STATE BANK OF PAKISTAN

INFRASTRUCTURE, HOUSING AND SME FINANCE DEPARTMENT

Quarterly Housing Finance Review

April-June 2012

The Infrastructure, Housing & SME Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ending June 30, 2012. 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 Company Limited (HBFCL). It portrays trend of different parameters like disbursements, outstanding and recoveries. Some news pertaining to housing & housing finance are also presented in it.

Team Members

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Disclaimer: IH&SMEFD acquired housing finance data through Data Acquisition Portal (DAP 4), to prepare this review. Therefore, there might be minor discrepancies in data. However, the data was filtered through checks to ensure its reliability.

Contents

State of Housing Finance

Rapid urbanization in Pakistan has resulted in increasing the deficit of housing units. As per World Bank[1] studies in year 2009, there was a backlog of 7.5 million housing units in Pakistan which is accumulating by 0.35 million per year. Studies indicate that most of the housing finance is arranged through personal sources. The formal financial sector caters to only one to two percent of all housing transactions in the country, whereas informal lending caters to 10-12 percent of such transactions.

Although Pakistan has laws for land registration and transfer, the process is cumbersome at times, because of number of institutions involved. The reforms in the property titling and land administrative procedures including improvements of the legal provisions, standardization of processes, and computerization of all relevant revenue records will help enhance financing from the formal 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, its effectiveness lies in strict implementation.

Land records are manually maintained leading to errors and omissions especially in rural and some urban areas. Resultantly, they have modest commercial value for the mortgagee financial institutions. 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.

Majority of builders and developers are working as sole proprietorships or in partnerships with limited capital and informal corporate governance structures, which gives rise to illegal construction, unreliable building permits, and legally unprotected advance purchase of units. The unstructured and unsupervised nature of business of real estate brokers/agencies, which could serve as natural arrangers for 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' caution. 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.

At present, commercial banks, House Building Finance Company Limited (HBFCL) and two microfinance banks are catering to the housing finance needs. HBFCL is the only specialized housing bank in the country providing housing finance since 1952, while commercial banks entered the mortgage business in 2003. Although HBFCL'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.

After registering a promising growth trend till 2008, the housing finance sector has been showing declining trend afterwards. The gross outstanding reported by banks and DFIs (including HBFCL) as of June 30, 2012 was Rs. 57.1 billion. It was Rs. 61.9 billion as of June 30, 2011 showing a decline of Rs. 4.8 billion (7.8 percent) and Rs. 58.6 billion at the end of March 31, 2012. The total number of outstanding borrowers also decreased from 95,553 to 87,059 over a year; showing a fall of 7.9 percent and 2.3 percent decline when compared to last quarter. Non-performing loans increased from Rs. 18.7 billion (June 30, 2011) to Rs. 19.1 billion (June 30, 2012); a two percent increase over the year. The stock of NPLs as on March 31, 2012 was Rs. 20.1 billion.

Around 810 new borrowers were extended house finance during the quarter (Apr-Jun, 2012), accounting for Rs. 2.03 billion of new disbursements. HBFCL accounted for 63 percent of these new borrowers and contributed 20 percent of the new disbursements equivalent to Rs. 408 million.

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[1] See "Expanding Housing Finance to the Underserved in South Asia Market Review & Forward Agenda" by Tatiana Nenova, World Bank

Major Trends

Gross Outstanding

The total outstanding finance as on June 30, 2012 of all banks and DFIs stood at Rs. 57.1 billion (Figure 1), compared to Rs. 58.6 billion as on March 31, 2012, showing a decrease of Rs. 1.5 billion (2.56 percent). Outstanding of all commercial banks and DFIs collectively decreased by eight percent when looked against June 30, 2011.

Banking sector-wise total outstanding on quarters ending June 30, 2011 and 2012 are shown in Figure 2. Of the total outstanding as on June 30, 2012, commercial banks accounted for Rs. 43.9 billion; a 8.4 percent decline since quarter ending June 30, 2011. Private banks reported Rs. 27.3 billion followed by Islamic banks at Rs. 8.8 billion, public sector banks at Rs. 7.6 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.9 billion; down by five percent over the last year. Other DFIs had a meager share of Rs. 0.2 billion in outstanding loans.

