STATE BANK OF PAKISTAN

INFRASTRUCTURE, HOUSING AND SME FINANCE DEPARTMENT

Quarterly Housing Finance Review

July-September 2012

The Infrastructure, Housing & SME Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ending September 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 September 30, 2012 was Rs. 54.2 billion. It was Rs. 61.2 billion as of September 30, 2011 showing a decline of Rs. seven billion (11.5 percent) over the year and Rs. 55.8 billion at the end of June 30, 2012. The total number of outstanding borrowers also decreased from 94,492 to 85,505 over a year; showing a fall of 9.5 percent and 1.9 percent decline when compared to last quarter. Non-performing loans decreased from Rs. 19.14 billion (September 30, 2011) to Rs. 19.09 billion (September 30, 2012); a 0.3 percent decrease over the year. The stock of NPLs as on June 30, 2012 was Rs. 19.07 billion.

Around 594 new borrowers were extended house finance during the quarter (Jul-Sep, 2012), accounting for Rs. 1.4 billion of new disbursements. HBFCL accounted for 51.5 percent of these new borrowers and contributed 18.9 percent of the new disbursements equivalent to Rs. 269 million.

[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 September 30, 2012 of all banks and DFIs stood at Rs. 54.2 billion (Figure 1), compared to Rs. 55.8[2] billion as on June 30, 2012, showing a decrease of Rs. 1.6 billion (2.8 percent). Outstanding of all commercial banks and DFIs collectively decreased by 11.5 percent when looked against September 30, 2011.

Banking sector-wise total outstanding on quarters ending September 30, 2011 and 2012 are shown in Figure 2. Of the total outstanding as on September 30, 2012, commercial banks accounted for Rs. 41.3 billion; a 11.5 percent decline since quarter ending September 30, 2011. Private banks reported Rs. 24.7 billion followed by Islamic banks at Rs. 8.8 billion, public sector banks at Rs. 7.5 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.7 billion; down by 5.6 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 September 30, 2012 of Islamic Banking Industry (05 Islamic Banks & 12 Islamic Banking Divisions of Conventional Banks) stood at Rs. 10.4 billion. Compared to quarter ending June 30, 2012, outstanding of Islamic banking Industry decreased by 0.5 percent as shown in Figure 3.

Of the total outstanding Islamic housing finance, Islamic banks accounted for Rs. 8.1 billion (nine percent increase over the last quarter Apr-Jun 2012). IBDs of conventional banks posted Rs. 2.3 billion (a 24 percent decline since quarter ending June 30, 2012).

Figure 1 (Amount in Rs. Billion)

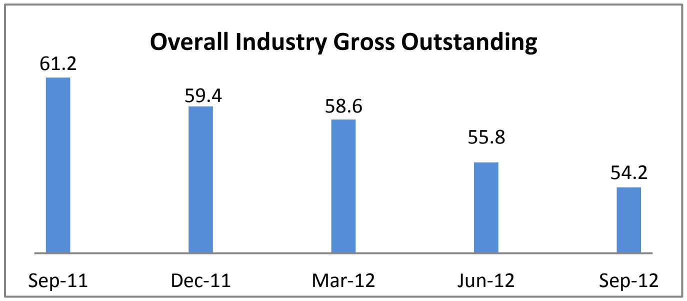


Figure 2

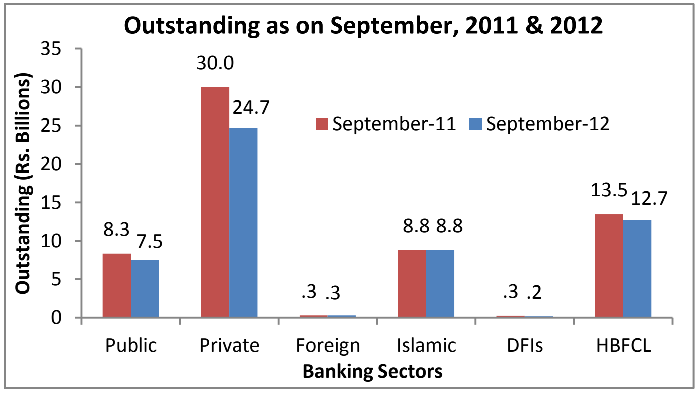
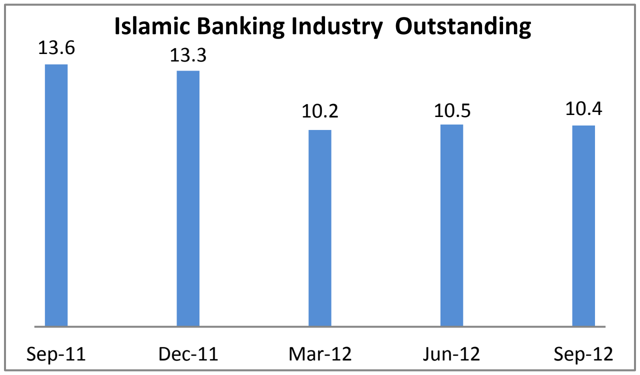


