Following Editorial "Lending for homes" was published by Dawn on November 16, 2021.

DAWN

Editorial Published November 16, 2021

Lending for homes

AFFORDABILITY is the key factor keeping the low-middle-income households from owning a house. In order to address this gap, the government last year launched a subsidised housing finance scheme under which banks have been directed by the State Bank to lend up to Rs10m to first-time homeowners. The banks have also been asked to increase their lending for the housing and construction sectors to at least 5pc of their total private sector advances by December 2021. A part of their monthly housing finance disbursements, however, must include 'small-ticket' loans for aspiring homeowners with monthly income as low as Rs25,000 for the construction or purchase of low-cost homes under the Mera Pakistan Mera Ghar initiative. In order to ensure the success of the scheme, the central bank assigns the banks every month rolling housing finance targets according to the size of their private sector credit portfolios. The failure to meet these targets attracts punitive action from the State Bank. Yet, lending for low-cost housing is painfully slow. The latest data shows that banks' combined disbursements for low-cost housing remain as low as Rs18bn.

There are valid reasons for the slow pace of approval and disbursement of bank loans. First, the appetite for housing finance is drying up with disposable incomes being squeezed as low-middle-income households grapple with the rising cost of living, land and construction. Second, the supply of low-cost housing units in the market is almost non-existent. But a more important factor relates to the banks' aversion to risky lending. It isn't without reason that the mortgage finance market in Pakistan is only 0.3pc of GDP. This compares with an average of 3.4pc for the rest of South Asia. In developed economies, this ratio is often as high as 95pc. Pakistani banks shy away from lending for housing primarily because of the absence of effective foreclosure laws that would allow lenders to repossess a property without any judicial interference in case a borrower defaults on his payment. Given the infection ratio of up to 18pc or more for individual banks, this hesitance is justified, particularly when pressure from the State Bank to meet their monthly targets for small-ticket loans could impair the quality of their housing credit portfolio. Therefore, the government should introduce effective foreclosure laws at the earliest if it wants the mortgage industry to expand and flourish to provide people access to finance for buying or building homes.

Following clarification/rebuttal was issued to Dawn on November 20, 2021 in response to the Editorial.

SBP clarifies DAWN's editorial on "Lending for homes"

Apropos the DAWN's editorial on "Lending for home" published on November 16, 2021, State Bank would like to clarify factual position on the following points raised in the editorial:

1. The editorial states that lending for low cost housing has been quoted as painfully slow and the number that has been referred is of disbursement of Rs.18 billion. In this context it is important to examine the complete picture to understand the full situation. First, the amount of applications received indicates both banks marketing efforts and potential user interest and this number stands at RS 212 billion as on October 31 2021. Second, banks willingness to finance low cost housing is more truly reflected by the amount approved which stood at Rs.84 billion at October 31, 2021, while disbursement stands at Rs.22 billion as at that date. It is important to understand that once a home loan is approved by a bank it is clear that the bank is willing to take the risk. As is well known, disbursement is dependent on the provision of related property and other documents on the part of the applicant. Further, in case of loan is taken for construction of house, disbursement is stagger over a period of time and at various stages of construction. Normally, this process takes time and it is not correct to conclude that the level of disbursements reflects banks reluctance to enter this market. Finally, it should also be noted that all these numbers were non-existent at the start of the scheme almost a year back and the response is encouraging.

2. Further, the editorial does not capture significant growth in housing and construction finance which has increased from Rs.166 billion on September 30, 2020 to Rs 305 billion on September 30, 2021 showing an increase of Rs.139 billion or 84% growth on year-on-year basis. Housing and construction finance as percentage of domestic private sector advances has improved from 2.6% on June 30, 2020 to 4.3% as of September 2021 against 5% mandatory requirement by December 31, 2021.

3. As regard impairing of quality of housing finance portfolio, it should be noted that SBP has never pushed the banks to compromise on quality of the portfolio. Further, banks' risk is also mitigated through availability of 40% first loss risk coverage from Pakistan Mortgage Refinance Company.

4. The editorial also refers to the absence of effective foreclosure laws. This is factually incorrect as now foreclosure laws are fully enforceable.

5. You are requested to share the above mentioned facts with the readers to apprise them of the factual position.