INFRASTRUCTURE AND HOUSING FINANCE DEPARTMENT

Housing Finance Quarterly Review

April-June 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 June 2009.

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 slight decline of 2.8% in gross outstanding portfolio over the last year. The total outstanding reported by banks and DFIs as on June 30, 2009 was Rs. 80 billion compared to Rs. 82.33 billion as on June 30, 2008. The total number of outstanding borrowers has decreased from 125,149 to 117,535 since June 2008; a 6% fall.

Non-performing loans have increased from Rs.9.8 billion (June 2008) to Rs.13.87 billion (June 2009); a 41.5% 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 846 new borrowers were extended house loans during the quarter accounting for Rs. 2.64 billion of additional disbursements. HBFC accounted for 39% of these new borrowers and contributed 9.6% of Rs.2.64 billion new disbursements made.

Financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising over 59% share in outstanding portfolio.

Outstanding

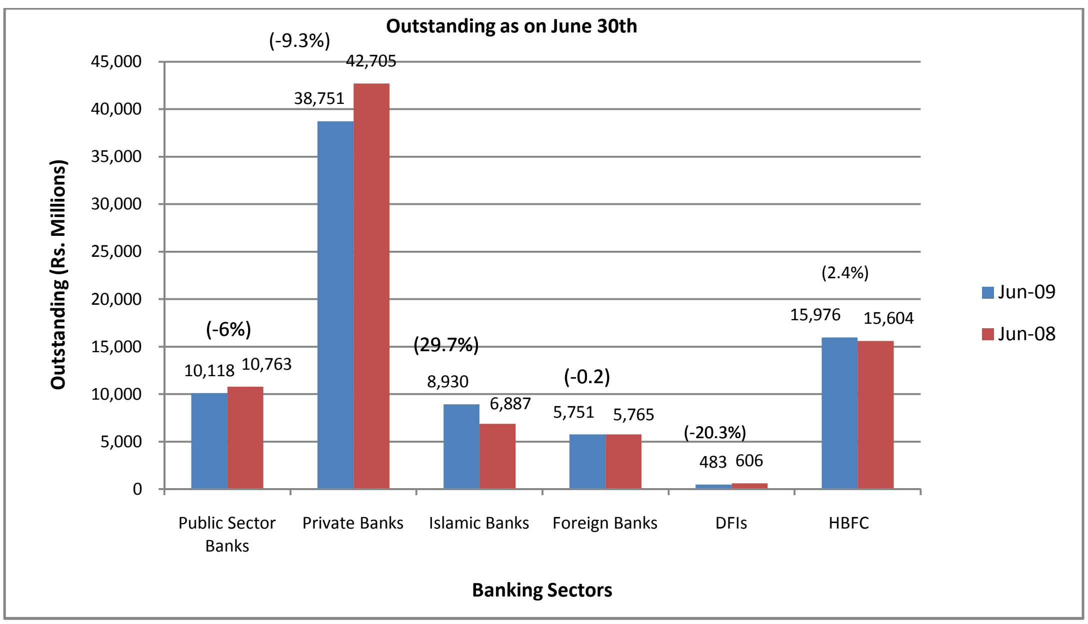
Gross Outstanding

The total outstanding finance as on June 30, 2009, of all banks and DFIs stood at Rs.80 billion. Compared to quarter ended June 2008 (Figure 1), outstanding of all commercial banks and DFIs collectively decreased by 2.8%.

Banking sector wise total outstanding with growth/fall (in parenthesis) since quarter ended June 2008 is shown in Figure 1. Of the total outstanding of Rs. 80 billion, commercial banks accounted for Rs.63.55 billion with private banks posting an outstanding of Rs.38.75 billion; a 9.3% decline since quarter ended June 2008. Public sector banks reported an outstanding of Rs.10.12 billion, followed by Islamic Banks with Rs. 8.93 billion and foreign banks with Rs.5.75 billion. The highest growth of 29.7% was reported by Islamic banks. Excluding DFIs, all commercial banks (public sector banks, private banks, Islamic banks and foreign banks) together posted a 3.9% decline when compared to quarter ended June 2008.

The outstanding loans of HBFC were Rs.15.98 billion; a 2.4% increase over the last year. Other DFIs, have a meager share of Rs. 0.48 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 June 2009 and 2008.

