ERD/M&PRD/PR/01/2020-121 November, 20, 2020

SBP announces new regulatory incentives to promote low cost and affordable housing finance

State Bank of Pakistan is constantly providing enabling regulatory environment to promote housing and construction finance. This is an important sector that has significant economic linkages with other sectors in the economy and the current level of credit provision in this sector is at a very low level of less than 1 percent of GDP which is much lower than in other similar countries and in the region. To support the provision of finance to this sector and especially facilitate affordable housing, SBP has now announced five regulatory relaxations to incentivize banks for financing low cost and affordable housing. Firstly, the definition of low cost housing finance used in the current regulations for banks has been aligned with definition used under Government Markup Subsidy Facility for Housing Finance eligible under Tiers I & II of housing finance. Specifically, in the SBP regulations, the value of housing unit has been increased from Rs 3 million to Rs 3.5 million with maximum loan size increased from Rs 2.7 million to Rs 3.15 million. Consequently, the incentive for low cost housing finance will increase for banks as they will not only be able to enjoy markup subsidy facility by the Government but the regulatory incentives under low cost housing finance by SBP as well.

Current regulations and banking practices require banks to obtain documentary evidence of income. Provision of this information is difficult for people generating income from informal sources which are generally in low income segments. In order to facilitate financing for this segment, State Bank is urging the banks to use alternate methods to identify income sources and assess the credit worthiness of the borrower. The 2nd and 3rd type of relaxations are being given to facilitate financing for this segment. Accordingly, under 2nd relaxation, banks have been exempted from the requirement of using 'verifiable income' for the purpose of calculating Debt Burden Ratio (DBR) in case of low cost housing finance where banks are using income proxies and where income of borrower is not verifiable. Resultantly, borrowers with 'non-verifiable income,' estimated by banks using income proxies, will also become eligible to avail low cost housing finance.

Thirdly, banks have also been exempted from the requirement of observing DBR, in case of low cost housing finance, where banks are using repayment surrogates like rent, utility bills, telcos bills, etc. to assess repayment capacity of borrower. Hence, borrowers without verifiable or non-verifiable income will become eligible to avail low cost housing finance.

Fourthly, banks have been exempted from the requirement of Internal Credit Risk Rating System for the low cost housing finance till September 30, 2022 as their current systems do not specifically cater for low cost housing finance. Accordingly, borrowers of low cost housing finance who cannot avail financing due to banks internal credit rating criteria will now become eligible if the bank is otherwise satisfied. This time barred relaxation will provide banks to develop their Internal Credit Risk Rating Systems for low cost housing finance.

Finally, in order to provide comfort to the borrowers who have liquid securities or already have a housing unit, banks have been allowed to extend housing finance for purchase/construction of a residential property by accepting existing residential property or liquid securities in lieu of equity contribution for housing finance at the time of calculations of Loan to Value ratio. Financing bank will create its lien on existing residential property/liquid securities in addition to mortgage of residential property being financed.

It is expected that the above regulatory incentives would provide further impetus to SBP's on-going efforts to accelerate housing and construction finance in Pakistan. It is reminded that banks have already been given mandatory targets of 5% of their private sector advances as housing and construction finance by December 31, 2021.

See the circulars:

https://www.sbp.org.pk/bprd/2020/CL47.htm
https://www.sbp.org.pk/smefd/circulars/2020/C13.htm
https://www.sbp.org.pk/smefd/circulars/2020/C12.htm

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