Figure 3 (Amount in Rs. Billion)



[2] Summit Bank reported mortgages under SME Finance and loans to builders in housing finance data which caused an over statement in the outstanding amount in the previous quarter. Now the error has been rectified.

Share of Banks

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) decreased marginally from 78 percent to 76 percent compared to the corresponding period last year. Within commercial banks, the share of Public sector banks in the total outstanding remained unchanged at 14 percent and the share of HBFCL in the total outstanding increased to 23 percent from 22 percent over the year. The share of Private Sector Banks decreased to 46 percent from 49 percent over the year. The share of Islamic banks increased to 16 percent from 14 percent and the share of Foreign Banks remained unchanged at one percent 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 53 percent, 23 percent and 23 percent respectively as on September 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

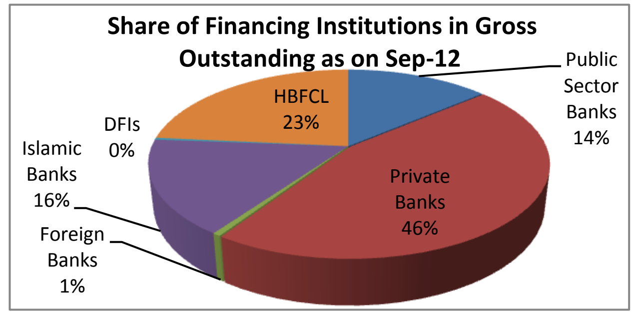


Figure 4.1:

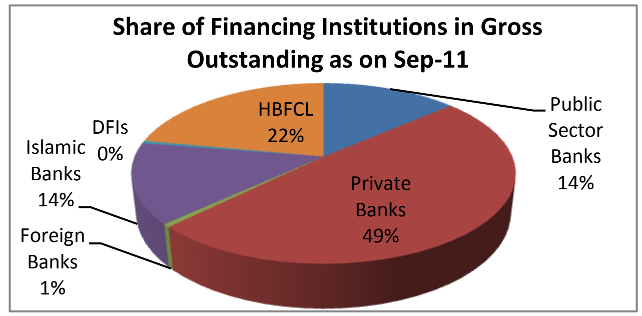
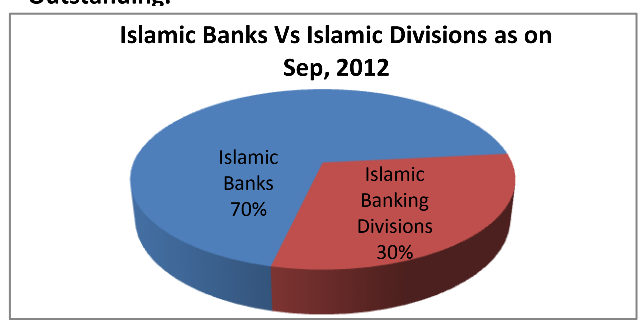


Figure 4.2: Share of Islamic Banks and Islamic Banking Divisions within Islamic Banking Industry in Total Outstanding.



Non-Performing Loans (NPLs)

NPLs marginally decreased from Rs. 19.14 billion (September 30, 2011) to Rs. 19.09 billion (September 30, 2012); a 0.26 percent increase during the year. The stock of NPLs as on September 30, 2012 was Rs. 19.09 billion, showing a meager decrease of 0.11 percent over the yester quarter (Apr–June, 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 September 30, 2012 and September 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 decreasing outstanding with low disbursements.

HBFCL's NPLs increased from Rs. 6.9 billion to Rs. 7.8 billion during the year; a 13.9 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 61 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 8.2 percent over the year from Rs. 12.3 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 as on September 30, 2012, compared to a 64 percent as of September 30, 2011.