Figure 2

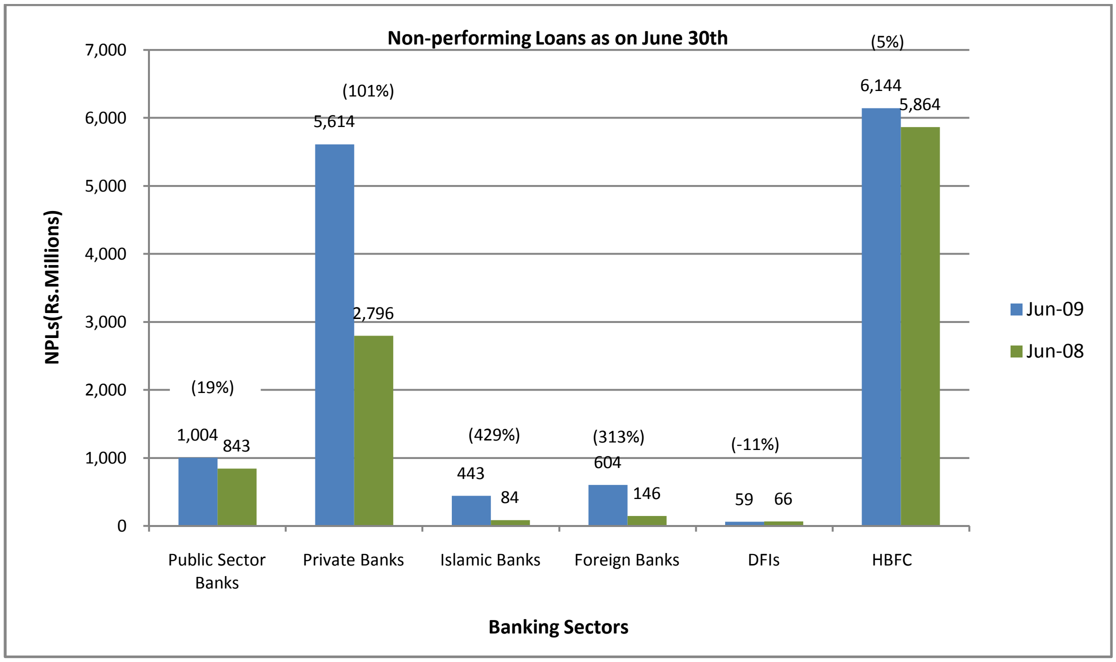


Figure 3

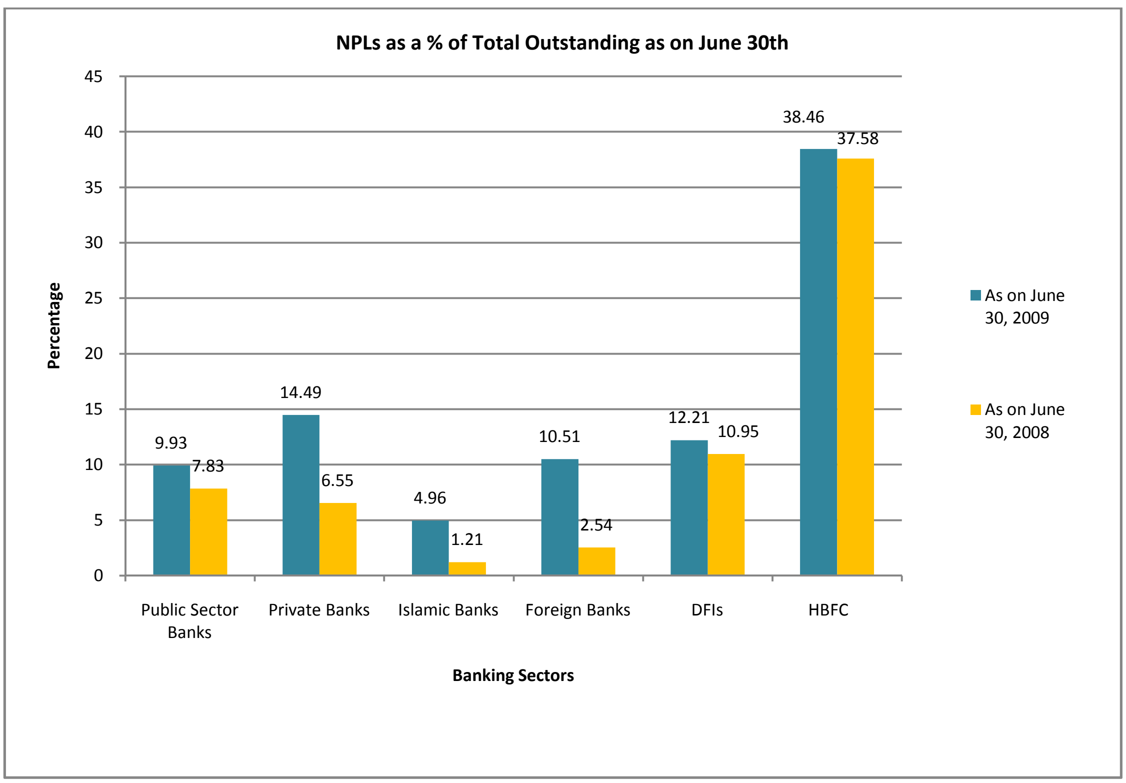


Figure 2 shows that NPLs have increased from Rs.9.8 billion (June 2008) to Rs.13.87 billion (June 2009); a staggering 41.5% increase during the year. Figure 3 compares NPLs as a percentage of total outstanding for the quarters ended June 2009 and June 2008. NPLs as a proportion of total outstanding has witnessed an increasing trend over the last twelve months, especially for private banks, Islamic banks and foreign banks. This overall rise in NPLs is due to rising inflation and interest rates.

HBFC's NPLs have increased from Rs.5.86 billion to Rs.6.14 billion during the year; an almost 5% increase (Figure 2). Although growth of NPLs remains relatively low in absolute terms when compared to other banking sectors, its % share in total outstanding, however, is the greatest and has further increased over the twelve months; a 38% of its total outstanding constitutes of NPLs (Figure 3).

Excluding HBFC, NPLs for all banks and other DFIs have increased by 96% over the year from Rs. 3.94 billion to Rs.7.72 billion. The % share of NPLs that all banks and other DFIs(excluding HBFC) constitute is 12% of their total outstanding portfolio.

