dec 31, 2010 was Rs. 18.54 billion. However; this rise in NPLs is not unique to housing finance and is only depicting the overall increase in NPLs of all sectors witnessed in the banking industry during the past year.

# Major Trends

## Gross Outstanding

The total outstanding finance as on March 31, 2011 of all banks and DFIs stood at Rs. 65.43 billion, as compared to Rs. 67 billion as on December 31, 2010, showing a decrease of Rs. 1.57 (2.34%). Compared to quarter ending March 31, 2010, outstanding of all commercial banks and DFIs collectively decreased by 9.08%.

**Figure a**




Banking sector-wise total outstanding on quarters ending March 31, 2010 & 2011 are shown in Figure 1. Of the total outstanding as on March 31, 2011, commercial banks accounted for Rs. 51.36 billion; a 9.22% decline since quarter ending March 31, 2010. Private banks reported Rs. 32.02 billion followed by Islamic banks of Rs. 9.67 billion, public sector banks of Rs. 9.28 billion and foreign banks with Rs. 0.387 billion. The outstanding loans of HBFC were Rs. 13.76 billion; down by 8.29% over the last year. Other DFIs have a meager share of Rs. 0.307 billion in outstanding loans.

**Figure 1**

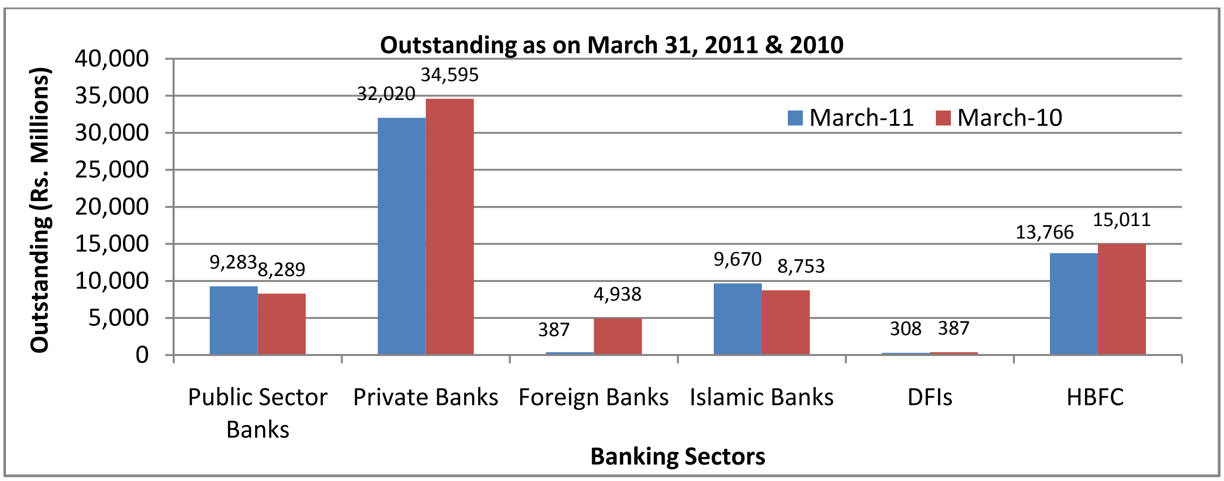
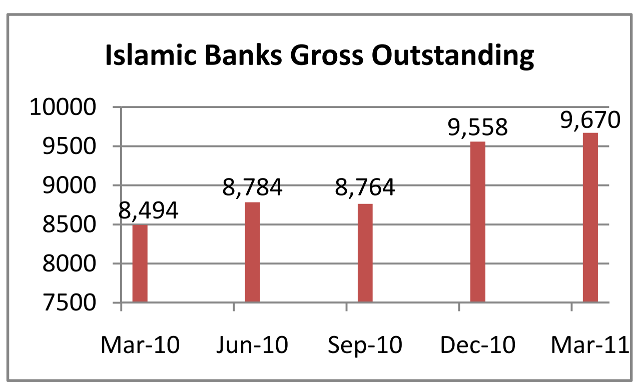



**Figure b**

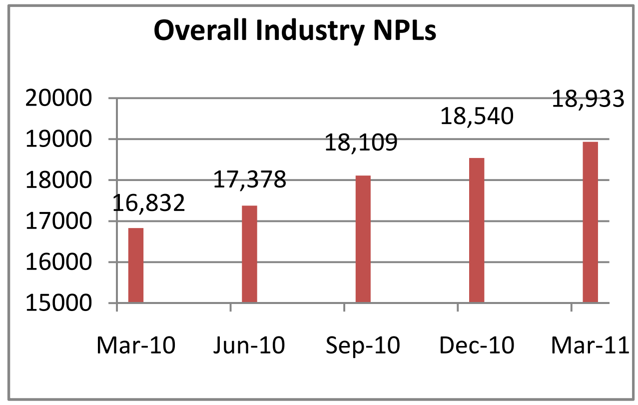
The total outstanding housing finance as on March 31, 2011 of Islamic Banking Industry (05 Islamic Banks & 13 Islamic Banking Divisions of Conventional Banks) stood at Rs. 13.96 billion. Compared to quarter ending Dec 31, 2010 (Rs. 14 billion), outstanding of Islamic banking Industry decreased by 0.28**%.**




Of the total outstanding Islamic housing finance, Islamic banks accounted for Rs. 9.67 billion (a 1.25% increase over the last quarter Dec - 2010) as shown in figure b and IBDs of conventional banks posted Rs. 4.28 billion (a 3.60% decline since quarter ending Dec 31, 2010).