The total outstanding housing finance as on June 30, 2012 of Islamic Banking Industry (05 Islamic Banks & 12 Islamic Banking Divisions of Conventional Banks) stood at Rs. 12.7 billion. Compared to quarter ending March 31, 2012, outstanding of Islamic banking Industry increased by 2.4 percent as shown in Figure 3**.**

Of the total outstanding Islamic housing finance, Islamic banks accounted for Rs. 8.8 billion (1.1 percent increase over the last quarter Jan-Mar - 2012). IBDs of conventional banks posted Rs. 3.8 billion (a five percent decline since quarter ending March 31, 2012).

Figure 1 (Amount in Rs. Billion)

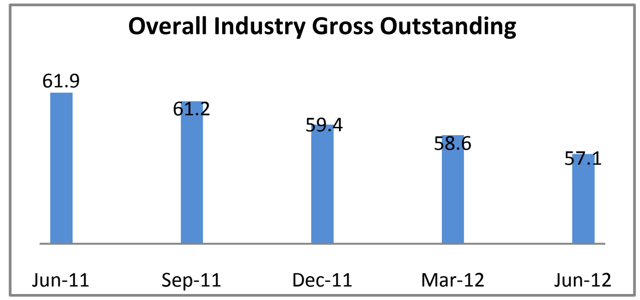


Figure 2

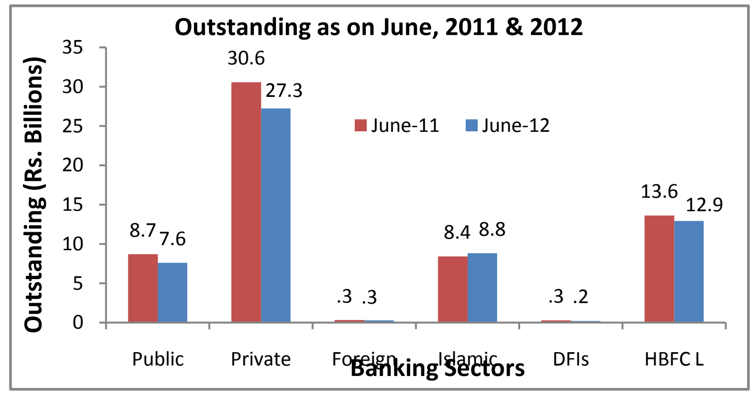
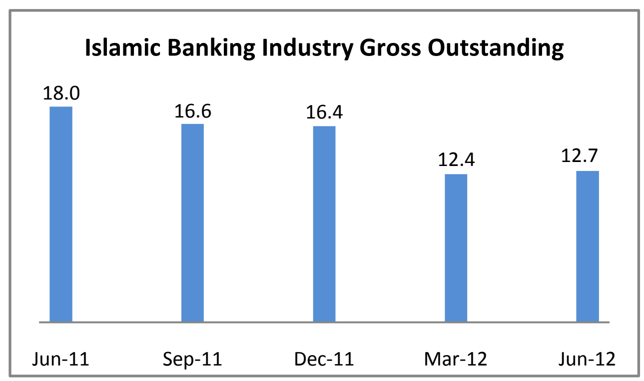


Figure 3 (Amount in Rs. Billion)



Share of Banks

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) remained unchanged compared to the corresponding period last year dropping to 77 percent. Within commercial banks, the share of Public sector banks in the total outstanding decreased by one percent from 14 percent to 13 percent and the share of HBFCL in the total outstanding remained unchanged at 22 percent over the year. The share of Private Sector Banks remained unchanged over the year at 49 percent. The share of Islamic banks increased by one percent from 14 percent to 15 percent and the share of Foreign Banks remained unchanged at 1% over the year as shown in Figure 4.

The share of Conventional Banking (excluding HBFCL), Islamic Banking Industry and HBFCL in the total outstanding was 56 percent, 22 percent and 22 percent respectively as on June 30, 2012 (Figure 4.1). IBDs (12 windows) and Islamic banks (05 banks) have 70 percent and 30 percent share (remained unchanged over the year) in housing finance portfolio of Islamic Banking Industry (Figure 4.2), which shows that conventional banks also consider the Islamic mode of financing an important part of their business strategy.