Among banks, Islamic banks have witnessed the sharpest increase in NPLs during the year; an increase of over 400%, from Rs.84 million to Rs.443 million. Although, its NPLs constitute only 4.96% share in its total outstanding, this share has jumped from 1.2% (June 2008). NPLs of the public sector banks have increased from Rs. 0.84 billion to Rs.1 billion; a 19% increase, and 10% of its total outstanding is classified as NPLs. NPLs of foreign banks have increased from Rs.146 million to Rs.604 million; a 312% increase with 10% of its total outstanding classified as NPLs. Foreign banks too have shown sharp increase in its NPLs proportion; the NPLs as a percentage of outstanding have increased from 2.54% (June 2008) 10.5% (June 2009). Private banks have reported an increase of 100% in NPLs from Rs. 2.79 billion to Rs. 5.6 billion which is 14.5% of its total outstanding. DFIs (excluding HBFC) have though reported a decline in NPLs from Rs. 66 million to Rs.59 million; it is more due to reduction in their outstanding portfolio, as NPLs as a % of outstanding has increased from 10.9% to 12.2%

Number of Borrowers

The total number of outstanding borrowers has decreased from 125,149 to 117,535 since June 2008; a 6% decrease (Figure 4).More than 98% of the reduction in the number of borrowers relate to HBFC.