## Non-Performing Loans

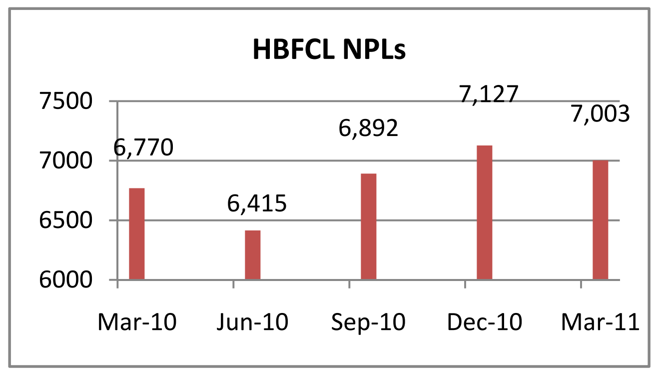
Figure c




NPLs have increased from Rs. 16.83 billion (March 31, 2010) to Rs. 18.93 billion (March 31, 2011); a 12.48% increase during the year. The stock of NPLs as on Dec 31, 2010 was Rs. 18.54 billion, showing an increase of 2.10 % during a quarter (Jan-Mar, 2011) as shown in figure c. Figure 2 shows a comparison of existing NPLs status of different banking sectors with last year. Figure 3 compares NPLs as a percentage of outstanding portfolio at the end of quarters on March 31, 2011 and March 31, 2010. NPLs as a proportion of total outstanding have witnessed an increasing trend over the last twelve months. This overall rise in NPLs is primarily due to rising inflation and high interest rates.

HBFC's NPLs have increased from Rs. 6.77 billion to Rs. 7 billion during the year; a 3.45% increase as shown in figure d.

Figure d




Although growth of its NPLs remains relatively low in absolute terms when compared to some of the other banking sectors, its percentage share in its total outstanding, however, is the greatest, as 50.87% of its total outstanding constitutes NPLs (Figure 3). HBFC's percentage share in total NPLs is 36.97%.

Excluding HBFC, NPLs for all banks and other DFIs have increased by 18.55% over the year from Rs. 10.06 billion to Rs. 11.92 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFC) constitute is 23.09% of their total outstanding portfolio, compared to a 17.66% as on March 31, 2010.

Among banks, non-performing finances (NPFs) of Islamic banks witnessed the sharpest increase of almost 78.60% during the year, from Rs. 824 million to Rs. 1.47 billion. Their NPFs constitute 7.78% of total outstanding, which was only 4.90% on March 31, 2010. NPLs of the public sector banks have increased from Rs. 1.25 billion to Rs. 2.12 billion (an increase of 69.61%) which are 11.23% of total outstanding. Private banks' NPLs have increased by 16.05%, from Rs. 6.98 billion to Rs. 8.10 billion which is 42.82% of their total outstanding as against 41.50% on March 31, 2010. NPLs of foreign banks as a percentage of their outstanding portfolio increased significantly from 18.64% at the end of last year to 29.79%. However in absolute terms NPLs have increased only marginally as their portfolio has been significantly reduced due to take over of RBS portfolio by Faysal Bank. NPLs of DFIs (excluding HBFC) have increased from Rs. 79 million to Rs. 109 million, a 38.28% increase with 35.32% of its total outstanding classified as NPLs, which was 20.32% on March 31, 2010.

Figure 2

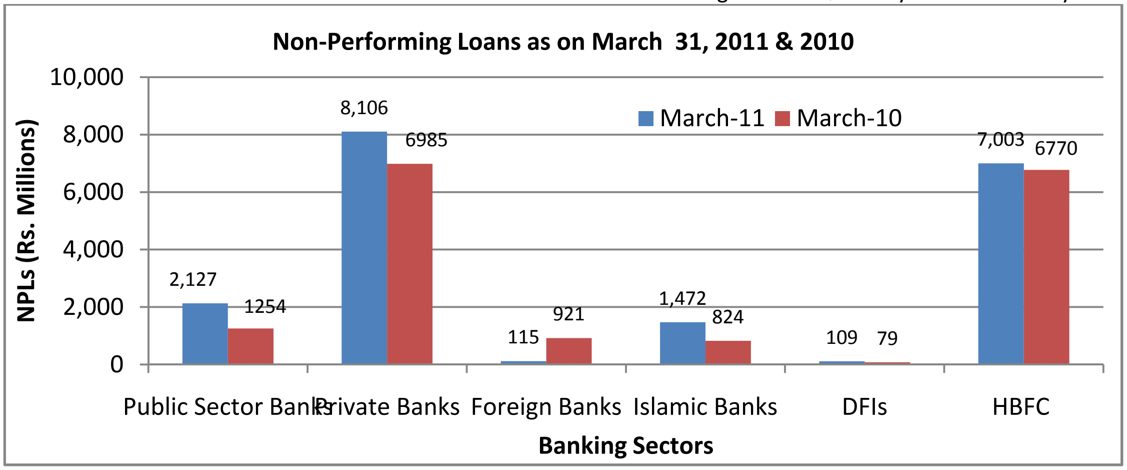



**Figure 3**

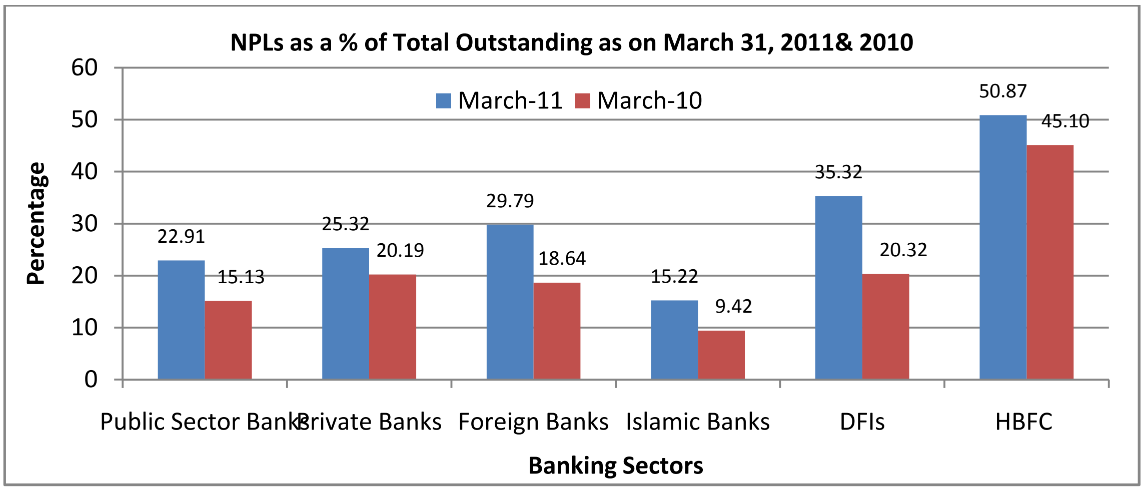
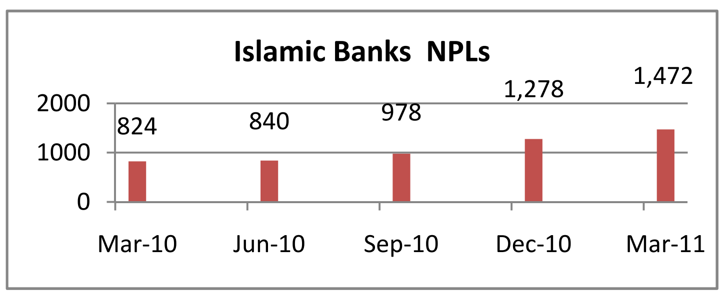