Figure 4

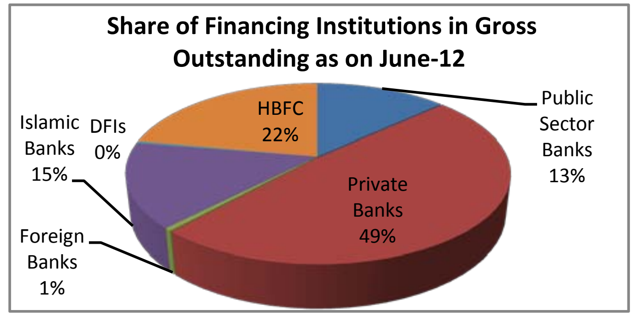


Figure 4.1:

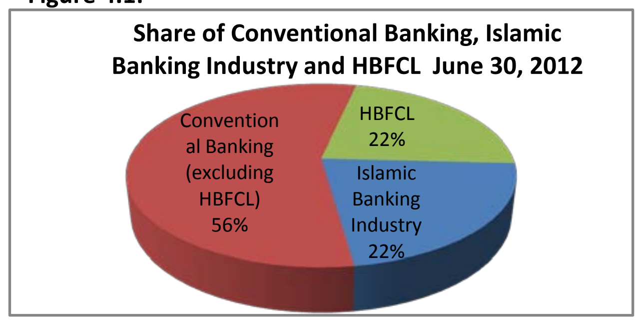
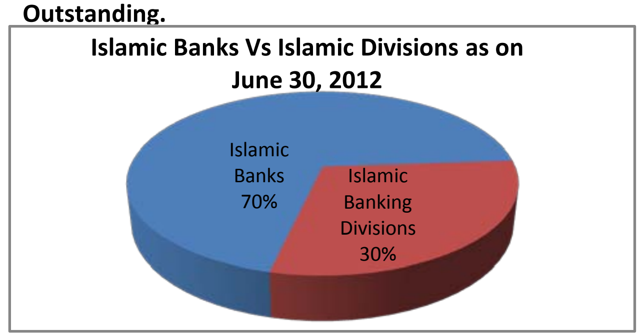


Figure 4.2: Share of Islamic Banks and Islamic Banking Divisions within Islamic Banking Industry in Total Outstanding.



Non-Performing Loans (NPLs)

NPLs increased from Rs. 18.7 billion (June 30, 2011) to Rs. 19 billion (June 30, 2012); a two percent increase during the year. The stock of NPLs as on June 30, 2012 was Rs. 19 billion, showing a decrease of 5.2 percent over the yester quarter (Jan–Mar, 2012) as shown in Figure 5. Figure 6 shows a comparison of existing NPLs status of different banking sectors with last year. Figure 7 compares NPLs as a percentage of outstanding portfolios at the end of quarters on June 30, 2012 and June 30, 2011. 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.

HBFCL's NPLs increased from Rs. 6.9 billion to Rs. 7.7 billion during the year; an 11.7 percent increase as shown in Figure 5.1. 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 60 percent of its total outstanding constitutes NPLs (Figure 7). HBFCL's percentage share in total NPLs is 41 percent.

Excluding HBFCL, NPLs for all banks and other DFIs have decreased by 3.7 percent over the year from Rs. 11.8 billion to Rs. 11.3 billion. The percentage share of NPLs of all banks and other DFIs (excluding HBFCL) was 59 percent in total NPLs, compared to a 63 percent as of June 30, 2011.