Figure 4

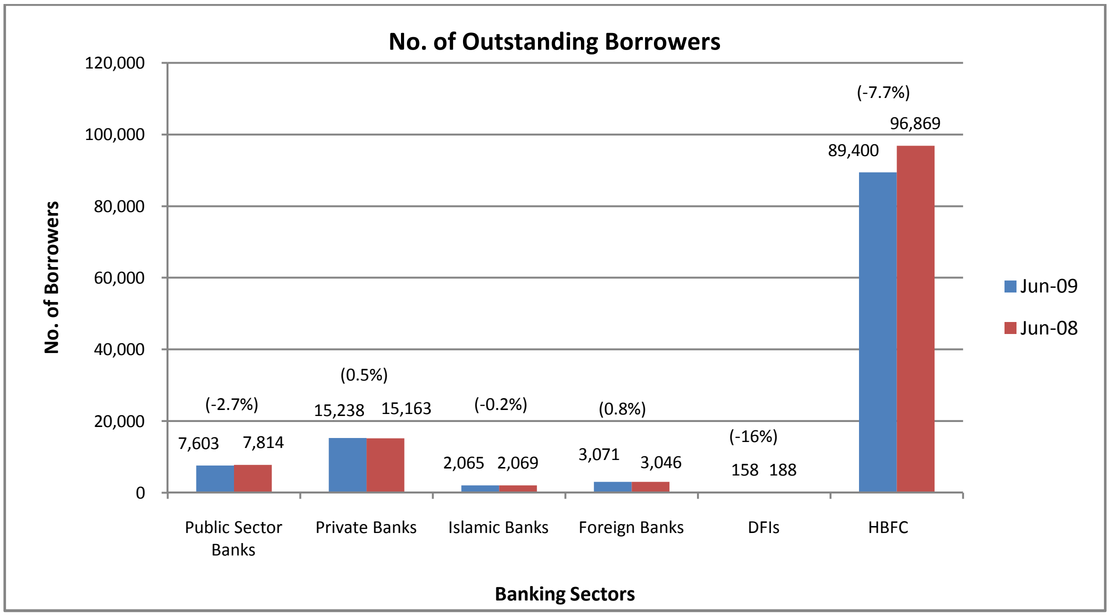
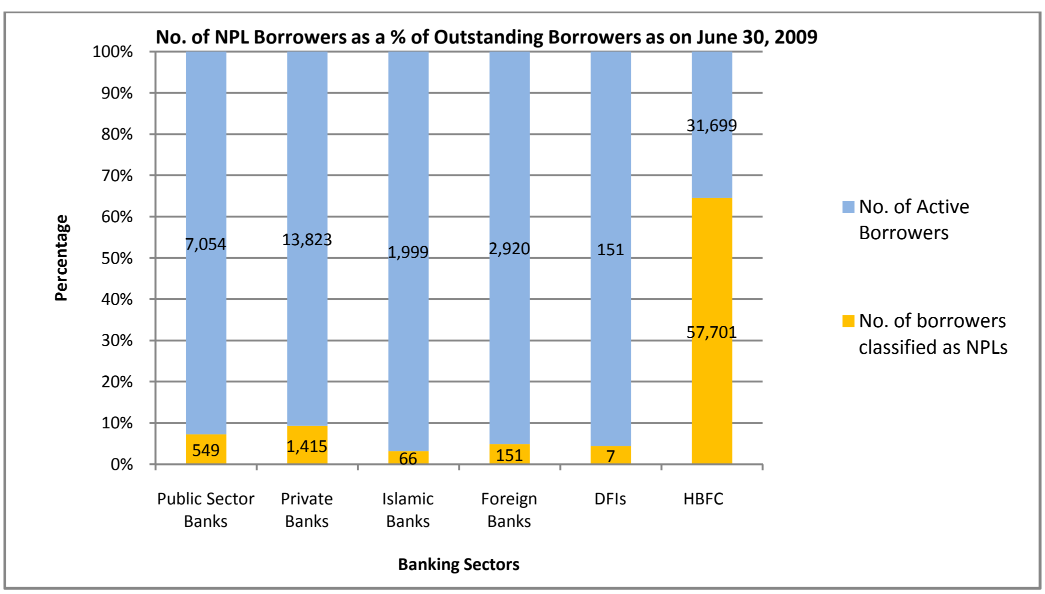


Figure 5 shows number of borrowers that have been classified as NPLs as a percentage of total borrowers. Approximately 51% of total borrowers of housing loans have been classified as non-performing. However, this is primarily due to HBFC's number of non-active borrowers that have been classified as non-performing; 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 7.8% of total borrowers of housing loans have been classified as non-performing.