**Figure e**

Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported 2.26 billion on March 31, 2011, which were Rs. 2.05 billion at the end of last quarter (Sep-Dec, 2010) showing an increase of 9.84%.




## Number of Borrowers

Total number of outstanding borrowers has decreased from 110,512 to 94,497 since March 31, 2010; a decline of 14.49%. As shown in Figure 4, there is a decrease in no. of borrowers in each category except Islamic banks, where numbers increased from 2,079 to 2,831.

**Figure 4**

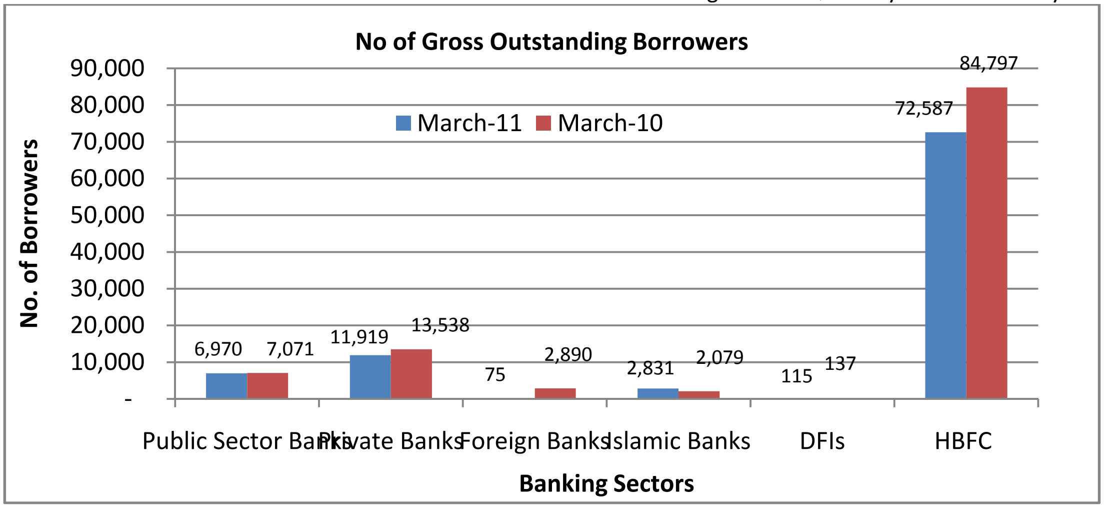
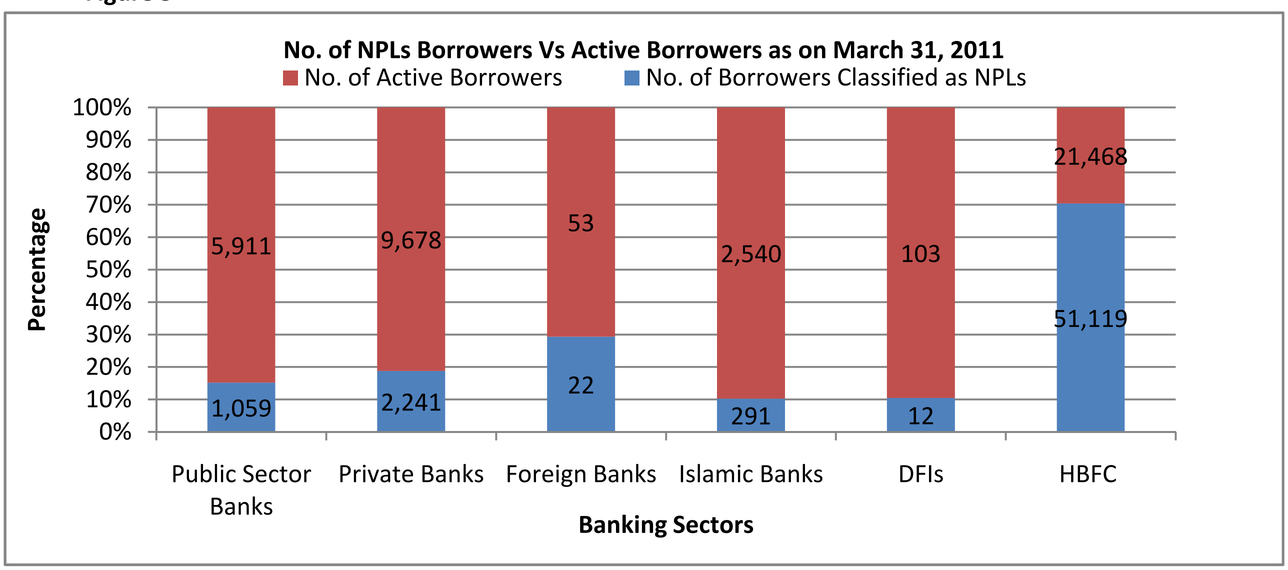



Figure 5 shows number of borrowers that has been classified as NPLs as a percentage of total borrowers. In terms of numbers, approximately 57.93% of total borrowers of housing finance borrowers have been classified as non-performing. However, this is primarily due to HBFC's number (51,119) of non-active borrowers, classified as non-performing, which comes to 70.48% of its total borrowers. Thus, excluding HBFC in such an analysis will be important as it caters to 79% of the total borrowers in housing finance sector which accounts for only 21% of total outstanding portfolio. Thus, by excluding HBFC, 17% of total borrowers of housing loans have been classified as non-performing.

