

# Housing Finance Quarterly Review

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The Infrastructure and Housing Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ending March 31, 2010.

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).

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## Overview

After demonstrating a promising growth trend during previous five years, the housing finance sector reported a decline of 11% in outstanding portfolio over the last year. The total outstanding reported by banks and DFIs as on March 31, 2010 was Rs. 71.97 billion compared to Rs. 80.86 billion as on March 31, 2009. The total number of outstanding borrowers has decreased from 121,368 to 110,512 since March 2009; showing a fall of 8.9%.

Non-performing loans have increased from Rs. 13.09 billion (March 2009) to Rs. 16.83 billion (March 2010); a 28.58% increase over the year. 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.

Approximately 478 new borrowers were extended house loans during the quarter, accounting for Rs. 1.43 billion of new disbursements. HBFC accounted for 3.5% of these new borrowers and contributed 2.58% of the new disbursements equivalent to Rs. 37 million.

Financing for outright purchase continued to dominate other sectors (construction and renovation) by comprising almost 58% share in gross outstanding portfolio. Outstanding portfolio for construction and renovation was 31% and 11% respectively.

## Outstanding

### Gross Outstanding

The total outstanding finance as on March 31, 2010 of all banks and DFIs stood at Rs. 71.97 billion. Compared to quarter ending March 31, 2009 (Figure 1), outstanding of all commercial banks and DFIs collectively decreased by 11%.

Banking sector-wise total outstanding since quarter ending March 31 2009 is shown in Figure 1. Of the total outstanding, commercial banks accounted for Rs. 56.57 billion with private banks posting Rs. 34.59 billion; a 10.56% decline since quarter ending March 31, 2009. Islamic banks reported an outstanding of Rs. 8.49 billion followed by Public sector banks with Rs. 8.28 billion and foreign banks with Rs. 5.19 billion. Excluding DFIs, all commercial banks collectively posted a 11.56% decline when compared to quarter ending March 31, 2009. The outstanding loans of HBFC were Rs. 15.01 billion; down by 8.47% over the last year. Other DFIs have a meager share of Rs. 0.387 billion in outstanding loans.

Figure 1



### Non-Performing Loans

Figure 2 shows that NPLs have increased from Rs. 13.09 billion (March 2009) to Rs. 16.83 billion (March 2010); a 28.57% increase during the year. Figure 3 compares NPLs as a percentage of outstanding portfolio at the end of quarter on March 31, 2010 and March 31, 2009. 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. 6.40 billion to Rs. 6.77 billion during the year; a 5.78% increase (Figure 2). Although growth of its NPLs remains relatively low in absolute terms when compared to other banking sectors, its percentage share in its total outstanding, however, is the greatest, as 45% of its total outstanding constitutes NPLs (Figure 3).

