INFRASTRUCTURE AND HOUSING FINANCE DEPARTMENT

Housing Finance Quarterly Review

September 2009

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The Infrastructure and Housing Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ended September2009.

This review aims to present 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

The housing finance sector reported a decline of 8.9% in gross outstanding portfolio over the last year. The total outstanding reported by banks and DFIs as on Sep 30, 2009 was Rs. 76.66 billion compared to Rs. 84.12 billion as on Sep 30, 2008. The total number of outstanding borrowers has decreased from 123,047 to 115,959 since September2008; a 6% fall.

Non-performing loans have increased from Rs. 10.53 billion (Sep 2008) to Rs. 15.26 billion (Sep 2009); a 45% 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 529 new borrowers were extended house loans during the quarter accounting for Rs. 1.33 billion of new disbursements. HBFC accounted for 14% of these new borrowers and contributed 6.4% of the new disbursements made.

Financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising almost 60% share in outstanding portfolio.

Outstanding

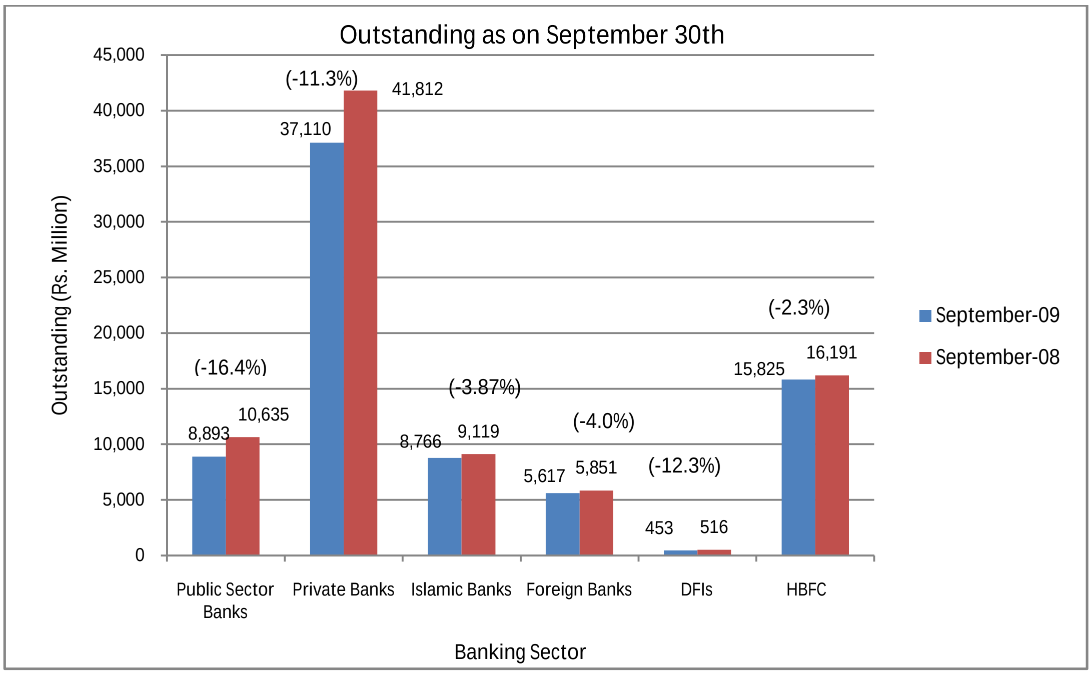
Gross Outstanding

The total outstanding finance as on Sep 30, 2009 of all banks and DFIs stood at Rs. 76.66 billion. Compared to quarter ended Sep 2008 (Figure 1), outstanding of all commercial banks and DFIs collectively decreased by 8.9%.

Banking sector wise total outstanding with growth/fall (in parenthesis) since quarter ended Sep 30 2008 is shown in Figure 1. Of the total outstanding of Rs. 76.66 billion (as on Sep 30, 09), commercial banks accounted for Rs. 60.39 billion with private banks posting Rs.37.11 billion; a 11.25% decline since quarter ended Sep 2008. Public sector banks reported an outstanding of Rs. 8.89 billion, followed by Islamic banks with Rs. 8.77 billion and foreign banks with Rs. 5.62 billion. Excluding DFIs, all commercial banks collectively posted a 10.4% decline when compared to quarter ended Sep 2008.

