# Housing Finance Prudential Regulations

## Frequently Asked Questions

**1. What is the effective date to implement new Housing Finance PRs?**

Newly issued Housing Finance PRs (HF PRs) are effective from the date of issuance i.e. May 06, 2014. However, six month period is available, for the banks/DFIs to design and implement mechanism to realign their existing housing finance criteria with respect to newly issued HF PRs.

**2. Do banks/DFIs need to implement these PRs on the old portfolio i.e. portfolio of housing finance before May 06, 2014?**

Six months time period up to November 06, 2014 is available with the bank to classify old portfolio as per new PRs. And also for the implementation of mechanism such as property takaful etc.

**<u>HF-1: Minimum Requirements</u>**

**3. Is it mandatory for banks/DFIs to determine housing finance limits in rural areas?**

It is not mandatory for the banks/DFIs to determine housing finance limits in rural areas; however, banks/DFIs have been encouraged, in new HFPRs, to extend housing finance into small towns and villages. Further, banks/DFIs may finance in urban areas only according to available resources, strategy and risk appetite

**4. What is the hybrid markup rate?**

Hybrid rate is the mix of fixed and floating markup rate. Banks/DFIs have been encouraged to adopt hybrid rates to facilitate the housing finance customers in making housing finance affordable. Further, banks/DFIs will clearly mention the mix of fixed and floating markup rates along with their respective tenures in the financing agreements. Moreover, fixed markup rate will remain fixed during the agreed tenure between borrower and bank/DFI. And, in case of floating markup rate, margin over the benchmark (KIBOR or any other rate) will remain aligned during the respective financing terms as agreed between borrower and bank/DFI. This means the Banks under hybrid rates would be able to offer home loans with varying but agreed margins with applicable ages/tenures in finance documents according to customers' affordability.

**5. What shall be the frequency for sharing "Statement of Accounts" with borrower?**

For housing finance, the "Statement of Accounts", detailing the principal repayments, principal outstanding, mark up/profit payments, and penalties (if any) during the year, has to be shared with borrowers on annual basis (may be made available on-line as well).

**6. Is any time duration permissible to banks/DFIs for converting staff housing finance into commercial housing finance in case of employee resignation/separation/termination?**

Staff housing finance should be converted into commercial housing finance immediately after the lapse of grace period (required to complete all clearance formalities) as per banks'/DFIs' approved HR policy. Further, conversion of staff housing finance to commercial housing finance means its reporting under commercial financing to SBP.

**7. Should Housing Finance PRs be complied while extending Staff housing finance?**

Housing Finance PRs are actually meant to be observed for extending housing finance to the customers on commercial basis. However, there is no compulsion in following these PRs for extending housing finance to banks'/DFIs' own staff. The banks'/DFIs' management has to decide whether or not to follow these PRs along with its own HR policies for allowing housing finance facilities to their employees.

**8. What type of mechanism is required to put in place to monitor the housing finance market?**

The banks/DFIs may conduct housing market survey of the residential properties in major cities of financing through their own in-house department/resources/staff or through PBA approved valuators and maintain detailed Housing Prices. Such surveys can also be arranged through any representative body for common use by member banks/DFIs.

**9. What is meant by verification of all title documents of property?**

Verification of all title documents means verification of maximum possible trail of related documents related to property title to the satisfaction of bank's/DFI's legal advisor.

**10. In certain cases, approved building plan is not available with the customer. However, valid and proper lease/ sub-lease from concerned authority has been issued. Can the bank extend housing finance, in the absence of approved building plan if all title documents are intact and valid mortgage of bank can be created over property through registration of charge?**

To disburse housing finance to purchase constructed house, approved building plan is necessary. This requirement doesn't apply for individual apartments where the builders get approval of drawing of whole building. However, housing finance for plot plus construction, finance shall be disbursed for the purchase of plots as per PRs. Further, approved map is necessary before disbursement of tranches for construction of building/ house.

**HF-1: Insurance Takaful**

**11. Is it mandatory to obtain Insurance/Takaful on the old housing finance portfolio i.e. portfolio before May 06, 2014?**

No, it is not mandatory to obtain Insurance/Takaful on the old housing finance portfolio. However, it is mandatory, as per HF PRs, for fresh house financing i.e. financing made after May 06, 2014 with implementation period of six months i.e. November 06, 2014.

**12. Is it mandatory to obtain Insurance/Takaful on the cases of Balance Transfer Facility (BTF) after May 06, 2014?**

Yes, it is mandatory to obtain Insurance/Takaful on BTF cases after November 06, 2014.