Among banks, Figure 6, non-performing finances (NPFs) of Islamic banks witnessed a meager increase of 0.1 percent during the year, from Rs. 1.38 billion to Rs. 1.39 billion. Their NPFs constitute seven percent, as on June 30, 2012, of total NPLs. NPLs of the public sector banks almost remained unchanged, over the year, at Rs. 1.9 billion which were 25 percent of total outstanding as of June 30, 2012. Private Banks' NPLs have decreased by six percent, from Rs. 8.3 billion to Rs. 7.8 billion which was 28 percent of their total outstanding, as of June 30, 2012, as against 27 percent on June 30, 2011. NPLs of foreign banks as a percentage of their outstanding portfolio increased from 45 percent (at the quarter end Apr–Jun, 2011) to 59 percent as of

Figure 5: (amount in Rs. Billions)

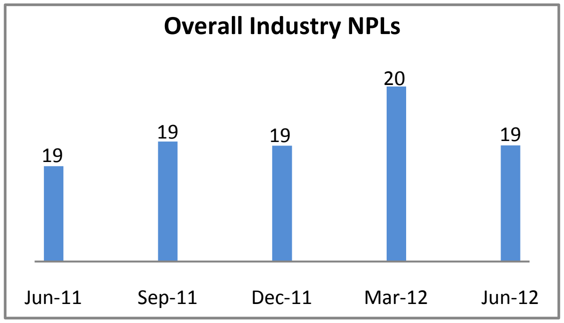


Figure 5.1: (amount in Rs. Billions)

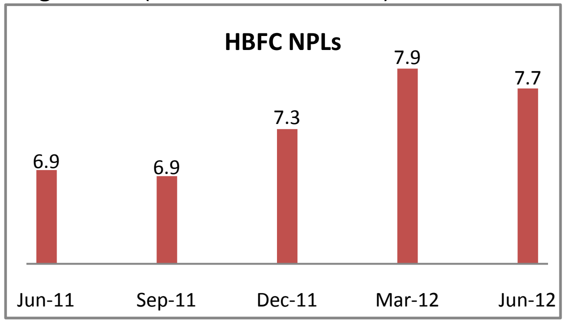
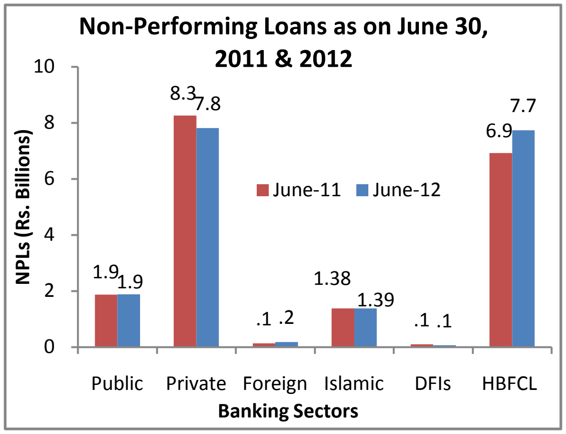


Figure 6



June 30, 2012. NPLs of DFIs (excluding HBFCL) have decreased from Rs. 106 million to Rs. 70 million, over a year; a 34 percent decrease over the year with 35 percent of its total outstanding classified as NPLs as on June 30, 2012.

Figure 7

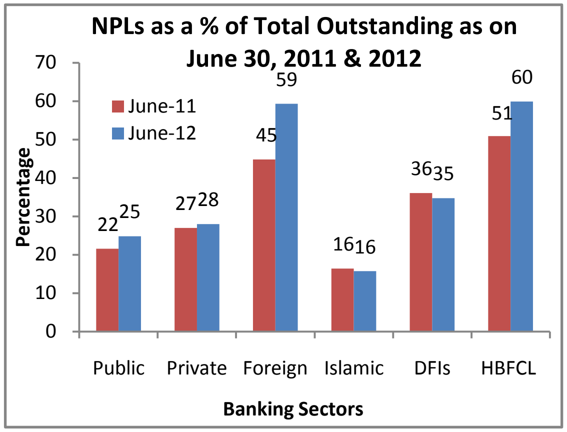
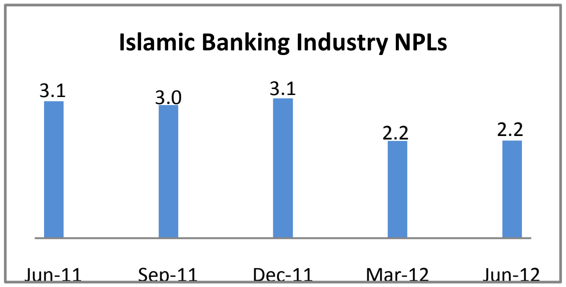


Figure 8



Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.18 billion on June 30, 2012, which were Rs. 2.17 billion at the end of last quarter (Jan-Mar, 2012) showing an increase of 0.4 percent (Rs. 8.1 million).