**Figure 5**

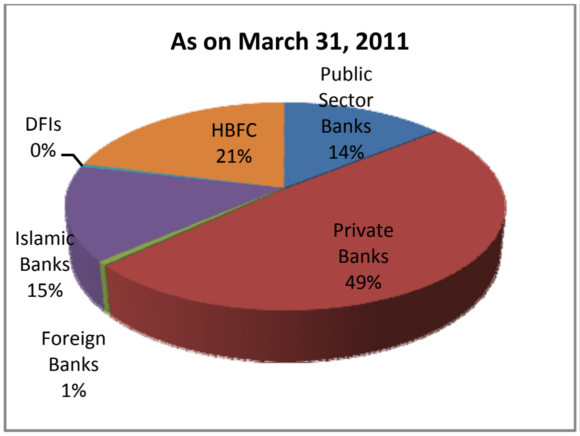


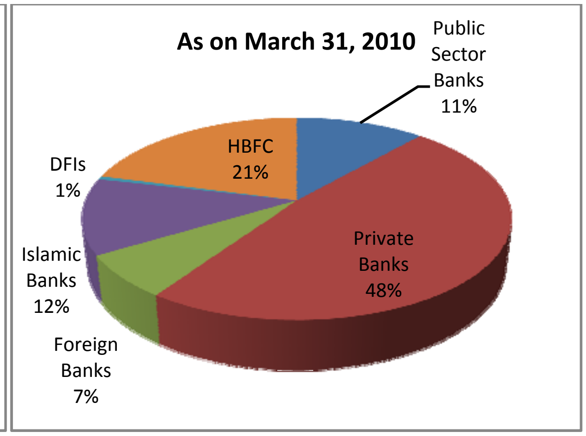

Total number of customers served by Islamic Banking Industry increased from to 4,004 to 4,065 (an increase of 1.52%) since Dec 2010.

## Share of Banks

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) remained the same since the end of last year, as 79%. In comparison with last quarter (Dec 2010), there was no change. Within commercial banks, the share of private banks in the total outstanding increased marginally from 48% to 49% and the share of foreign banks decreased from 7% to 1% due to take over of RBS portfolio by Faysal Bank (Figure 6). The share of public sector banks and Islamic Banks in the total outstanding increased from 12% to 14% and 12% to 15%. Share of HBFC remained the same since the end of last year 21%.

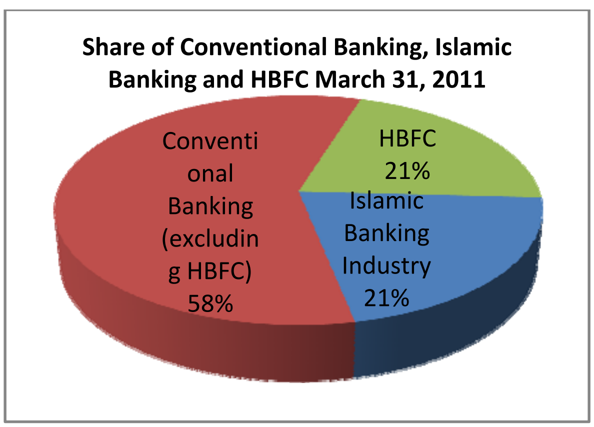
**Figure 6: Share of Banks in Total Outstanding**




The share of Conventional Banking (excluding HBFC), Islamic Banking Industry and HBFC in the total outstanding was 58%, 21% and 21% respectively on March 31, 2011 (Figure 6.1). IBDs (13 windows) and Islamic banks (05 banks) have 69% and 31% share in housing finance portfolio of Islamic Banking Industry (Figure 6.2), which shows that conventional banks also consider the Islamic mode of financing an important part of their business strategy. One of reasons of increasing Islamic banks outstanding portfolio is the purchase of Citibank's portfolio of Rs. 888 million by BankIslami in the quarter ending Dec 31, 2010.

**Figure 6.1: Share of Islamic Banking Industry & Conventional Banking in Total Outstanding.**



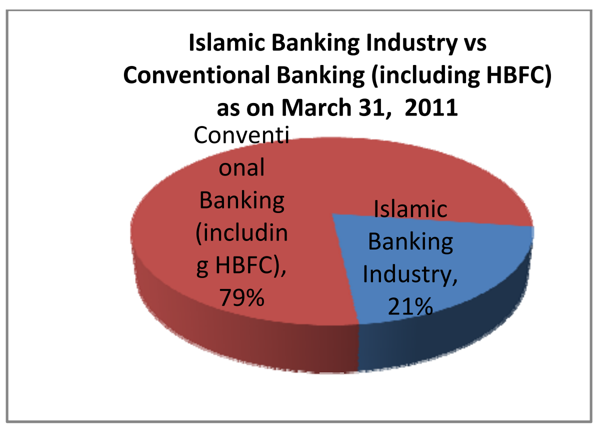
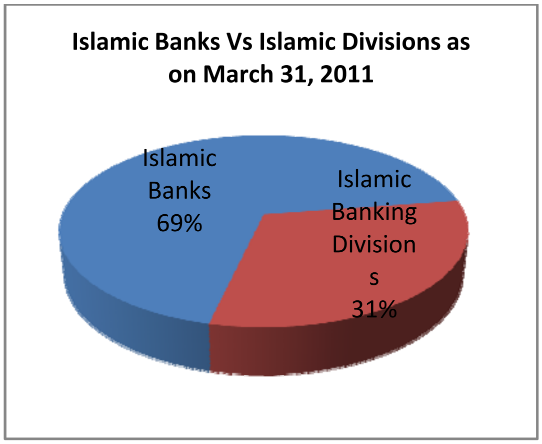
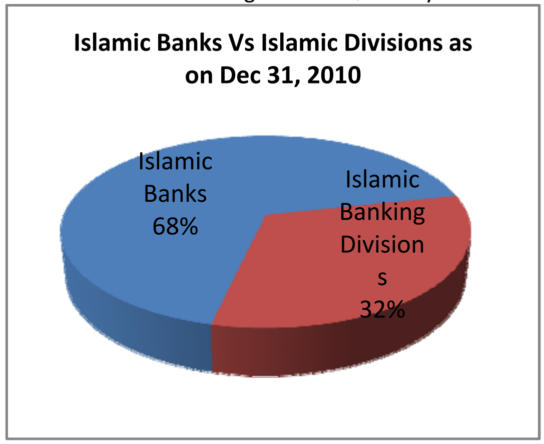