Among banks, Figure 6, non-performing finances (NPFs) of Islamic banks witnessed a increase of 29 percent during the year, from Rs. 1.2 billion to Rs. 1.5 billion. Their NPFs constitute eight percent, as on September 30, 2012, of total NPLs. NPLs of the public sector banks increased by 8.6 percent from Rs. 1.8 billion to Rs. two billion, over the year, which were 27 percent of total outstanding as of September 30, 2012. Private Banks' NPLs have decreased by 16.5 percent, from Rs. nine billion to Rs. 7.5 billion which was 30 percent of their total outstanding, as of September 30, 2012. NPLs of foreign banks as a percentage of their outstanding portfolio increased from

Figure 5: (amount in Rs. Billions)

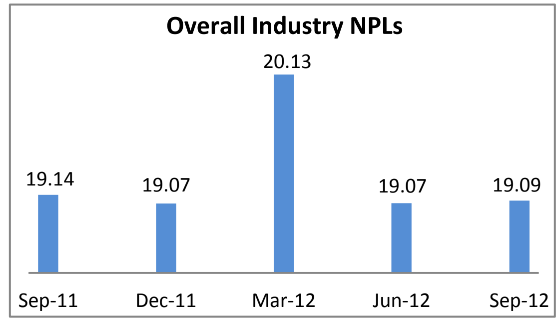


Figure 5.1: (amount in Rs. Billions)

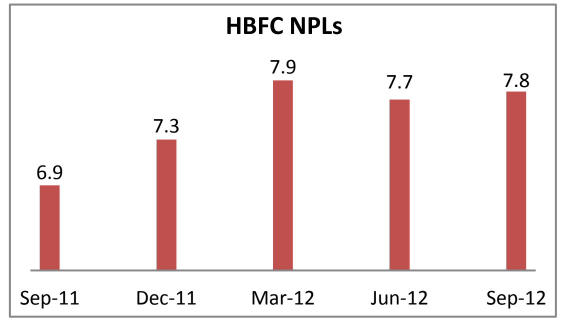
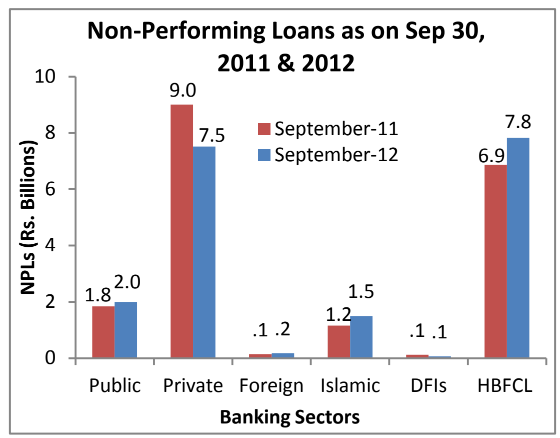


Figure 6



44 percent (at the quarter end Aug–Sep, 2011) to 60 percent as of September 30, 2012. NPLs of DFIs (excluding HBFCL) have decreased from Rs. 126 million to Rs. 70 million, over a year; a 45 percent decrease over the year with 37 percent of its total outstanding classified as NPLs as on September 30, 2012.

Figure 7

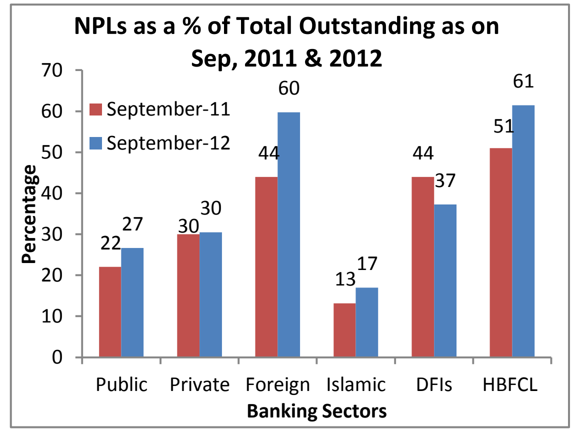
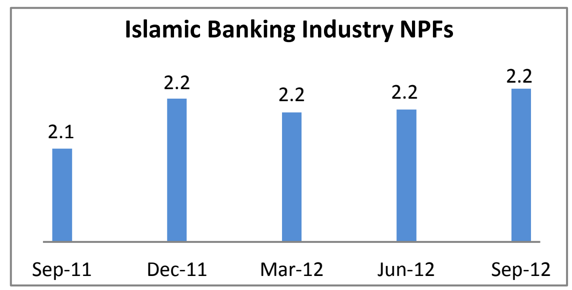


Figure 8



Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.24 billion on September 30, 2012, which were Rs. 2.18 billion at the end of last quarter (Apr-Jun, 2012) showing an increase of 2.7 percent (Rs. 60 million).