Number of Borrowers

Total number of borrowers decreased from 95,553 to 87,059 since June 30, 2011; a decline of 8.9 percent. As shown in Table 1, there is a decrease in number of borrowers in each category.

Table 1 shows number of borrowers that has been classified as NPLs as a percentage of total borrowers. In terms of numbers, approximately 61 percent of total borrowers of housing finance have been classified as non-performing. However, this is primarily due to HBFCL's number (49,648) of non-active borrowers, classified as non-performing, which accounts for 76 percent of its total borrowers. Thus, by excluding HBFCL, 16 percent of total borrowers of housing loans have been classified as non-performing.

Table 1

Banks/ DFIs	June – 12			June – 11		
	No. Active Borrowers	No. of Borrowers classified as NPLs	Total O/s Borrowers	No. Active Borrowers	No. of Borrowers classified as NPLs	Total O/s Borrowers
Public Sector	897	5,095	5,992	5,721	846	6,567
Private Banks	2,156	10,731	12,887	11,955	2,199	14,154
Foreign Banks	42	34	76	40	29	69
Islamic Banks	259	2,286	2,545	2,510	385	2,895
DFIs	9	73	82	100	9	109
HBFCL	49,648	15,829	65,477	20,495	51,264	71,759
Total	**53,011**	**34,048**	**87,059**	**40,821**	**54,732**	**95,553**

Disbursements

Fresh disbursements of Rs. 2.02 billion (Figure 9) were made to 810 borrowers during the quarter ending June 30, 2012 (Table 2). Private Banks extended new disbursements with Rs. 0.902 billion followed by Islamic banks with Rs. 689 million, public sector banks with Rs. 25 million and foreign banks with Rs. 4 million. HBFCL's fresh disbursements for the quarter were reported to be Rs. 408 million. Among commercial banks, the number of new borrowers totaled 300, with private banks serving 133 borrowers and Islamic banks 155 customers. HBFCL extended loans to 511 new borrowers during the reporting quarter.

Fresh disbursement for Islamic Banking Industry was Rs. 1 billion to 209 new borrowers during the quarter ending June 30, 2012. This includes new disbursements of Rs. 317.5 million to 54 customers by IBDs of conventional banks.

Table 2

New Disbursements during the quarter ending Dec 31 2010		
	Amount (Rs. Millions)	**No. of Borrowers**
Public Sector Banks	25	9
Private Banks	902	132
Foreign Banks	4	3
Islamic Banks	689	155
All Banks	**1,621**	**299**
DFIs	-	-
HBFCL	408	511
Total	**2,029**	**810**
Islamic Industry	**1,007**	**209**

Figure 9: (Amount in Rs. Billions)

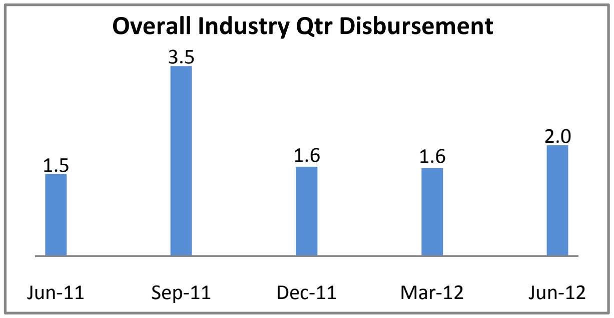
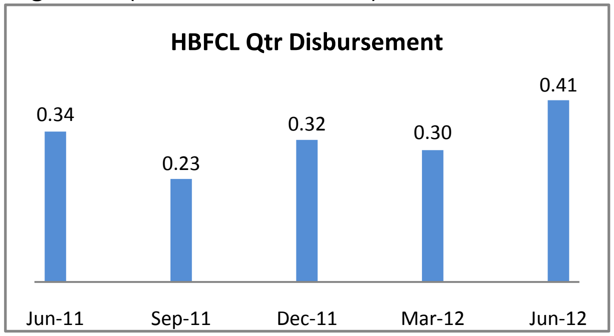