Figure 2

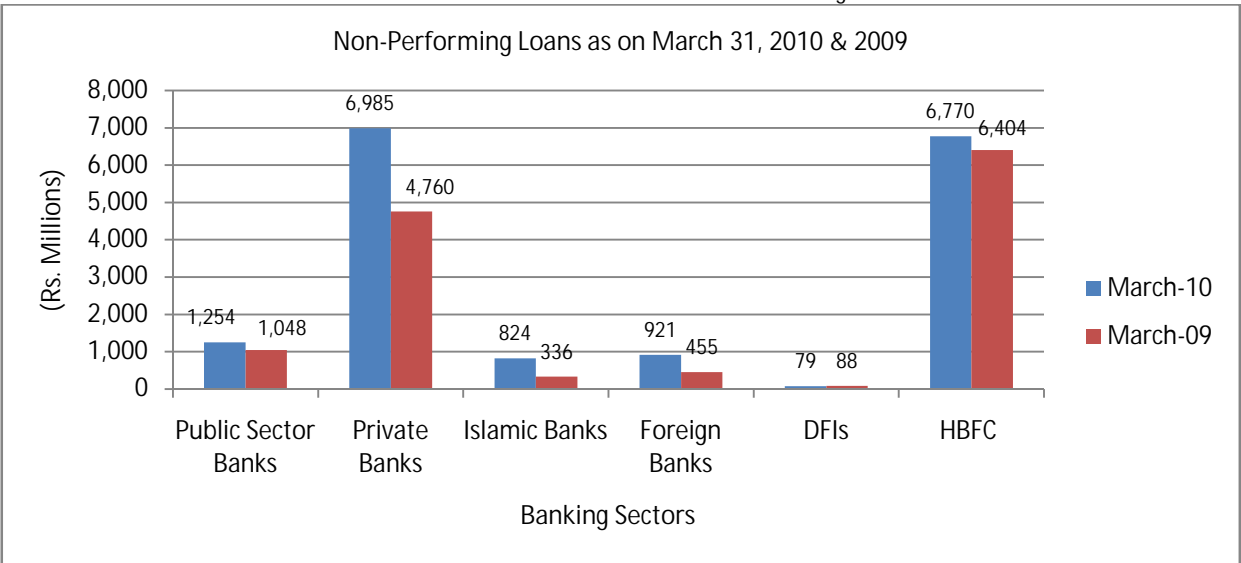
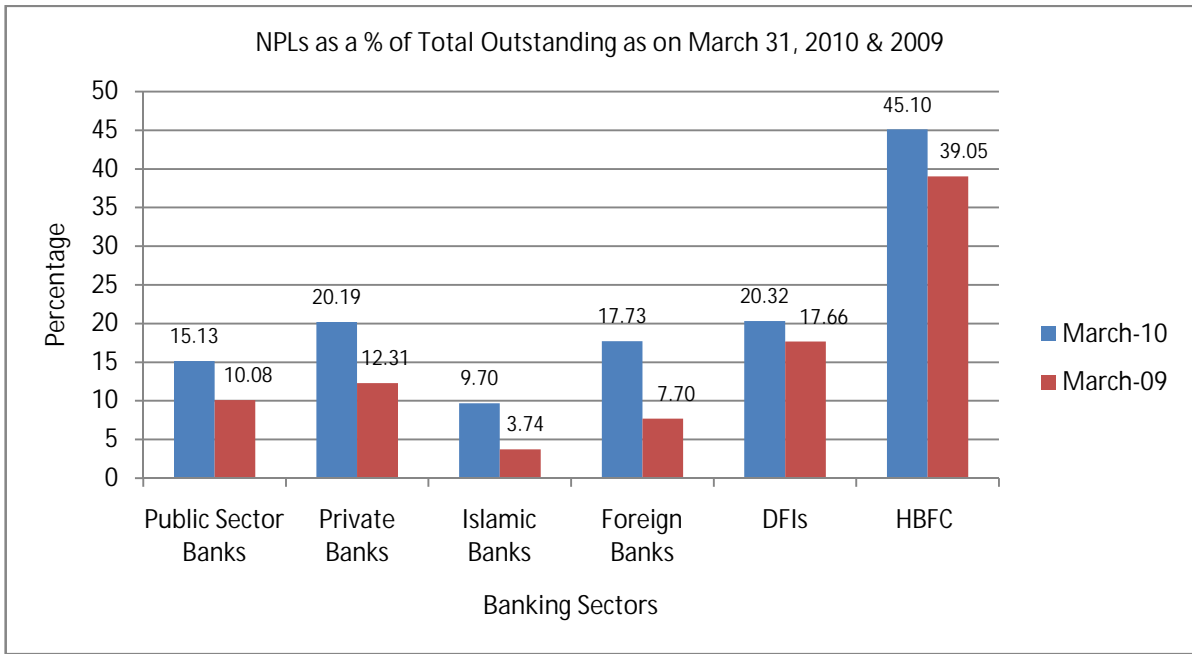


Figure 3



Excluding HBFC, NPLs for all banks and other DFIs have increased by 50.60% over the year from Rs. 6.68 billion to Rs. 10.06 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFC) constitute is 17.66% of their total outstanding portfolio, compared to a 10.36% as on March 31, 2009.

Among banks, Islamic banks have witnessed the sharpest increase in NPLs during the year in terms of percentage; an increase of almost 145%, from Rs. 336 million to Rs. 824 million. However, their NPLs constitute only 9.70% of total outstanding, which was 3.74% on March 31, 2009. NPLs of the public sector banks have increased from Rs. 1.04 billion to Rs.1.25 billion (an increase of 19.66%) which are 15.13% of total outstanding. NPLs of foreign banks have increased from Rs. 455 million to Rs. 921 million; a 102% increase with 17.73% of its total outstanding classified as NPLs, which was 7.70% on March 31, 2009. Private banks have reported an increase of 46.74% in NPLs from Rs. 4.76 billion to Rs. 6.98 billion which is 20.19% of their total outstanding as against 12.31 % in March 31, 2009. Though NPLs of DFIs (excluding

HBFC) have reduced from Rs. 88 million to Rs. 78.61 million, they have increased in percentage terms from 17.66% to 20.32%.