The outstanding loans of HBFC were Rs. 15.83 billion; a 2.26% decline over the last year. Other DFIs have a meager share of Rs. 0.45 billion in outstanding loans.

Figure 1



Non-Performing Loans

This section analyzes the position of NPLs by first observing increase/decrease in its levels followed by NPLs share in total outstanding at the reporting quarters ended Sep 2009 and 2008.

Figure 2

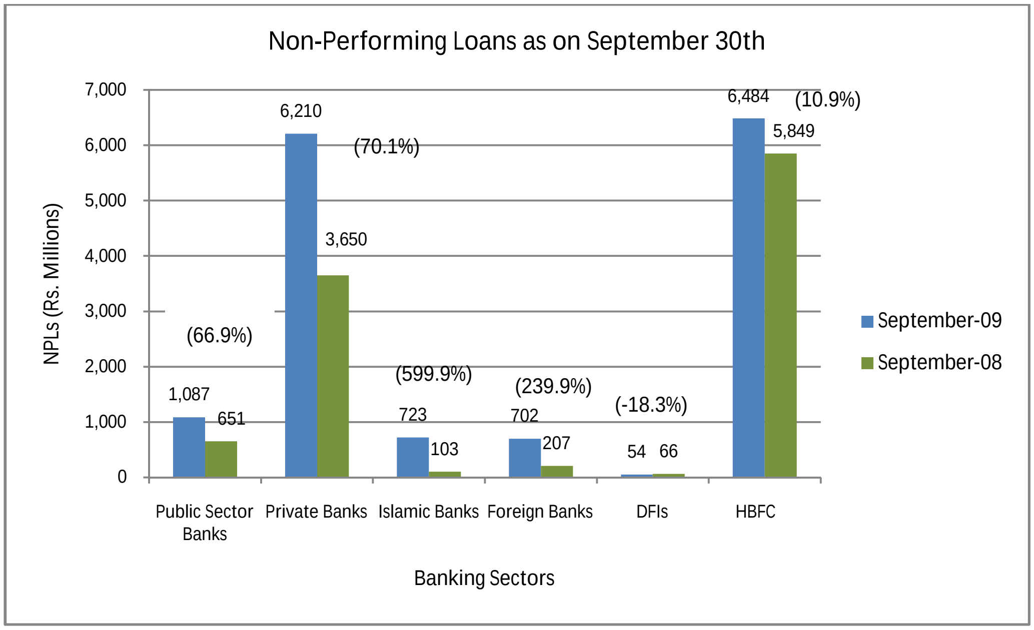


Figure 3

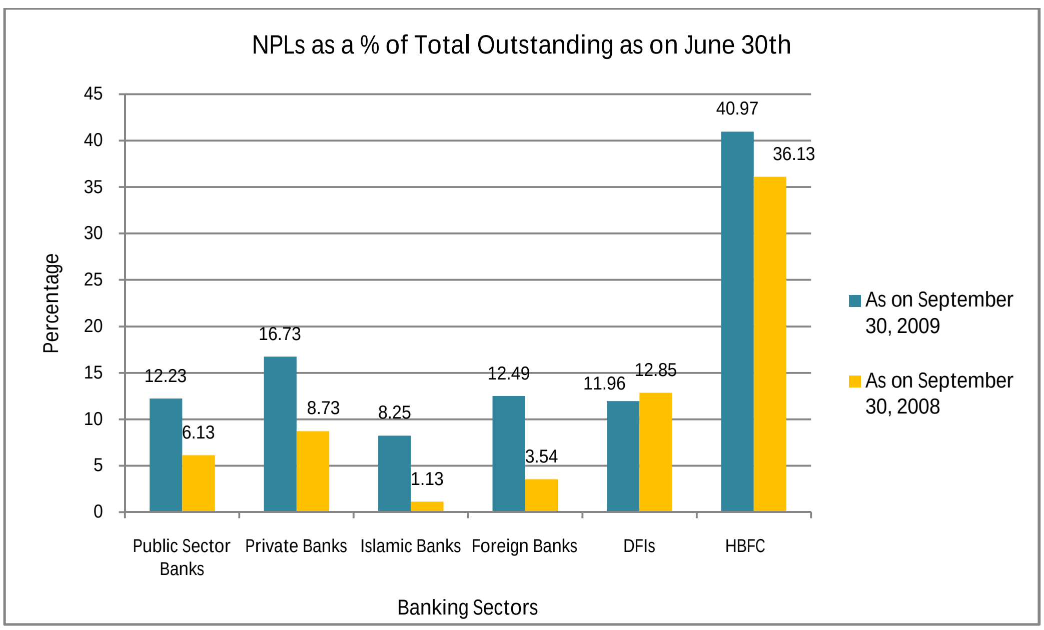


Figure 2 shows that NPLs have increased from Rs. 10.53 billion (Sep 2008) to Rs. 15.26 billion (Sep 2009); a staggering 45% increase during the year. Figure 3 compares NPLs as a percentage of total outstanding for the quarters ending Sep 30, 2009 and Sep 30, 2008. NPLs as a proportion of total outstanding have witnessed an increasing trend over the last twelve months. This overall rise in NPLs is due to rising inflation and interest rates.

HBFC's NPLs have increased from Rs. 5.85 billion to Rs. 6.48 billion during the year; an almost 10.86% 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 and has further increased over the twelve months; a 41% of its total outstanding constitutes of NPLs (Figure 3).