**Figure 6.2: Share of Islamic Banks and Islamic Banking Divisions within Islamic Banking Industry in Total Outstanding.**

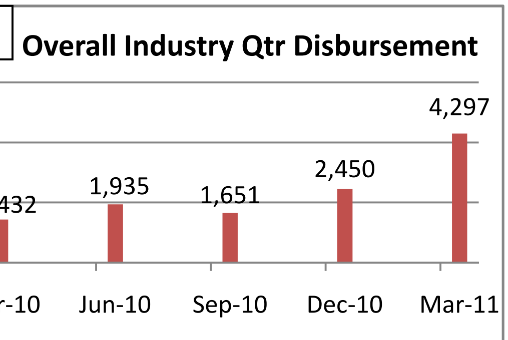



## Disbursements

Fresh disbursements to the tune of Rs. 4.31 billion were made to 1,403 borrowers during the quarter ending March 31, 2011 (Table 1) Private banks extended new disbursements with Rs. 3.44 billion followed by Islamic banks with Rs. 329 million public sector banks with Rs. 72 million and foreign banks with Rs. 0.31 million. HBFC's fresh disbursements for the quarter were reported to be Rs. 452 million. Among commercial banks, the number of new borrowers totaled 1,044, with private banks serving 938 borrowers and Islamic banks 78 borrowers. HBFC extended loans to 359 new borrowers during the reporting quarter.

Figure f




Fresh disbursement for Islamic Banking Industry was Rs. 846 million to 158 new borrowers during the quarter ending March 31, 2011 (Table 1). This includes new disbursements of Rs. 517 million to 80 customers by IBDs of conventional banks.

Figure g

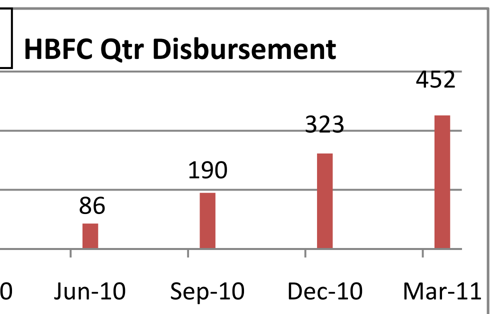



**Table 1**

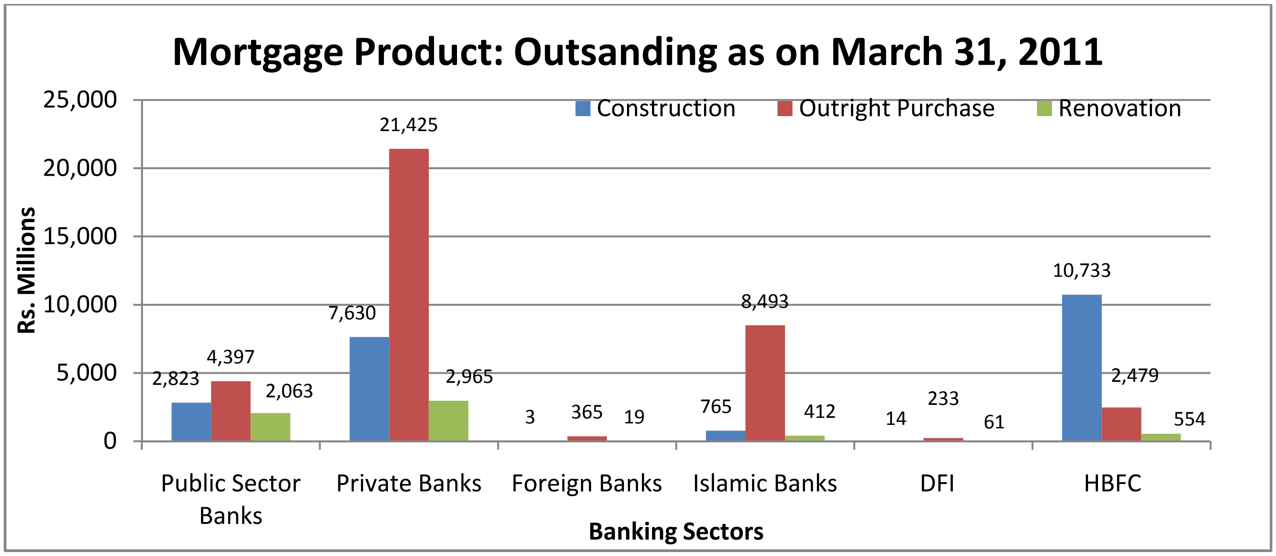
New Disbursements during the quarter ending Mar 31 2011

| | Amount (Rs. Millions) | No. of Borrowers |
|---|---|---|
| Public Sector Banks | 72 | 20 |
| Private Banks | 3,442 | 938 |
| Foreign Banks | 0.31 | 1 |
| Islamic Banks | 329 | 78 |
| **All Banks** | **3,863** | **1,044** |
| DFIs | - | - |
| HBFC | 452 | 359 |
| **Total** | **4,315** | **1,403** |
| **Islamic Industry** | **846** | **158** |

## Sectoral Share

The biggest share of housing finance continued to be attracted towards outright purchase (Figure 7).

**Figure 7**




The outstanding for outright purchase stood at Rs. 37.39 billion as on March 31, 2011; a 57% share in total outstanding of Rs. 65.43 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 21.96 billion and that of renovation stood at Rs. 6.07 billion. Active portfolio shows that private banks have taken a lead in financing for all three sectors; construction 43%, outright purchase 54% and renovation 39%.