### Number of Borrowers

Total number of outstanding borrowers has decreased from 121,368 to 110,512 since March 2009; a decline of 8.94% (Figure 4).

Figure 4

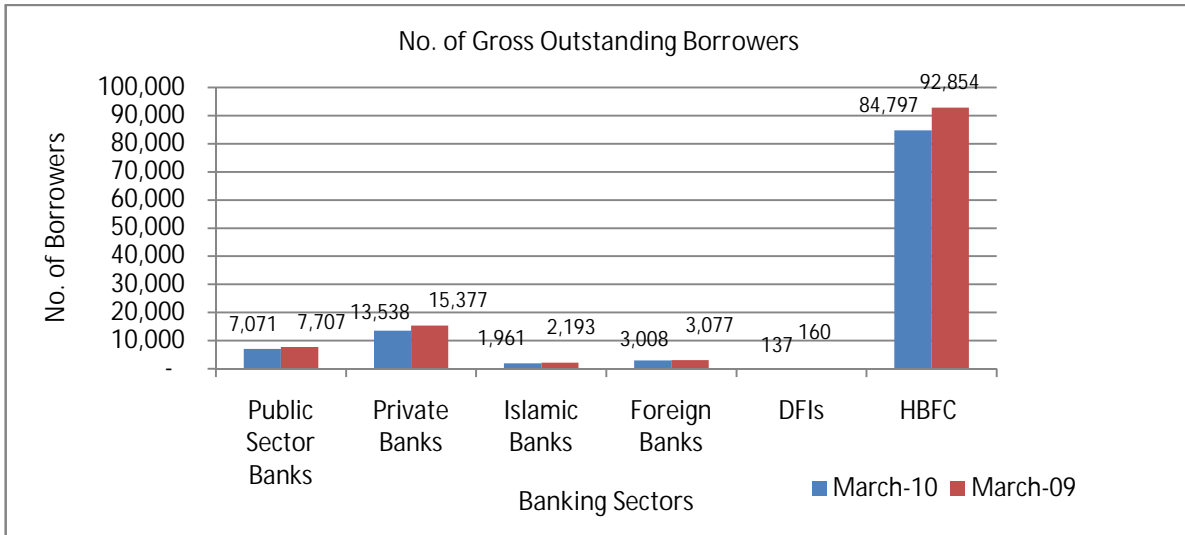
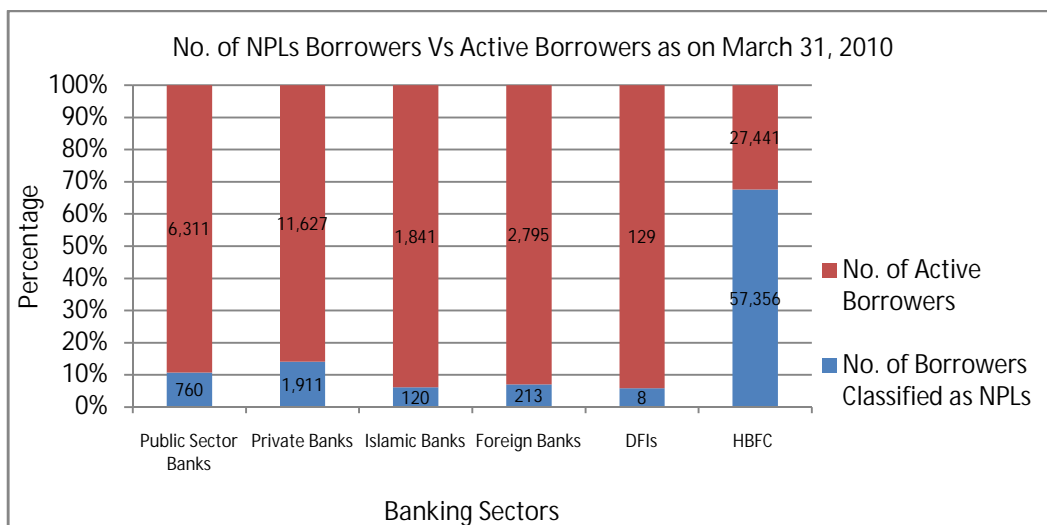