Number of Borrowers

Total number of borrowers decreased from 94,492 to 85,641 since June September 30, 2011; a decline of 9.5 percent. As shown in Table 1, there is a decrease in number of borrowers in each category.

In terms of percentage, approximately 62 percent of total borrowers of housing finance have been classified as non-performing. However, this is primarily due to HBFCL's number (49,757) of non-active borrowers, classified as non-performing, which accounts for 77 percent of its borrowers. Thus, by excluding HBFCL, 16 percent of total borrowers of housing loans have been classified as non-performing.

Table 1

Banks/ DFIs	September – 12			September – 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	5,030	804	5,834	5,919	817	6,736
Private Banks	10,433	2,152	12,585	11,564	2,253	13,817
Foreign Banks	34	43	77	50	30	80
Islamic Banks	2,315	298	2,613	2,796	195	2,991
DFIs	71	9	80	94	10	104
HBFCL	14,580	49,757	64,337	20,649	50,115	70,764
Total	**32,463**	**53,042**	**85,505**	**41,072**	**53,420**	**94,492**

Disbursements

Fresh disbursements of Rs. 1.4 billion (Figure 9) were made to 594 borrowers during the quarter ending September 30, 2012 (Table 2). Private Banks extended new disbursements with Rs. 0.53 billion followed by Islamic banks with Rs. 0.59 billion, public sector banks with Rs. 35 million and foreign banks with Rs. 2.5 million. HBFCL's fresh disbursements for the quarter were reported to be Rs. 269 million. Among commercial banks, the number of new borrowers totaled 288, with private banks serving 93 borrowers and Islamic banks 139 customers. HBFCL extended loans to 306 new borrowers during the reporting quarter.

Fresh disbursement for Islamic Banking Industry was Rs. 0.87 billion to 183 new borrowers during the quarter ending September 30, 2012. This includes new disbursements of Rs. 0.28 billion to 44 customers by IBDs of conventional banks.

Figure 9: (Amount in Rs. Billions)

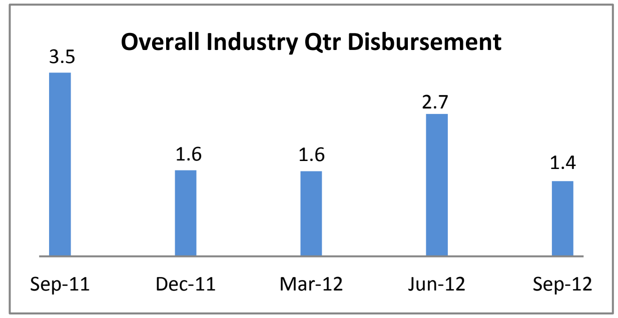


Figure 10: (Amount in Rs. Billions)

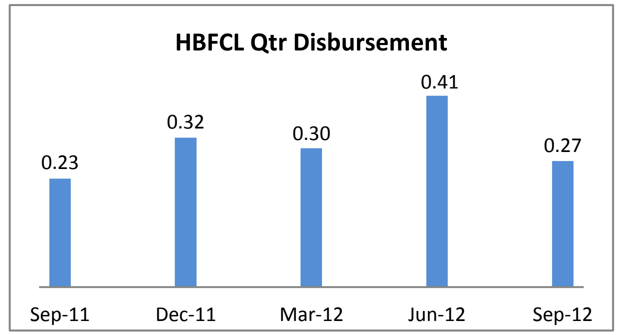


Table 2

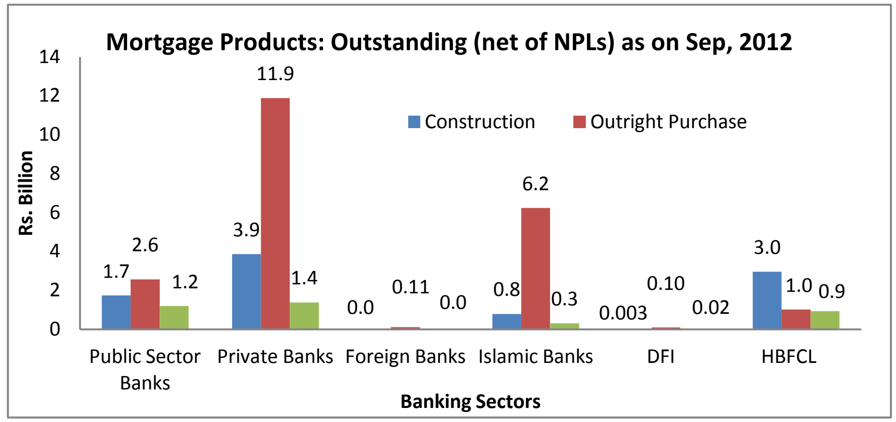
New Disbursements during the quarter ending Dec 31 2010		
	Amount (Rs. Millions)	**No. of Borrowers**
Public Sector Banks	35	54
Private Banks	525	93
Foreign Banks	3	2
Islamic Banks	592	139
All Banks	**1,155**	**288**
DFIs	-	-
HBFCL	269.0	306.0
Total	1,424	594
Islamic Industry	**874**	**183**

