Guidelines for Builders/Developers Financing

State Bank of Pakistan, Karachi

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Preamble

Shelter is a fundamental human need with significant socio-economic impacts. Housing and construction activities support numerous allied industries and can stimulate economic growth. Pakistan's rapid urbanization has intensified demand for housing, particularly affordable units in urban areas.

The State Bank of Pakistan (SBP), in consultation with stakeholders, has introduced various measures to promote housing finance. Financing for creditworthy builders and developers remains a critical gap for expanding the supply of housing units. These guidelines aim to facilitate banks/DFIs financing to REITs/builders/developers while ensuring prudent risk management, in line with applicable Prudential Regulations for Corporate/Commercial Banking and international best practices. Banks and DFIs are encouraged to establish specialized units for expanding the developers/builders financing portfolio while ensuring compliance with these guidelines.

1. Eligibility Criteria

i. Real Estate Investment Trusts (REITs), Public and Private Builders/Developers, whereas public sector builders/developers may include:
   - Federal Government Employees Housing Authority (FGEHA)
   - PHA Foundation (PHA-F)
   - Provincial and territorial housing authorities, agencies and town-planning bodies owned or controlled by a Provincial Government.
   - Other public-sector special-purpose vehicles mandated to develop or deliver housing, as may be notified from time to time for inclusion under any housing program.

ii. REIT/Builder/Developer/team should possess a valid builder/developer license from building control authority, where applicable or having approved contract/agreement from the competent Public Sector Authority/ Institution.

iii. Private REIT/Builder/Developer should have good track record of successfully completing the projects substantiated by the list of recently completed projects.

iv. The REIT/Builder/Developer should have a clear title to the land, free of encumbrance, charges and liens on which the project is to be built, the value of the land shall be considered as equity of the builder/sponsor(s).

2. Documents Relating to Legal Status and Financial Standing

Banks/DFIs may obtain the following documents from REITs/Builders/Developers:

i. Registration certificate from the relevant authority.

ii. Memorandum and Articles of Association/Partnership Deed/Business Charter (in case of Sole Proprietorship)

iii. Three years' financial statements of Firm/Company/Group for analysis and record:
   - Accounts duly audited by a practicing Chartered Accountant or Cost and Management Accountant in case where the exposure is up to Rs.500 million.
   - In case the financing amount exceeds Rs. 500 million, the latest audited financial statements duly audited by any firm listed on the SBP panel of auditors.

iv. Income Tax Assessment Order/Acknowledged copy of Income Tax Returns submitted by the firm/company/group for the last three years.

v. Bankers' confidential reports on financial credibility of firm/company and its directors/sponsors.

vi. Any other document(s) required by the bank/DFI.

3. Documents Relating to Project and Property

Banks/DFIs may obtain the following documents from REITs/Builders/Developers:

i. Clear title documents of property on which the project is being built

ii. Approved building plan

iii. Approved master plan in case of horizontal projects, and related approvals as applicable from relevant authorities

iv. Permission to Mortgage

v. Non-encumbrance certificate, if applicable

vi. NOC for construction/sale of the housing units from the concerned authority

vii. A predefined list of contractors & subcontractors

viii. Permission from relevant authorities i.e. Civil Aviation Authority, federal and provincial Environmental Protecting Agencies (EPA) etc.

ix. Any other documents relating to title/ownership of the project.

4. Project Assessment

i. A project should be capable of generating sufficient cash flows to repay its debt.

ii. Banks/DFIs shall get the technical feasibility report independently reviewed by an engineering firm of repute registered with concerned authority such as Pakistan Engineering Council etc.

iii. Financial Feasibility Report of the proposed project, endorsed by a reputed Auditing Firm, which shall contain information on the project's anticipated economic conditions, capital investment, financial projections and projected completion time.

iv. Banks/DFIs should review the technical and financial feasibility and other relevant documents submitted by the builder/developers as part of their risk-assessment process.

5. Valuation

Banks/DFIs will get the value of the plot and the project assessed from PBA approved well reputed valuers as per following criteria.

Financing Amount	No. of Valuations Required
Upto Rs. 50 Million	Desktop valuation by Bank/DFI
Above Rs. 50 Million and upto Rs. 500 Million	At least by 1 Valuer
Above Rs. 500 Million	At least by 2 Valuers

6. Legal Opinion

Legal opinion of the well-reputed law firm on project and property documentations be sought.

7. Collateral Arrangements

i. Mortgage of the Plot on which the construction is to be made.

ii. In case the project land cannot be mortgaged due to reasons other than the clear title deed, alternate property with clear title and free of encumbrance and lien acceptable to bank may be provided.

iii. Lien/mortgage may also be created over movable/immovable assets of the project firm/company.

iv. To ensure the protection of lien/mortgage on assets of the business entity, banks/DFIs will register their lien/mortgage with the Registrar of Companies, so that the security is not mortgaged with any other lending institution for further financing.

v. In case REIT/builder/developer does not have any property, a bank/corporate guarantee may also be taken as part of the collateral arrangement.

vi. Any other security acceptable to banks/DFIs.

8. Monitoring Mechanisms

i. Banks/DFIs shall establish a mechanism for regular monitoring during construction phase to ensure proper utilization of finance. For this purpose, proper scrutiny/audit shall be undertaken of the Project Account(s), Project Escrow Account and any other accounts deemed necessary for the operation of the Project. This activity may be carried out by banks/DFIs own staff or through outsourcing. Moreover, compliance of financial covenants and periodical inspection of the project at least once in six months during construction phase shall also be carried out.

ii. For public sector developers, any government approved authorities/agency/ department may play its role in monitoring projects as per its domain, in addition to the monitoring by lending financial institutions.

9. Escrow Account

i. An escrow account shall be opened and operated jointly by the REIT/builder/developer and the bank/DFI to prevent diversion of funds.
ii. In syndicated financing, the participating institutions and REIT/builder/developer shall mutually designate the bank/DFI responsible for maintaining the escrow account.
iii. All project-related transactions, including disbursements to contractors/sub-contractors, collections from booking of units and subsequent installments, and withdrawals for construction, shall be routed through this account under pre-agreed terms.
iv. All payments shall be made by crossed cheques.
v. The escrow account shall not be changed or shifted to another bank during the financing tenure without the consent of all lenders.

10. Insurance/Takaful

i. Banks/DFIs shall ensure that the REIT/builder/developer obtains valid and enforceable comprehensive insurance or takaful coverage (Contractor's All Risk Insurance Policy or equivalent) for the project.
ii. All insurance policies shall be assigned in favor of the bank/DFI.

11. Other Arrangements

i. The approved layout plan and project completion timeline to be disclosed publicly by the REITs/builders/developers before booking / allotments.
ii. During construction phase, banks/DFIs should monitor project's progress through periodic review by technical consultant. The scope of technical consultants should include assessment of actual progress of the project against the scheduled progress and agreed milestones, review of status of construction and identification of bottlenecks arising or likely to arise in the project completion. All drawdowns should be linked with certification by technical consultant.
iii. As the primary source of repayment is through cash flows from down payment and installment by individual purchasers, banks/DFIs need to secure the loan by obtaining an assignment of project receivables.
iv. At the time of approving/releasing the financing amount, REITs/builders/developers should be advised to strictly follow the by-laws/building rules and approved plan. Bilateral agreement between the REIT/builder/developer and the bank shall clearly state that in case of default in meeting timelines / milestones or noncompliance to terms and conditions of the project financing agreement, project will be liquidated or sold to other builder/developer to complete the project subject to fulfilment of legal formalities.

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