Figure 5 shows number of borrowers that has been classified as NPLs as a percentage of total borrowers. Approximately 54.62% of total borrowers of housing loans have been classified as non-performing. However, this is primarily due to HBFC’s number (57,356) of non-active borrowers that have been classified as non-performing, which comes to 67.63% of total borrowers of HBFC. Thus, excluding HBFC in such an analysis will be important as it caters to 77% of the total borrowers in housing finance sector which accounts for only 20.85% of total outstanding portfolio. Thus, by excluding HBFC, 11.71% of total borrowers of housing loans have been classified as non-performing.

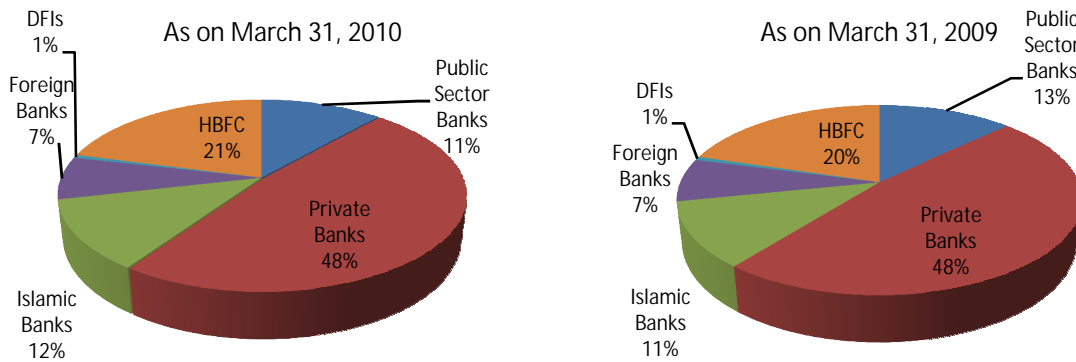
Figure 5



## Share of Banks

The overall market share<sup>1</sup> of commercial banks (excluding DFIs) remained almost the same since the end of last year, as it decreased marginally from 79% to 78%. Within commercial banks (Figure 6), the share of private banks in the total outstanding remained stagnant at 48%. Share of public sector banks has declined slightly from 13% to 11%. Share of Islamic has increased from 11% to 12% and share of foreign banks has remained almost stagnant at 7%. The share of HBFC has increased from 20% to 21% of the total outstanding.

Figure 6: Share of Banks in Total Outstanding



## Disbursements

A total of Rs. 1.43 billion worth fresh disbursements were made during the quarter ending March 31, 2010 (Table 1). Private banks extended new disbursements of Rs. 757 million followed by Islamic banks with Rs. 409 million and foreign banks with Rs. 124 million. HBFC's fresh disbursements for the quarter were reported to be Rs. 37 million. Among commercial banks, the number of new borrowers totaled 461, with private banks serving 312 borrowers. HBFC extended loans to only 17 new borrowers during the reporting quarter.

Table 1

Disbursements during the quarter ending March 31 2010		
	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	104	43
Private Banks	757	312
Islamic Banks	409	87
Foreign Banks	124	19
All Banks	1394	461
DFIs	0	0
HBFC	37	17
<b>Total</b>	<b>1432</b>	<b>478</b>