Figure 10: (Amount in Rs. Billions)

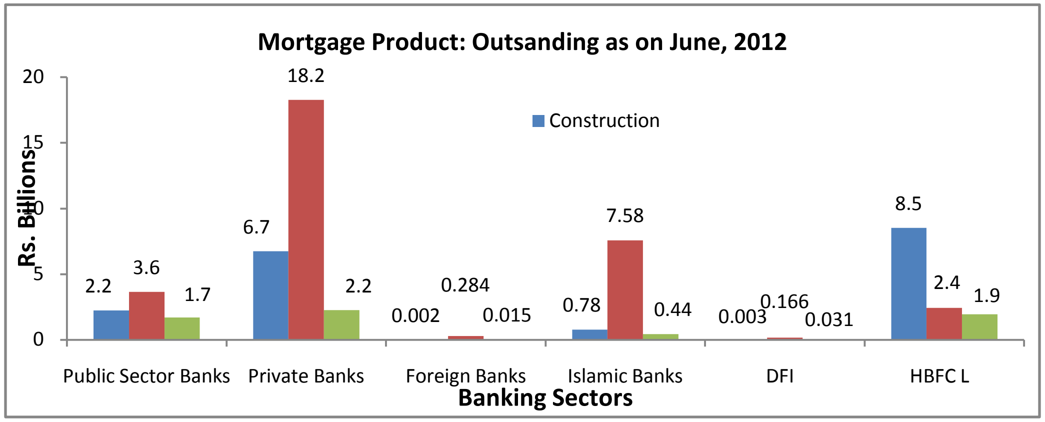


Products Category-Wise Share

The biggest share of housing finance continued to be attracted towards outright purchase (Figure 11).

The outstanding for outright purchase stood at Rs. 32.4 billion as on June 30, 2012; a 57 percent share in total outstanding of Rs. 57.1 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 18.3 billion and that of renovation stood at Rs. 6.4 billion. Active portfolio shows that private banks have taken a lead in financing for two sectors; outright purchase 56 percent and renovation 35 percent but HBFCL has taken lead in financing construction category, i.e., 47 percent.

Figure 11



Analysis of Loan Variables adopted by Banks/DFIs and HBFCL

Tables 3 to 6 summarize loan variables across all banking sectors including weighted average interest rate, average maturity period, Loan-to-Value ratio (% financing by banks) and average loan size.

Weighted average interest rate

The overall weighted average interest rate was 15.7% at the end of the current quarter as shown in Table 3. Highest weighted average profit rate was reported by Foreign Banks 16.7%, followed by HBFCL 16%, Islamic Banks 15.9%, Public sector Banks 15.6, while private sector banks average came to 15.1%.

Table 3

	Weighted Average Interest Rate (%)				
	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11
Public Sector Banks	15.6	14.0	15.7	16.5	17.2
Private Banks	15.1	15.3	15.8	16.4	17.1
Foreign Banks	16.7	17.0	16.8	16.3	15.6
Islamic Banks	15.9	16.2	16.7	17.1	17.0
All Banks	15.4	15.6	16.1	16.7	17.0
DFIs	-	-	-	-	-
All Banks & DFIs	15.4	15.6	16.1	16.7	17.0
HBFCL	16.0	16.0	16.0	17.4	17.5
Total Average	15.7	15.8	16.0	17.0	17.3

Average maturity periods

Average maturity period of outstanding loans as on June 30, 2012 was 11.2 years. HBFCL's average maturity period was 11.6 years, while that of Private Banks is 11.7 years. Table 4 shows that among commercial banks, Foreign Banks have extended housing loans for an average tenure of 10.7 years followed by Public Sector Banks with 10.4 years and Islamic Banks with 9.2 years.