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. 31.6 billion as on September 30, 2012; a 58 percent share in total outstanding of Rs. 54.2 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 16.3 billion and that of renovation stood at Rs. 6.3 billion. Active portfolio shows that private banks have taken a lead in financing for two sectors; outright purchase 55 percent and renovation 35 percent but HBFCL has taken lead in financing construction category, i.e., 51 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 15.2% at the end of the current quarter as shown in Table 3. Highest weighted average profit rate was reported by Foreign Banks 16%, followed by Islamic Banks 15.5%, HBFCL 15.2%, Private sector Banks 15%, while public sector banks average came to 14.5%.

Table 3

	Weighted Average Interest Rate (%)				
	Sep-12	**Jun-12**	**Mar-12**	**Dec-11**	**Sep-11**
Public Sector Banks	14.5	15.6	14	15.7	16.5
Private Banks	15.0	15.1	15.3	15.8	16.4
Foreign Banks	16.0	16.7	17	16.8	16.3
Islamic Banks	15.5	15.9	16.2	16.7	17.1
All Banks	**15.1**	**15.4**	**15.6**	**16.1**	**16.7**
DFIs	-	-	-	-	-
All Banks & DFIs	**15.1**	**15.4**	**15.6**	**16.1**	**16.7**
HBFCL	15.2	16	16	16	17.4
Total Average	**15.2**	**15.7**	**15.8**	**16**	**17**

Average maturity periods

Average maturity period of outstanding loans as on September 30, 2012 was 11.7 years. HBFCL's average maturity period was 13.3 years, while that of Private Banks is 10.6 years. Table 4 shows that among commercial banks, Foreign Banks have extended housing loans for an average tenure of 10.3 years followed by Islamic Banks with 9.7 years and Public Sector Banks with 8.6 years.

Table 4

	Average Maturity Period (Years)				
	Sep-12	Jun-12	Mar-12	Dec-11	Sep-11
Public Sector Banks	8.6	10.4	10.2	8.1	5.9
Private Banks	10.6	11.7	11.7	11.7	10.6
Foreign Banks	10.3	10.7	9.8	8.6	16
Islamic Banks	9.7	9.2	10.4	9.9	12.2
All Banks	**10.1**	**10.8**	**11.5**	**10.4**	**10.5**
DFIs	-	-	-	-	-
All Banks & DFIs	**10.1**	**10.8**	**11.5**	**10.4**	**10.5**
HBFCL	13.3	11.6	13	14.1	13.5
Total Average	**11.7**	**11.2**	**12.3**	**12.2**	**12**

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs increased during last year (Table 5) from 43.7% to 44.2%. Average LTVs of commercial banks have decreased from 48.8% to 41.4% over the year. The average LTV for HBFCL has increased from 38.7% to 46.9% over the year.

Table 5

	Loan to Value Ratio				
	Sep-12	Jun-12	Mar-12	Dec-11	Sep-11
Public Sector Banks	46.7	46.7	46.7	30.6	35.2
Private Banks	30.3	31.3	33.8	36.5	57.8
Foreign Banks	47.0	46.7	47	47.1	49
Islamic Banks	41.7	42.3	43.5	43.6	45.4
All Banks	**41.4**	**41.8**	**38.1**	**37.3**	**48.8**
DFIs	-	-	-	-	-
All Banks & DFIs	**41.4**	**41.8**	**38.1**	**37.3**	**48.8**
HBFCL	46.9	41.8	39.8	42.9	38.7
Total Average	**44.2**	**41.8**	**39**	**40.1**	**43.7**

Average loan size

Average loan size for disbursements made during the quarter ending September 30, 2012, Table 6, was Rs. Seven million for all banks, except HBFCL. The average loan size for HBFCL was Rs. 2.3 million. Private Banks reported an average financing size of 7.3 million, Foreign Banks and Islamic Banks reported an average financing size Rs. 4 million and Rs. 3.6 million respectively, and Public sector banks 2.5 million. The housing finance market is still inclined towards lending to high income groups.