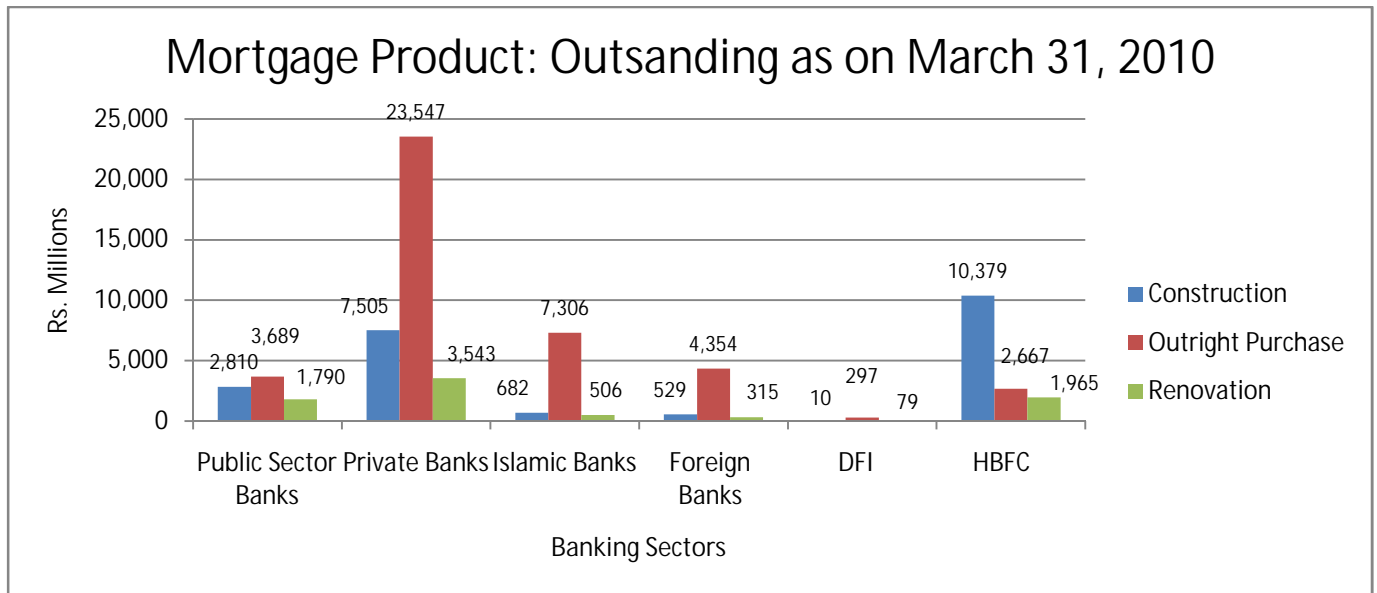
<sup>1</sup> Based on gross outstanding



## 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. 41.85 billion as on March 31, 2010; a 58.14% share in total outstanding of Rs. 71.97 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 21.91 billion and that of renovation stood at Rs. 8.19 billion.

Actively portfolio shows that private banks have taken a lead in financing for all three sectors; construction 34%, outright purchase 56% and renovation 43%.

### 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 comes to 15.2%; at the end of the current quarter; a decrease of 0.2 percentage points when compared to quarter ending March 31, 2009. Highest weighted average profit rate was reported by Islamic banks as well as foreign banks at 16.7%, followed by DFIs (excluding HBFC) at 16.5%. Private banks reported 14.5% while public sector banks and HBFC reported a weighted average interest rate of 16.1% and 13.5% respectively.

#### Average maturity periods

Average maturity period for the quarter ending March 31, 2010 comes to 12.5 years, the same as compared to quarter ending March 31, 2009. HBFC's average maturity period is reported to be 15.9 years, while that of Islamic banks is 14.5 years. Table 2 shows that among commercial banks, private sector banks have extended housing loans for an average tenure 12.2 years followed by foreign banks with 11.4 years and public sector banks with 11.3 years.

### Loan to Value ratio

The percentage of financing (Loan to Value ratio) extended by banks has increased during last year (Table 3). The LTV ratio for housing finance rose from 52.8% during quarter ending March 2009 to 55.2% during quarter ending March 2010. The sharpest increase was witnessed among foreign banks where the LTV ratio rose from 36.1% to 48.4%. The LTVs for HBFC have increased from 55.8% to 65% during the last year.

### Average time for loan processing

The reported average time for loan processing is 24 days for all banks and DFIs; a trend that has remained almost similar over the year. 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. Moreover, the processing time can be considerably reduced if land titling issues are resolved and institutional inefficiencies removed.