Excluding HBFC, NPLs for all banks and other DFIs have increased by 88% over the year from Rs. 4.68 billion to Rs. 8.78 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFC) constitute is 14.4% of their total outstanding portfolio, compared to a 6.84% of its total outstanding as on September 30, 2008.

Among banks, Islamic banks have witnessed the sharpest increase in NPLs during the year; an increase of almost 600%, from Rs. 103 million to Rs. 723 million. Although, their NPLs constitute only 8.25% share in total outstanding, the share has jumped from 1.13% (Sep 2008). NPLs of the public sector banks have increased from Rs. 0.65 billion to Rs.1.1 billion; a 67% increase, and 12.2% of its total outstanding is classified as NPLs. NPLs of foreign banks have increased from Rs. 207 million to Rs. 702 million; a 239% increase with 12.5% of its total outstanding classified as NPLs, which was 3.54% in Sep 2008. Private banks have reported an increase of 70% in NPLs from Rs. 3.65 billion to Rs. 6.21 billion which is 16.73% of their total outstanding as against 8.73 % in Sep 2008. DFIs (excluding HBFC) have reported a decline in NPLs from Rs. 66 million to Rs. 54 million and NPLs as a percentage of outstanding have also decreased from 12.85% to 11.96%.

Number of Borrowers

Total number of outstanding borrowers has decreased from 123,047 to 115,959 since Sep 2008; a 5.8% decrease (Figure 4).