## Housing Finance Business of Micro Finance Banks:

### Gross Outstanding

The total outstanding housing finance as on March 31, 2011 of Micro Finance Banks (MFBs) stood at Rs. 161.60 millions, which was Rs. 152.14 millions at the end of Dec 31, 2010, showing an increase of 6.22%, over the last quarter.

### Number of Borrowers

Total number of outstanding borrowers has increased from 2,121 to 2,222 since Dec 31, 2010; an increase of 4.76%.

### Non-Performing Loans

NPLs for Micro Finance Banks have increased from Rs. 1.46 million (Dec 2010) to Rs. 1.25 million (March 2011); a 14.38% decrease over the last quarter. NPLs of MFBs arising out of housing finance business are around 1% of their outstanding housing finance portfolio.

## Analysis of Loan Variables adopted by Banks/DFIs & HBFC

Tables 2, 3 & 4 summarize loan variables across all banking sectors including weighted average interest rate, Loan-to-Value ratio (% financing by banks), average maturity period, average loan size and average time for loan processing.

### Weighted average interest rate

The overall weighted average interest rate was 17.2% at the end of the current quarter. Highest weighted average profit rate was reported by HBFC 17.5%, followed by Islamic banks 17.3%, private banks' 17.1% while public sector banks 16.8% while foreign banks average came to 14.1%.

### Average maturity periods

Average maturity period of outstanding loans as on March 31, 2011 came to 13.4 years, which is high as compared to quarter ending March 31, 2010 when it was 12.5 years. HBFC's average maturity period is reported to be 13.5 years, while that of Islamic banks is 12.2 years. Table 1 shows that among commercial banks, foreign sector banks have extended housing loans for an average tenure of 20 years followed by private sector banks with 13 years and public sector banks with 13.2 years

### Loan to Value ratio

The percentage of financing (Loan to Value ratio) extended by banks and DFIs decreased during last year (Table 3) from 54.9% to 48.5%. Average LTVs of commercial banks have decreased from 55.4% to 48.5%. The average LTV for HBFC has decreased from 65% to 44.7% during the last year, which is a significant change.

### Average time for loan processing

The reported average time for loan processing is approx. 29 days for all banks and DFIs (except HBFC), which was 23.5 days in March 31, 2010. Average time taken by HBFC presently is 39 days which is significantly high than 30 days reported last year. This has increased overall industry average to 33.9 days. Currently, the application processing of most of the banks is a centralized process, where branches forward applications to central branches/head offices for assessment and approvals.

### Average loan size

Average loan size for disbursements made during the quarter ending March 31, 2011 is Rs. 3.5 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 1.2 million for the reporting quarter. Islamic as well as private banks reported an average finance size of Rs. 2.1 and 4.5 million, foreign banks Rs. 2.4 million and public sector banks reported Rs. 2.5 million. The housing finance market is still inclined towards lending to high income groups.

**Table 2**

| | Weighted Average Interest Rate (%) | | | | | Average Maturity Period (Years) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-11 | Dec-10 | Sep-10 | June-10 | Mar-10 | Mar-11 | Dec-10 | Sep-10 | June-10 | Mar-10 |
| Public Sector Banks | 16.8 | 15.9 | 13.8 | 13.7 | 16.2 | 13.2 | 10.6 | 9.8 | 11.3 | 11.3 |
| Private Banks | 17.1 | 16.4 | 15.0 | 15.1 | 14.5 | 13.0 | 11.0 | 10.0 | 13.0 | 12.2 |
| Foreign Banks | 14.1 | 15.7 | 16.9 | 16.3 | 16.7 | 20.0 | 14.8 | 9.5 | 11.6 | 14.5 |
| Islamic Banks | 17.3 | 16.6 | 16.3 | 16.9 | 16.7 | 12.2 | 10.0 | 11.4 | 12.6 | 11.4 |
| **All Banks** | 16.9 | 16.3 | 15.5 | 15.5 | 15.4 | 13.2 | 11.1 | 10.4 | 12.3 | 12.3 |
| DFIs | 16.8 | 16.6 | 16.3 | 16.2 | 16.5 | - | - | - | - | 14.5 |
| **All Banks & DFIs** | 16.9 | 16.3 | 15.6 | 15.6 | 15.3 | 13.2 | 11.1 | 10.4 | 12.3 | 12.4 |
| HBFC | 17.5 | 17.0 | 16.2 | 16.1 | 13.6 | 13.5 | 13.3 | 12.9 | 13.6 | 16.0 |
| **Total Average** | 17.2 | 16.7 | 15.8 | 15.7 | 15.3 | 13.4 | 12.2 | 11.7 | 13.0 | 12.5 |

**Table 3**

| | Loan to Value Ratio | | | | | Average Time for Loan Processing (days) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Mar-11 | Dec-10 | Sep-10 | June-10 | Mar-10 | Mar-11 | Dec-10 | Sep-10 | June-10 | Mar-10 |
| Public Sector Banks | 49.6 | 62.1 | 52.4 | 35.1 | 61.9 | 38.4 | 32.6 | 16.8 | 24.6 | 28.9 |
| Private Banks | 49.4 | 55.0 | 45.9 | 39.7 | 53.8 | 28.5 | 21.3 | 19.7 | 25.1 | 22.4 |
| Foreign Banks | 65.5 | 50.1 | 33.2 | 54.1 | 60.9 | 30.0 | 25.5 | 30.0 | 33.2 | 21.6 |
| Islamic Banks | 42.2 | 53.2 | 51.4 | 32.7 | 48.4 | 25.0 | 28.4 | 29.1 | 25.5 | 22.3 |
| **All Banks** | 48.5 | 55.2 | 48.1 | 42.3 | 55.4 | 28.8 | 26.2 | 23.3 | 27.8 | 23.2 |
| DFIs | - | - | - | - | 41.8 | - | - | - | - | 30.0 |
| **All Banks & DFIs** | 48.5 | 55.2 | 48.1 | 42.3 | 54.9 | 28.8 | 26.2 | 23.3 | 27.8 | 23.5 |
| HBFC | 44.7 | 43.5 | 48.5 | 57.2 | 65.0 | 39.1 | 40.4 | 48.3 | 47.8 | 30.0 |
| **Total Average** | 46.6 | 49.3 | 48.3 | 49.8 | 55.2 | 33.9 | 33.3 | 35.8 | 37.8 | 23.8 |