### Average loan size

Average loan size for disbursements made during the quarter ending March 2010 is Rs. 2.4 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 0.7 million for the reporting quarter. Islamic banks have financed with an average financing size of Rs. 2.9 million. Private banks reported an average loan size of Rs. 2.3 million, foreign banks Rs. 2.7 million and public sector banks reported Rs. 1.9 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-10	Dec-09	Sep-09	Jun-09	Mar-09	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09
Public Sector Banks	16.2	14.9	15.3	15.1	15.0	11.3	9.5	11.3	10.6	10.6
Private Banks	14.5	15.0	14.9	15.0	14.6	12.2	12.3	12.2	11.3	11.9
Islamic Banks	16.7	17.1	19.9	17.7	17.8	14.5	15.3	14.3	14.5	14.9
Foreign Banks	16.7	17.7	17.9	17.5	17.5	11.4	12.4	12.0	11.1	12.0
All Banks	15.4	15.7	16.1	15.7	15.5	12.3	12.4	12.4	11.6	12.3
DFIs	16.5	16.5	17.4	17.8	17.6	14.5	14.4	14.3	13.8	14.5
All Banks & DFIs	15.3	15.7	16.2	15.8	15.6	12.4	12.5	12.5	11.7	12.4
HBFC	13.6	13.5	14.7	12.5	11.9	16.0	16.0	15.5	15.2	15.2
Total Average	15.3	15.6	16.1	15.6	15.4	12.5	12.6	12.6	11.9	12.5

Table 3

	Loan to Value Ratio					Average Time for Loan Processing (days)				
	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09
Public Sector Banks	61.9	66.0	61.4	61.6	60.5	28.9	27.9	30.0	34.6	31.7
Private Banks	53.8	60.3	60.4	58.5	55.3	22.4	23.2	23.0	21.8	22.8
Islamic Banks	60.9	58.5	55.9	56.9	55.3	21.6	23.1	31.0	34.6	30.4
Foreign Banks	48.4	50.2	49.8	51.6	36.1	22.3	23.1	23.0	20.7	22.5
All Banks	55.4	59.2	58.1	57.9	53.0	23.2	23.8	25.0	25.5	25.3
DFIs	41.8	41.8	42.5	43.3	43.1	30.0	30.0	30.0	30.0	30.0
All Banks & DFIs	54.9	58.5	57.5	57.3	52.6	23.5	24.1	26.0	25.8	25.5
HBFC	65.0	60.0	55.8	54.2	55.8	30.0	30.0	30.0	30.0	30.0
Total Average	55.2	58.6	57.4	57.1	52.8	23.8	24.3	26.0	26.0	25.7

Table 4

	Average Loan Size				
	Mar-10	Dec-09	Sep-09	Jun-09	Mar-09
Public Sector Banks	1.9	2.0	1.8	1.9	1.8
Private Banks	2.3	2.4	2.3	2.5	2.3
Islamic Banks	2.9	2.8	3.3	3.9	3.7
Foreign Banks	2.8	2.7	2.8	2.9	2.7
All Banks	2.4	2.5	2.5	2.6	2.5
DFIs	3.1	3.0	3.0	3.1	3.1
All Banks & DFIs	2.4	2.5	2.5	2.6	2.5
HBFC	0.7	0.7	0.7	1.1	1.1
Total Average/Total	2.3	2.5	2.4	2.6	2.5

## Conclusion

The quarter ending March 31, 2010 depicted a decrease 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. LTVs have increased marginally and maturity periods remained almost constant. Average loan size has decreased because of the small size of the housing finance portfolio that financial institutions are currently managing housing-related risks. However, the lack of a conducive institutional framework and secondary mortgage market still pose as a major constraint 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 key 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 on 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 had already disseminated the recommendations to the concerned stakeholders and is currently coordinating with the Ministry of Housing & Works, 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

SBP and World Bank Group have agreed to work together for implementing key recommendation of HAG for creating financing environment conducive to growth of housing sector by focusing on: establishment of Mortgage Refinance Company, availability of low cost housing finance and establishment of an observatory for real estate market. Work on the establishment of Mortgage Refinance Company is now 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, few banks and HBFC have been received, while remaining banks are being pursued.

### 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. In accordance with the Cooperation Agreement signed between International Finance Corporation (private sector arm of the World Bank Group) and SBP, a comprehensive housing finance training program was launched. The training covered all aspects of housing finance from product development, loan marketing/distribution and origination to loan underwriting, servicing and risk management. Till date, approximately 250 bankers from over 20 banks have been trained in the mortgage business. More capacity building programs would be conducted in future.

### Creation of Web Portal

In a drive to provide different stake-holders with reliable and needed information on various factors of housing/mortgage finance industry, as also recommended by HAG, SBP is working in coordination with the Association of Mortgage Bankers (AMB) for developing a web portal. As an initial step, AMB's website has been created which contains information on basic housing parameters.

### Development of Housing Finance Guidelines

Infrastructure & Housing Finance Department of SBP is in process of developing guidelines of housing finance to increase the efficiency of mortgage bankers by adopting best international practices.