Figure 4

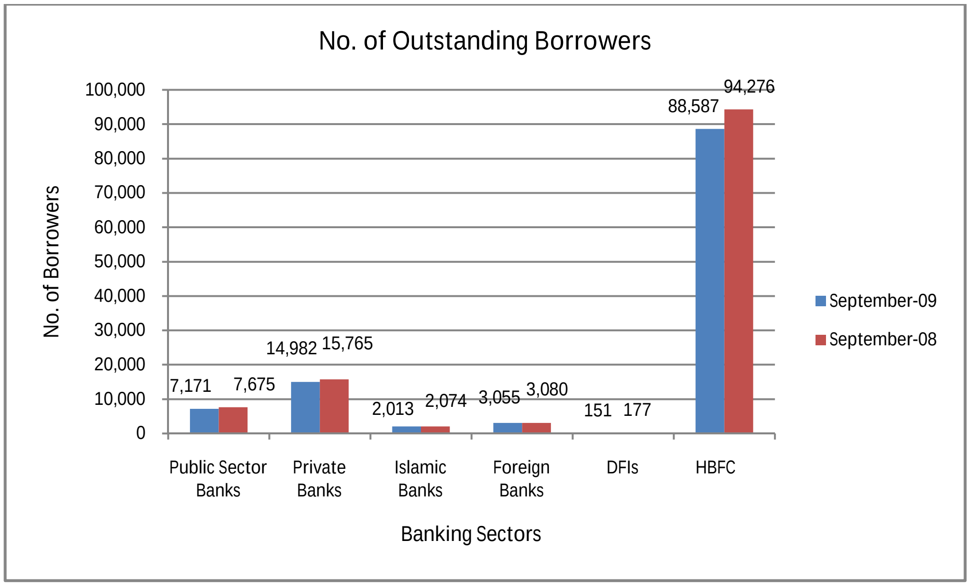
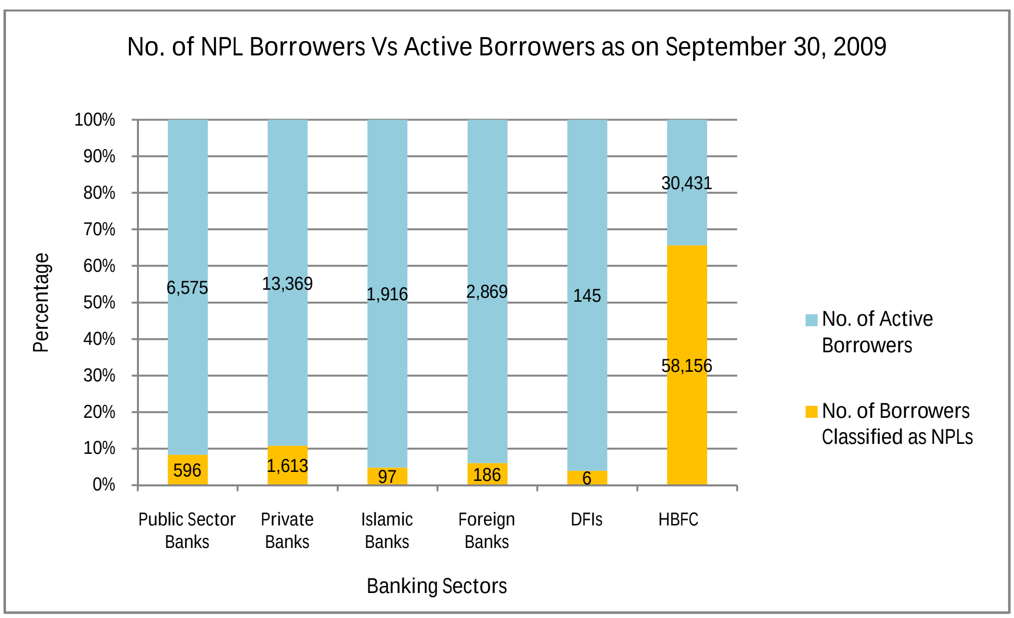


Figure 5 shows number of borrowers that have been classified as NPLs as a percentage of total borrowers. Approximately 52% of total borrowers of housing loans have been classified as non-performing. However, this is primarily due to HBFC's number (58,156) of non-active borrowers that have been classified as non-performing, which comes to 65% of total borrowers of HBFC. Thus, excluding HBFC in such an analysis will be important as it caters to 76% of the total borrowers in housing finance sector which accounts for only 20% of total outstanding portfolio. Thus, by excluding HBFC, only 9.13% of total borrowers of housing loans have been classified as non-performing.