**Table 4**

| | Average Loan Size | | | | |
|---|---|---|---|---|---|
| | Mar-11 | Dec-10 | Sep-10 | June-10 | Mar-10 |
| Public Sector Banks | 2.5 | 1.1 | 1.4 | 1.3 | 1.9 |
| Private Banks | 4.5 | 2.9 | 3.2 | 4.9 | 2.3 |
| Foreign Banks | 2.4 | 1.7 | 2.2 | 2.1 | 2.9 |
| Islamic Banks | 2.1 | 2.9 | 2.6 | 3.1 | 2.8 |
| **All Banks** | 3.5 | 2.5 | 2.6 | 3.5 | 2.4 |
| DFIs | - | - | - | - | 3.1 |
| **All Banks & DFIs** | 3.5 | 2.5 | 2.6 | 3.5 | 2.4 |
| HBFC | 1.2 | 1.2 | 1.6 | 1.2 | 0.7 |
| **Total Average/Total** | 2.3 | 1.9 | 2.1 | 2.3 | 2.0 |

## Conclusion

The quarter ending March 31, 2011 depicted a slight decrease as compared to quarter ending March 31, 2010, in overall portfolio. NPLs of the housing finance portfolio display a rising trend and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers. Average loan size, LTVs and maturity periods have decreased over the last year. However, the lack of a conducive institutional framework and secondary mortgage market and high interest rates are still the major constraints towards the growth of housing and housing finance sector which is one of the potential key drivers of the economy.

## Major Initiatives and Achievements

Recognizing the importance of housing sector in boosting the domestic economy, following initiatives have been taken by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

### Implementation of Housing Advisory Group's Recommendations

As part of its earlier efforts, SBP had established a Housing Advisory Group (HAG) with an intention to conduct a thorough analysis of the existing regulatory and policy framework affecting housing finance. The HAG made number of recommendations stressing on the need to enhance access of financial services for the development of housing sector. These include reforms in legal and regulatory framework, establishment of secondary mortgage market, development of market intelligence, provision of affordable/low income housing finance products. SBP disseminated the recommendations to the concerned stakeholders and is currently coordinating with Provincial Governments, Pakistan Banks'

Association (PBA), Association of Mortgage Bankers (AMB) and Association of Builders and Developers (ABAD) for implementation of some of the key recommendations.

### Mortgage Refinance Company

Work on the establishment of Mortgage Refinance Company is being pursued aggressively. IFC developed a detailed business plan and feasibility for the Mortgage Refinance Company. Principal buy-in of the Ministry of Finance has been elicited and equity commitments from the GoP, commercial banks and HBFC have been received. Memorandum & Articles of Association of the proposed company have been developed and consultant is being hired to assist in incorporation of the company during the current financial year (2010-11).

### Capacity building Program

In addition to initiatives taken to institutionalize housing finance, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of housing finance. Few training programs have been conducted on different aspects of housing finance including product development, loan marketing/distribution and origination & loan underwriting, servicing and risk management. Till date, approximately 400 bankers from over 20 banks have been trained in the mortgage business.

### Development of Housing Finance Guidelines

To increase the efficiency of mortgage bankers, Housing/Mortgage Finance Guidelines have been developed, by adopting best international practices, and after consultation with internal and external stakeholders, including PBA.

# News on Housing Finance

## Consumer financing - blessing or a curse (I)

During the last seven years - 2000-07 - the consumer financing in Pakistan has seen a boom and the factors responsible were liberal economic policies, free market economy and huge liquidity available to the banks after the incident of 9/11. The banks introduced a variety of products such as credit cards, auto loans, housing finance and personal loans, etc.

The banking sector has started consumer financing during the tenure of previous government. It was a new phenomenon in Pakistan; therefore, people welcome it and purchased vehicles like car, motorcycles, tractors, busses and vans, home appliances such as air conditioners, TV sets, deep freezers, fridges etc. This situation not only gave an unprecedented boost to the industries of these products but related industries also flourished, besides creating job opportunities. Personal loans also played important role in purchasing consumer items and housing loans boosted the property sector.

Commercial banks extended Rs331 billion loans, as against Rs 418.93 billion in the last year. The State Bank of Pakistan figures indicated that in the first eight months of 2009-10, total loan disbursement by the banks was Rs 5,590.50 billion, as against the previous year’s Rs 5,012.57 billion. The economic recession has badly affected the banking sector and the commercial banks, for minimizing losses, were reluctant to increase their consumer-financing portfolio.

The SBP has started tightening monetary policy since CY07. The banks have also become cautious in offering consumer loans and due to the experience of growing of non-performing advances in corporate and SME sectors, financing reduced during FY10. The share of agriculture sector was Rs 2.1 billion in non-performing loans (NPLs), compared to a fall of Rs 0.5 billion in FY09. NPLs in the consumer sector have also shown an increase of Rs 9.8 billion in FY10, owing to the lower real income. The NPLs to loan ratio for the consumer sector increased from 9.1 percent in FY09 to 14.6 percent in FY10. This rise in NPLs to loan ratio was the result of a decline in advances to the consumer sector.

## Govt plans low-cost houses at Chungi Amar Sidhu

March 2, 2011 http://www.dawn.com/2011/03/02/govt-plans-low-cost-houses-at-chungi-amar-sidhu.html

**LAHORE, March 1: Chief Minister Shahbaz Sharif says the Punjab government desires to utilise its resources in an effective way by introducing scores of urban development and housing projects with the involvement of all stakeholders.**

Addressing the inaugural ceremony of a five-day Pakistan Urban Forum (PUF) at Alhamra Hall on Tuesday, he said: “I know many housing societies have been developed in Lahore and other parts of the province without proper legal framework and provision of necessary civic facilities. But I don`t blame the previous governments or others for creating this chaos as being chief minister it is now my responsibility to do my work honestly by curbing such wrong practices.”

The CM said the Punjab government had started implementing its programme to develop low-cost housing projects for the poor and the deserving by initiating work on Ashiana Housing Scheme. He said the departments concerned had also identified a piece of land worth billions near Chungi Amar Sidhu for developing another housing scheme for low-income people.