Table 4

	Average Maturity Period (Years)				
	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11
Public Sector Banks	10.4	10.2	8.1	5.9	10.1
Private Banks	11.7	11.7	11.7	10.6	13.2
Foreign Banks	10.7	9.8	8.6	16.0	17.5
Islamic Banks	9.2	10.4	9.9	12.2	10.7
All Banks	10.8	11.5	10.4	10.5	12.3
DFIs	-	-	-	-	-
All Banks & DFIs	10.8	11.5	10.4	10.5	12.3
HBFCL	11.6	13.0	14.1	13.5	12.7
Total Average	11.2	12.3	12.2	12.0	12.5

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs decreased during last year (Table 5) from 42.7% to 41.8%. Average LTVs of commercial banks have decreased from 42.6% to 4.18% over the year. The average LTV for HBFCL has decreased from 42.8% to 41.8 over the year.

Table 5

	Loan to Value Ratio				
	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11
Public Sector Banks	46.7	46.7	30.6	35.2	31.7
Private Banks	31.3	33.8	36.5	57.8	44.6
Foreign Banks	46.7	47.0	47.1	49.0	63.4
Islamic Banks	42.3	43.5	43.6	45.4	39.7
All Banks	41.8	38.1	37.3	48.8	42.6
DFIs	-	-	-	-	-
All Banks & DFIs	41.8	38.1	37.3	48.8	42.6
HBFCL	41.8	39.8	42.9	38.7	42.8
Total Average	41.8	39.0	40.1	43.7	42.7

Average loan size

Average loan size for disbursements made during the quarter ending June 30, 2012, Table 6, was Rs. 4.1 million for all banks, except HBFCL. The average loan size for HBFCL was Rs. 1.3 million. Private Banks reported an average financing size of 5.1 million, Foreign Banks and Islamic Banks reported an average financing size Rs. 4.3 million and Rs. 2.9 million respectively, and Public sector banks 2.2 million. The housing finance market is still inclined towards lending to high income groups.

Table 6

	Average Loan Size (Rs. Millions)				
	Jun-12	Mar-12	Dec-11	Sep-11	Jun-11
Public Sector Banks	2.2	2.1	1.4	3	0.8
Private Banks	5.1	4.2	3.9	2.7	4.7
Foreign Banks	4.3	4.0	1.7	1.9	2.5
Islamic Banks	2.9	3.7	1.7	2	1.9
All Banks	4.1	3.8	2.4	2.5	3.2
DFIs	-	-	-	-	-
All Banks & DFIs	4.1	3.8	2.4	2.5	3.2
HBFCL	1.3	2.1	1.3	1.3	1.9
Total Average	2.7	3.0	1.88	1.9	2.5

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The total outstanding housing finance of Micro Finance Banks (MFBs) was Rs. 168.2 millions as on June 30, 2012 which was Rs. 174.469 millions at the end of March 31, 2011. It registered a decrease of 4 percent, over the last quarter.

Number of Borrowers

Total number of outstanding borrowers increased from 2,297 to 2,783 since June 30, 2011; an increase of 21 percent.

Non-Performing Loans

NPLs for MFBs have increased from Rs. 1.72 million (March 31, 2012) to Rs. 3.9 million (Jun-30, 2012); showing an increase of 121 percent over the last quarter. NPLs of MFBs arising out of housing finance business are around 2 percent of their outstanding housing finance portfolio.

Mortgage to GDP Ratio:

While calculating mortgage to Grand Domestic Product (GDP Nominal), following figures were taken in to account.

- Outstanding finances of Commercial Banks, DFIs and Micro finance banks were equal to Rs. 57.1 Billion as of June 2012.
- Amount of finance availed by employees of the Commercial banks and DFIs was Rs. 75.9 Billion as of June 2012
- Nominal GDP for year 2010-11 was Rs. 18100[2] Billion

[2]For Nominal GDP: http://tribune.com.pk/story/180824/economic-survey-2010-2011-pakistan-failed-to-meet-growth-target/

Mortgage to GDP Ratio= Total Mortgages/GDP

Mortgage to GDP ratio in Pakistan remained below 1% and to be exact it was 0.73% as of June 2012.