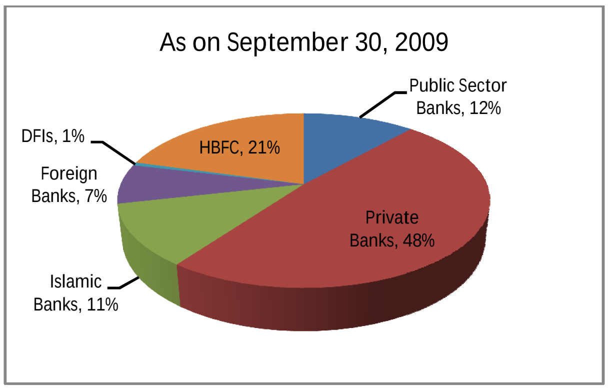
Figure 5

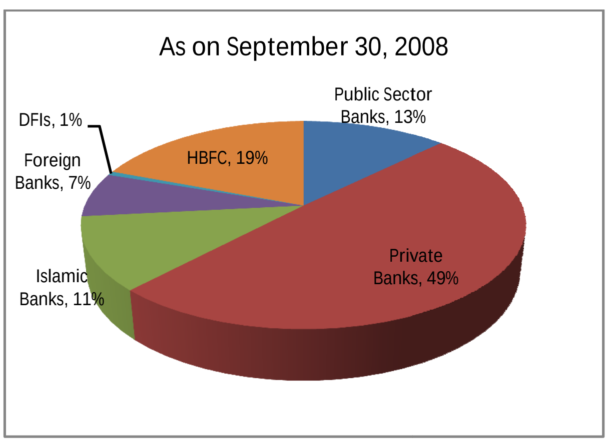


Share of Banks

The overall market share[1] of commercial banks (excluding DFIs) remained almost the same since the end of last year, as it decreased marginally from 80.3% to 78.8%. Within commercial banks (Figure 6), the share of private banks in the total outstanding decreased from 49% to 48%. Share of public sector banks has declined slightly from 13% to 12%. Share of Islamic and foreign banks have remained almost stagnant at 11% and 7%, respectively. The share of HBFC has risen slightly from 19% to 21% of the total outstanding.

Figure 6: Share of Banks in Total Outstanding





[1] Based on gross outstanding

Disbursements

A total of Rs. 1.33 billion worth fresh disbursements were made during the quarter ending Sep 2009 (Table 1). Private banks extended new disbursements of Rs. 655 million followed by Islamic banks with Rs. 309 million. HBFC's fresh disbursements for the quarter were reported to be Rs. 85 million. Among commercial banks, the number of new borrowers totaled 452, with private banks contributing 284 borrowers. HBFC extended loans to 76 new borrowers during the reporting quarter.

Table 1

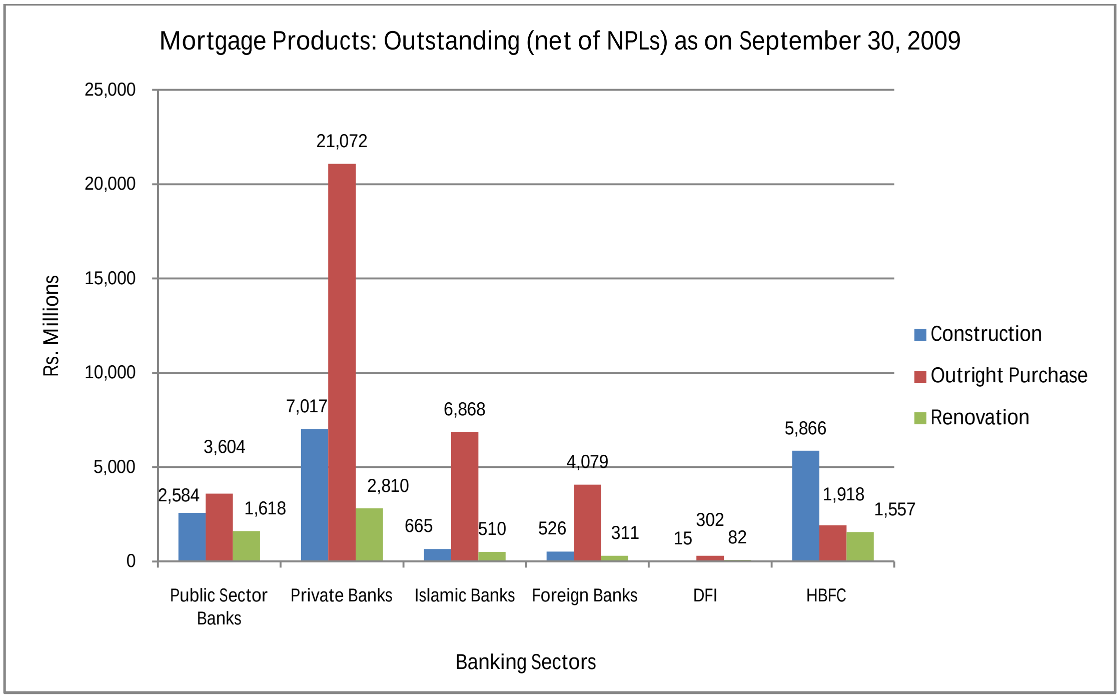
Disbursements during the quarter ended September2009

	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	78	57
Private Banks	655	284
Islamic Banks	309	90
Foreign Banks	198	21
All Banks	1240	452
DFIs	3	1
HBFC	85	76
Total	1,328	529

Sectoral Share

The biggest share of housing finance is currently being attracted towards outright purchase (Figure 7).