**13. Can banks/DFIs obtain insurance/Takaful coverage of the mortgaged property equal to financing amount?**

Banks may obtain Insurance/Takaful coverage of the mortgaged property at least equal to the financing amount or upto full value in case of apartment and upto construction cost in case of house.

**14. What risks are considered to be covered in an insurance/Takaful arrangement that it could be called ‘comprehensive insurance’?**

The following minimum risks should have been covered in an insurance/takaful arrangement to term it a comprehensive cover:

i. Fire
ii. Lightning
iii. Earthquake
iv. Flood

**<u>HF-2: Types of Housing Finance</u>**

**15. Is the condition of BTF after completion of three years applicable to the entire existing portfolio?**

Yes, the condition of completion of three years with same institution to avail BTF is applicable to the entire existing portfolio.

**16. If any customer of conventional bank desires to switch to Islamic banking before the completion of three years, is he allowed?**

Yes, he may switch from conventional to Islamic banking prior to completion of three years.

**17. Does three years’ restriction of BTF apply on the bank staff switching job from one financial institution to another and transfers his staff house loan obligations?**

These PRs are not applicable for the staff home finance governed under bank’s approved policy. Further, the bank’s staff that has to transfer his staff house finance obligations purely owing to switching job, these BTF regulations shall not apply on such loans converted into commercial house finance as well.

**18. There are instances when a customer purchases a home (needing repair/renovation) and applies for “home renovation facility” after utilizing the purchase facility. Do banks/DFIs need to follow three year restriction of disbursing loan for renovation after purchase financing facility?**

In case the borrower approaches a bank/DFI with the intention to purchase the old house and renovate/construction of additional unit and the same shall be agreed at the time of financing agreement between the bank/DFI and the borrower, banks/DFIs can entertain the requests of that customer, as PRs do not restrict in this case. However, if the borrower availed financing for purchase of house and then after disbursement he intends to avail another facility i.e. renovation, then the facility cannot be extended to him/her before three years from the date of first disbursement.

**<u>HF-7: Property Assessment</u>**

**19. Can banks/DFIs get the evaluation done by PBA approved valuator for the properties valuing upto Rs. 3.0 million?**

Yes, banks/DFIs can get evaluation done by PBA approved valuator for the properties valuing upto Rs. 3.0 million, provided it does not delay the approval process. However, it is not mandatory as per HF PRs.

**20. What would be the mode of valuations?**

Mode of valuation depends on banks/DFIs internal risk management policies.

**21. How can the valuation be done in case of land purchase plus construction where value of property exceeds Rs. 10 Million?**

In such case, only first time two valuations will be conducted to assess the land value. Later on Bill of Quantities (BOQs), appraisal should be conducted by any one valuator.

**22. What would be the frequency and mode of revaluation of mortgaged property?**

It is at banks'/DFIs' discretion to decide frequency and mode of revaluation of mortgaged property as per their internal requirement and get it approved form the top management.

**<u>HF-10: Classification & Provisioning</u>**

**23. Is the change in provisioning requirement applicable to old housing finance portfolio?**

Six months time period from issuance of new PRs is available with the bank to re-classify the old portfolio as per new PRs.

**24. Can banks/DFIs adopt conservative approach for classification & provisioning of NPLs?**

Yes, banks/DFIs may adopt conservative approach as per their approved internal risk management policy. Further, HF PRs lay down only minimum requirements to be observed by the banks/DFIs to avoid risks.

**25. What will be the new Risk Rating Categories for housing finance due to introduction of Other Assets Especially Mentioned (OAEM) category of classification?**

For reporting purpose to SBP, OAEM category of classification may be reported in Internal Credit Risk Rating Grade number 10. However, in order to effectively manage their credit portfolios, banks/DFIs may have as many credit grades as they wish.

**26. What would be the treatment of unrealized markup on housing finance accounts categorized as OAEM?**

Banks/DFIs may credit unrealized markup on housing finance accounts in OAEM category into income account.

**<u>HF-11: Rescheduling/ Restructuring of Non-Performing Housing Finance</u>**

**27. Would it be sufficient if banks'/DFIs' Credit/Financing policy approved by Board of Directors (BoD) covers the chapter of Rescheduling/Restructuring of non-performing financing of all type (not specifically housing finance).**

Incase banks'/DFIs' internal Credit/Financing policy, approved by BoD, covers the chapter of Rescheduling/Restructuring of non-performing financing of all typesof financing, then the banks/DFIs should also make the Regulation HF-11 for Rescheduling/Restructuring of non-performing Housing Finance as part of that policy.