Conclusion

The quarter ending June 30, 2012 depicted a decrease of 7.8 percent (Rs. 4.8 billion) compared to quarter ending June 30, 2011, in overall outstanding portfolio of housing finance industry. NPLs of the housing finance portfolio display a rising trend over the year and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers due to inflated prices of property/houses, labor and construction material. Another reason hindering the growth of housing finance in Pakistan is reluctance of banks for lending outside few big cities. However, number of banks are disbursing small amounts, i.e., form Rs. 1 million to Rs. 1.5 million which is very positive sign for mortgage industry. LTVs have increased while Average loan size and maturity periods have decreased over the last year. However, the lack of effective 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.

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.

Capacity building Program

State Bank of Pakistan (SBP) is extending its endeavors to flourish the housing finance system in the country. Being the regulator of financial institutions, SBP is thriving hard to educate the financial industry. In continuation to SBP efforts, we actively pursue this goal of SBP to train the financial industry. During the FY 2011-2012, Infrastructure & Housing Finance Division conducted eight different training programs, related to mortgages, in different cities of the country which were highly appreciated by the participants.

News on Housing Finance

Planning Commission seeks to computerize, centralize land records

The Planning Commission wants to computerize the land records and centralize the data collected from all over the country in next few years, the action plan on Growth Strategy prepared by the commission said.

[Published in The News, April 18, 2012] For full text: http://www.thenews.com.pk/Todays-News-3-103509-Planning-Commission-seeks-to-computerise-centralise-land-records#

Rise of the Pakistani middle class: Affluent buyers demand 'lifestyle real estate'

Middle class homebuyers in urban Pakistan are increasingly demanding better facilities and real estate developers are increasingly competing not just on price but also on the quality of communities they can build.

Real estate is becoming an increasingly important sector for the Pakistani economy, employing well over 5% of the country's labour force directly in construction and much more in related industries. Yet a key hindrance to the development of the sector is the availability of housing finance. According to the State Bank of Pakistan's latest available figures, the total value of home loans in Pakistan's banking sector was Rs50 billion in December 2010, or about 1.5% of all loans outstanding.

To overcome the lack of housing finance, most real estate developers offer financing to their buyers themselves, offering installment plans for the housing units they sell.

[Published in The Express Tribune, April 22nd, 2012] For full text: http://tribune.com.pk/story/368158/rise-of-the-pakistani-middle-class-affluent-buyers-demand-lifestyle-real-estate/

SBP urged to launch First Home Mortgage Schemes

No proper efforts are being made by the government or the State Bank to increase housing supply and improve the overall conditions in housing as well as housing finance market, as there is acute housing shortage, particularly for lower income groups, which make up a substantial part of the population.

This was stated by Mian Ayaz Anwar, the Managing Director of the Zaitoon Group, a real estate development company, during an interview with The Nation.

He observed that it is responsibility of the State Bank of Pakistan to launch a First Home Mortgage Scheme on marginal interest for all income groups to bridge this gap of demand and supply.

[Published in The Nation, April 30, 2012] For full text: http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/business/29-Apr-2012/sbp-urged-to-launch-first-home-mortgage-schemes

Troubled sector: 300,000 units added to housing backlog every year

The housing shortage in Pakistan goes up by 300,000 units every year, with the cumulative national housing backlog of at least seven million units, according to the International Housing Finance Programme 2008. Yet, the State Bank of Pakistan estimates that the formal financial sector caters to only 1% to 2% of all housing transactions in the country.

[Published in The Express Tribune, May 20th, 2012] For full text: http://tribune.com.pk/story/381491/troubled-sector-300000-units-added-to-housing-backlog-every-year/

EAC proposals: Banks may be offered tax breaks on concessionary house loans

The Economic Advisory Council (EAC) – an economic policy advisory body – has offered its proposals for the upcoming financial year to Finance Minister Dr Abdul Hafeez Shaikh during a meeting here on Friday.

EAC suggests incentivising housing and small and medium enterprise (SME) loans; introduction of major tariff reforms; and uniformity in sales tax rates as focal points for the government.

[Published in The Express Tribune, May 26, 2012] For Full Text: http://tribune.com.pk/story/384252/eac-proposals-banks-may-be-offered-tax-breaks-on-concessionary-house-loans/