Figure 7



The total outstanding for outright purchase stood at Rs. 45.35 billion as on Sep 30, 2009; a 59% share in total outstanding of Rs. 80 billion. This is followed by the construction category where outstanding reported at quarter end stood at Rs. 22.7 billion and that of renovation stood at Rs. 8.6 billion.

Active portfolio shows that private banks have taken a lead in financing for all three sectors; construction 42%, outright purchase 56% and renovation 41%.

Analysis of Loan Variables adopted by Banks/DFIs & HBFC

Tables 2, 3.A & 3.B summarize loan variables across all banking sectors including weighted average interest rate, Loan-to-Value ratio (% financing by banks), average maturity, average loan size, average time for loan processing and number of cases categorized as foreclosures.

Weighted average interest rate

The overall weighted average interest rate for the quarter ending Sep 30 2009 comes to 16.15%; an increase of 0.54 percentage points when compared to quarter ended September 2008. Highest weighted average profit rate was reported by Islamic banks at 19.92%, foreign banks at 17.87% and DFIs (excluding HBFC) at 17.41%. Public sector banks reported a weighted average interest rate of 15.34% and private banks reported 14.84%.The weighted average interest rate reported by HBFC is 14.65%; a 0.94 percentage point increase compared to quarter ended September2008.

Average maturity periods

Average maturity periods have shown increasing signs i.e.; from 11.9 years (Sep 2008) to 12.6 years (Sep 2009). HBFC's average maturity period is reported to be 15.5 years, while that of Islamic banks is 14.32

years. Table 2 shows that among commercial banks, public sector banks have extended housing loans for an average tenure of 11.3 years followed by foreign banks with 12 years and private sector banks with 12.2 years.

Loan to Value ratio

The percentage of financing (Loan to Value ratio) extended by banks has increased during last year (Table 3.A). The LTV ratio for housing finance rose from 52% during quarter ending Sep 2008 to 57% during quarter ending Sep 2009. The sharpest increase was witnessed among foreign banks where the LTV ratio rose from 36.5% to 49.8%. The LTVs for HBFC remained roughly the same at 55%.

Average time for loan processing

The reported average time for loan processing is 26 days for all banks and DFIs; a trend that has remained similar over the year. Currently, the application processing of most 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, documentation is standardized and institutional inefficiencies removed.

Average loan size

Average loan size for disbursements made during the quarter ended Sep 2009 is Rs. 2.49 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 0.74 million for the reporting quarter. Islamic banks have financed with an average financing size of Rs. 3.34 millions. Private banks report an average loan size of Rs. 2.29 million, foreign banks of Rs. 2.77 million and public sector banks report Rs. 1.84 million. The housing finance market is still inclined towards lending to high income groups.

No. of foreclosures

No. of cases initiated for foreclosures have increased by 557 new cases during the quarter ended September 2009, for banks/DFIs.

Table 2

	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08
Public Sector Banks	15.34	15.12	14.96	14.3	13.33	11.29	10.6	10.6	10.8	9.4

Private Banks	14.86	15.01	14.55	13.34	13.61	12.20	11.3	11.9	11.9	11.9
Islamic Banks	19.92	17.66	17.81	18.23	14.86	14.32	14.5	14.9	15.3	15
Foreign Banks	17.87	17.49	17.53	16.89	15.05	12.01	11.1	12.0	11.8	9.1
All Banks	16.11	15.67	15.52	14.57	13.94	12.41	11.6	12.3	12.1	11.6
DFIs	17.41	17.80	17.6	16.84	16.01	14.34	13.8	14.5	14.7	12.4
All Banks & DFIs	16.16	15.77	15.60	14.65	14.02	12.48	11.7	12.4	12.2	11.6
HBFC	14.65	12.50	11.88	11.35	13.71	15.50	15.2	15.2	15.1	15.1
Total Average	16.05	15.61	15.42	14.4	13.97	12.57	11.9	12.5	12.4	11.8