Table 6

	Average Loan Size (Rs. Millions)				
	Sep-12	Jun-12	Mar-12	Dec-11	Sep-11
Public Sector Banks	2.5	2.2	2.1	1.4	3
Private Banks	7.3	5.1	4.2	3.9	2.7
Foreign Banks	4.0	4.3	4	1.7	1.9
Islamic Banks	3.6	2.9	3.7	1.7	2
All Banks	**7.0**	**4.1**	**3.8**	**2.4**	**2.5**
DFIs	-	-	-	-	-
All Banks & DFIs	**7.0**	**4.1**	**3.8**	**2.4**	**2.5**
HBFCL	2.3	1.3	2.1	1.3	1.3
Total Average	**4.6**	**2.7**	**3**	**1.88**	**1.9**

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The total outstanding housing finance of Micro Finance Banks (MFBs) was Rs. 153.7 millions as on September 30, 2012 which was Rs. 168.2 millions at the end of June 30, 2012. It registered a decrease of 8.6 percent, over the last quarter.

Number of Borrowers

Total number of outstanding borrowers decreased from 2,783 to 2,693 since June 30, 2012; a decrease of 3.2 percent.

Non-Performing Loans

NPLs for MFBs have decreased from Rs. 3.9 million (June 30, 2012) to Rs. 0.39 million (Sep 30, 2012); showing a decrease of 90 percent over the last quarter. NPLs of MFBs arising out of housing finance business are around 0.3 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. 54.4 Billion as of September 2012.
- Amount of finance availed by employees of the Commercial banks and DFIs was Rs. 77.3 Billion as of September 2012.
- Nominal GDP for year 2010-11 was Rs. 18100[3] Billion

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 September 2012.

Share of Housing Finance in Consumer Finance:

At the end of quarter ended September 30, 2012, the housing finance to consumer finance was 22 percent whereas the ratio of housing finance NPLs to consumer finance loans NPLs was 43 percent being the highest share among the NPLs of other consumer products.

Conclusion

The quarter ending September 30, 2012 depicted a decrease of 2.8 percent (Rs. 1.6 billion) compared to quarter ending June 30, 2012, 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. 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 sectors.

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

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 quarter ended September 30, 2012, Infrastructure & Housing Finance Division conducted a training program on the topic "Recovery of Willful Defaults in Housing Finance" which was highly appreciated by the participants.

Mortgage Refinance Company

A meeting of SBP and IFC representatives was held with the high level government officials to discuss the incorporation and way forward for the mortgage refinance company in current changing economic scenario. It was decided in the meeting that SBP shall undertake the fresh round of consultation with stakeholders to carry forward the initiative according to the prevalent economic environment.

Seminar on Housing Microfinance

Being a developing country, Pakistan is facing the acute shortage of houses especially in low income groups. Though microfinance banks are operating to cater the need of low income groups; however due to non availability of suitable housing finance products large chunk of population remains unserved. In this regard, SBP held a seminar on housing microfinance to discuss the problems of microfinance banks and way forward to cater the housing finance needs of low income group. Representatives from commercial banks, NGOs, MFBs and MFIs participated in the seminar. A working group was formed, as one of the recommendations of the seminar, to work for suitable product for low income group. Working group consists of members from commercial banks, MFBs and low income housing builders.

Formation of Housing & Housing Finance Consultative Group

To flourish the housing industry and expand the outreach of housing finance, SBP proposed the formation of housing and housing finance consultative groups. Key stakeholders i.e. ABAD, AMB, HBFCL, MoH&W, MoF & SBP would be the members of consultative group. Currently, the opinion of stakeholders on the formation of housing finance consultative group has been sought.

News on Housing Finance

ABAD greets cut in interest rate

This act of State Bank of Pakistan will certainly encourage private investment, they said adding this important step would put the economy on its growth-oriented track. They emphasized that Housing Industry is directly affected by the monetary policies of State Bank of Pakistan. While other Industries are also praising the lowering down of interest rates to make them more competitive globally, the housing industry is awaiting a boom from the cheap capital available to entrepreneurs and our would be clients. [Published in One Pakistan, August 17, 2012] For full text: http://business.onepakistan.com.pk/news/money-banking/10678-abad-greets-cut-in-interest-rate.html