“In Ashiana and other low-cost schemes the Punjab government will ensure provision of all civic facilities to the poor as available to the residents of Model Town or other posh localities,” Mr Sharif said, adding he had already ordered to extend this project across the province.

## Pakistan thanks Turkey for building homes in flood-hit area, requests for building more houses

February 19, 2011, http://www.maverickpakistanis.com/?p=12126

***Maverick Report***

ANKARA: Thanking the Turkish government for building 4,620 houses in the flood-affected area, Pakistan has requested the Housing Development Administration of Turkey (TOKI) to build more houses in the country.

The request was made by Deputy Speaker of Pakistan’s National Assembly Faisal Karim Kundi in his meeting TOKI President Erdogan Bayraktar at his office here on Saturday. Kundi, who is leading a seven-member parliamentary delegation currently visiting Turkey, assured the TOKI president of all kinds of assistance including provision of land. He also requested Bayraktar to build community facilities along with disaster homes.

The TOKI president said Turkish Prime Minister Rajab Tayyab Erdogan instructed him to finish the disaster houses in Pakistan as soon as possible. “We will also build facilities like health centre and trade centre along with houses," he said. "These houses will be built on high altitude areas in order to protect these from possible floods and match the cultural structure of Pakistan," he added.

The TOKI president said Pakistan needs urgent housing and this can be achieved by establishing house manufacturing factories to build low-cost houses on a fast track.

## Indian Affordable Housing Demand Set to Grow at 13% CAGR

**With government support and increase in number of real estate developers, affordable housing demand will surge at a CAGR of around 13% during 2011-2013, RNCOS acknowledged.**

http://www.prlog.org/11353691-indian-affordable-housing-demand-set-to-grow-at-13-cagr.htm

PRLog (Press Release) – Mar 05, 2011 – According to our research report "Indian Housing Sector Analysis", real estate section in India has emerged as one of the most dynamic sections. The country's housing industry has been experiencing tremendous growth for the past few years. Moreover, with increase in number of real estate developers, rise in demand for properties, and availability of financing options, India housing sector is expected to propel in near future.

The ongoing research analysis found that, the affordable housing segment accounts for the major share in the India housing industry, both in terms of volume and value. This segment is mainly targeted by the economically weaker class and low-income groups. With continuous support from the government and financial institutions, such as, reduction in mortgage rates and increased focus on affordable housing construction, the affordable housing demand potential in India is anticipated to grow at a CAGR of around 13% during the forecast period 2011-2013.

## Call to freeze housing finance to single digit

Wednesday, February 02, 2011 http://www.thenews.com.pk/TodaysPrintDetail.aspx?ID=29032&Cat=2

LAHORE: The government must freeze the housing sector finance for at least 10 years into single digit to promote the construction industry and to meet the country's housing demands.

Participants in the Jang Economic Session on the 'Role of Housing Sector in National Economy' added the country needs 0.5 million units per annum and only 0.2 million houses were being constructed. The moot was held here on Tuesday.

The participants were Habib Ahmed, MD Habib Rafiq Group, Chairman Punjab Land Development Company (PLDC) Sheikh Allauddin, Engineer Akbar Sheikh Zamin, developer Mian Tahir Javeed, Chairman Urban Developers Irfan Qaiser Sheikh, former Chairman PIAF and Main Fazal Ahmed, President Engineers Study Forum. The session was jointly hosted by Sikindar Hameed Lodhi and Intikhab Tariq.

Habib Ahmed said construction industry ran 40 other industries at parallel, which created real economic activity in the country. He stressed the need to promote vertical housing construction, which was relatively cheaper as compared to traditional housing units. He called for the implementation of Housing Policy 2001 approved by the cabinet. He also suggested introduction of modern technology in housing construction, which was used all over the world, which was also helpful in promoting the construction industry. He said the government developed mortgage industry as well, with at least 10 to 15 years single digit frozen mark-up rate.

## HOUSING construction came out of the 2008 slump during the second half of 2009 and a moderate growth continued throughout 2010. The industry looks set to grow further this year as post-flood rehabilitation and reconstruction activities gear up.

**http://www.dawn.com/2011/01/17/construction-industry-set-to-expand-2.html**

Flood-hit people have started rebuilding their damaged houses on self-help basis, and with whatever help is coming their way from the government, international donors and the NGOs.

Construction of commercial projects by some groups of builders and launching of new schemes for residential apartments by others in urban areas continue to support growth in housing construction industry.

Real estate prices inched up in the last year after falling to historic lows in 2008 and in the first half of 2009 but are still attractive enough for investors who are acquiring large pieces of land for construction of housing projects. A part of massive inflows of remittances and money circulating outside the banking system are also being used in housing construction.

But the Association of Builders and Developers (ABAD) that groups more than 800 small and medium-sized regular builders across the country complains that the government has not taken them into confidence to reinvigorate the industry.

## China introduces first property tax for home buyers

http://eideard.wordpress.com/2011/01/29/china-introduces-first-property-tax-for-home-buyers/

China has introduced its first property tax for home buyers to try to curb record house prices and tame inflation. The measure, which came into effect on Friday, will apply to those buying second homes in Shanghai and Chongqing.

The tax, paid annually, is between 0.4% and 1.2% of the purchase price, depending on how the price compares with market averages.

Property prices are one of the main drivers of Chinese inflation, which Beijing is keen to keep under control.China's economy is growing far faster than that of any other major country. Its GDP grew by 10.3% last year – the fastest annual pace since the financial crisis…

In Shanghai, buyers will pay between 0.4% and 0.6% tax on their new second homes. In the south western city of Chongqing, the tax is more staggered, ranging from 0.5% to 1.2%.

The city's mayor, Huang Qifan, said that while it was "impossible for housing prices to fall overnight because of the property tax", it would "help to curb speculation in the housing market".

***Of course, this is a chuckle-and-a-half for American homeowners. If they only knew about it.***

***It's not unusual for homeowners in the U.S. to pay 3 and 4-figure annual tax bills – on their primary residence. Local and state governments use property taxes to provide an essential part of their annual budget.***