Table 3. A

	Loan to Value Ratio					Average Time for Loan Processing (days)				
	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08
Public Sector Banks	61.4	61.6	60.5	63.1	58.3	30	34.6	31.7	38	38.6
Private Banks	60.4	58.5	55.3	40.3	52.7	23	21.8	22.8	22	22.8
Islamic Banks	55.9	56.9	55.3	39.8	56.7	31	34.6	30.4	36.9	33.6
Foreign Banks	49.8	51.6	36.1	41.9	36.5	23	20.7	22.5	23.6	18.8
All Banks	58.1	57.9	53.0	44	52.4	25	25.5	25.3	26.3	25.7
DFIs	42.5	43.3	43.1	44.2	49.1	30	30.0	30.0	30	30
All Banks & DFIs	57.5	57.3	52.6	44	52.3	26	25.8	25.5	26.4	25.9
HBFC	55.8	54.2	55.8	67.5	55	30	30.0	30.0	30	30
Total Average	57.4	57.1	52.8	44.7	52.3	26	26.0	25.7	26.6	26.1

Table 3.B

	Average Loan Size					No. of Foreclosures[2]		
	Sep-09	Jun-09	Mar-09	Dec-08	Sep-08	Sep-09	Jun-09	Mar-09
Public Sector Banks	1.84	1.92	1.75	1.46	1.8	N.A	N.A	N.A
Private Banks	2.29	2.48	2.29	2.4	2.38	328	316	228
Islamic Banks	3.34	3.87	3.70	2.52	3.63	47	33	14
Foreign Banks	2.77	2.89	2.68	2.79	1.97	133	121	88
All Banks	2.47	2.62	2.50	2.33	2.41	508	470	330
DFIs	3.01	3.12	3.09	3.01	2.47	1	1	1
All Banks & DFIs	2.49	2.64	2.52	2.35	2.41	509	471	331
HBFC	0.74	1.08	1.08	0.86	0.86	3,344	2,825	2,674
Total Average/Total	2.44	2.56	2.46	2.29	2.35	3,853	3,296	3,005

Conclusions

The quarter ending Sep 30, 2009 continues to show signs of slowing growth. NPLs in the housing finance portfolio display a rising trend and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers and unfavorable macroeconomic conditions. LTVs have remained constant during the quarter with a slight improvement in average maturity periods. Average loan size has decreased but only marginally. It is due to 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 poses as a 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). The HAG was established 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

[2] The no. of foreclosure cases are cumulative figures, i.e, cases initiated for foreclosures since inception and include those actually settled.

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 Pakistan Banks' Council (PBA) and the Association of Mortgage Bankers (AMB) for implementation of some of the key recommendations.

Mortgage Refinance Company

SBP and World Bank Group are working together for implementing key recommendations of HAG and 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 particularly is now being pursued aggressively. IFC has developed a detailed business plan and feasibility for the Mortgage Refinance Company. Principal buy-in of the Ministry of Finance has been elicited and stakeholders consultations are in advance stage.

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. Representatives of banks and non-bank financial institutions associated with mortgage lending business benefited from this. First session of training was designed and conducted by the Canadian Mortgage Housing Corporation (CMHC) in December 2007 in SBP Karachi. In pursuance of continued capacity building, the second and third sessions were conducted by SBP and a panel of local experts, in May 2008 and in November 2008. Till date, approximately 200 bankers from over 20 banks have been trained in the mortgage business.

Report on 'Expanding Housing Finance System in Pakistan'

A report titled 'Expanding Housing Finance System in Pakistan' has been published, combining SBP-World Bank study on 'Housing Finance Reforms in Pakistan' and SBP Housing Advisory Group (HAG)'s report. This publication presented an overview of housing finance market in Pakistan and key constraints that impede development of housing sector in the country. A set of policies and strategies suggested in the source reports, were also presented in this combined report.