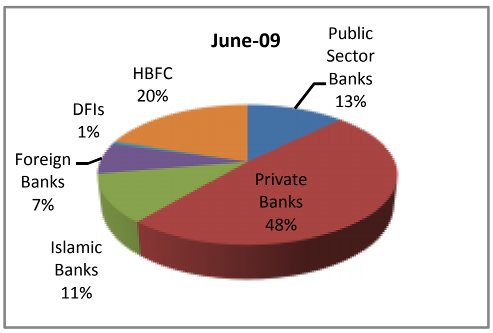
Figure 5

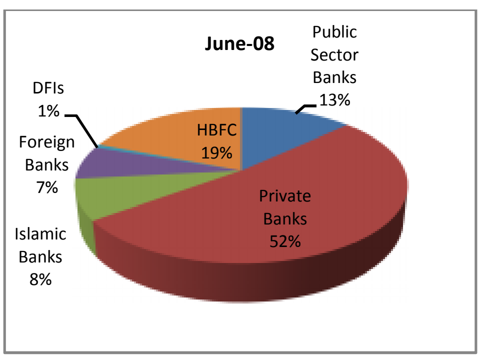


Share of Banks

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% to 79%. Within commercial banks (Figure 6), the share of private banks in the total outstanding decreased from 52% to 48%. Islamic banks have shown good growth; albeit higher growth in NPLs too, with its share increasing from an 8% (June 2008) to 11% (June 2009). Share of public sector banks and foreign banks have remained almost stagnant at 13% and 7%, respectively. The share of HBFC has risen slightly from 19% to 20% of the total outstanding.

Figure 6 Share of Banks in Total Outstanding





Disbursements

A total of Rs.2.64 billion worth additional disbursements were made during the quarter June 2009 (Table 1). Private Banks extended new disbursements of Rs. 1.48 billion followed by Islamic banks with Rs.599 million. HBFC's fresh disbursements for the quarter were reported to be Rs. 255 million. Among

[1] Based on gross outstanding

commercial banks the number of new borrowers totaled 515, with private banks contributing 312 borrowers. HBFC extended loans to 331 new borrowers during the reporting quarter.

Table 1

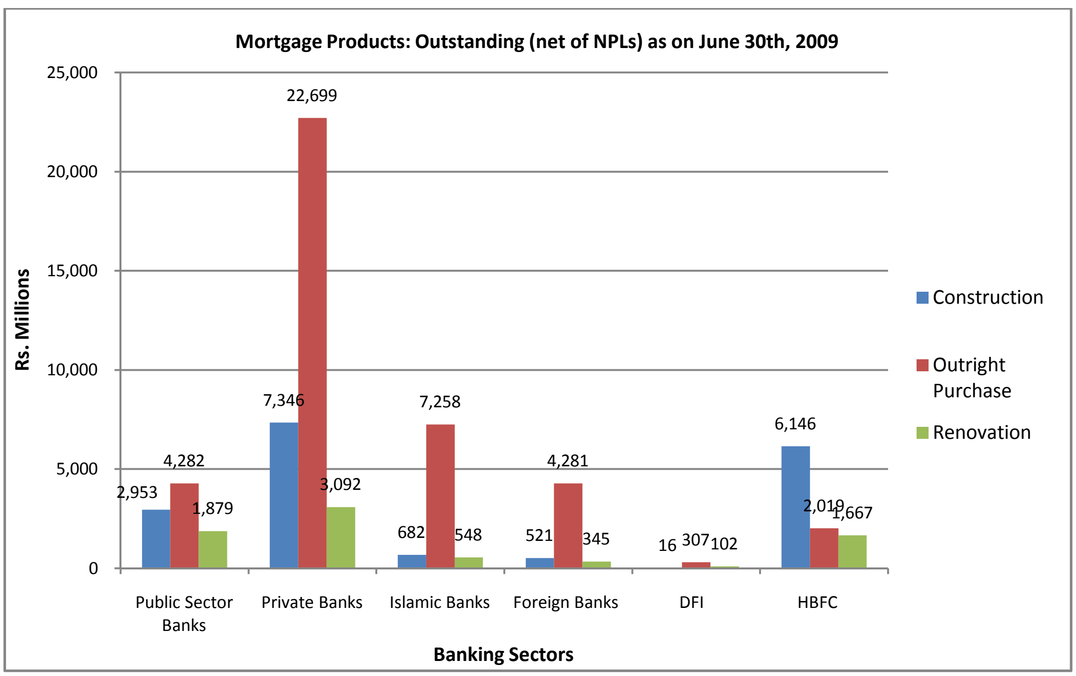
Disbursements during the quarter ended June 2009

	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	91	64
Private Banks	1,477	312
Islamic Banks	599	111
Foreign Banks	222	28
All Banks	2,389	515
DFIs	0	0
HBFC	255	331
Total	2,644	846

Sectoral Share

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

Figure 7



The total outstanding for outright purchase stood at Rs.47.45 billion as on June 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.23.32 billion and that of renovation stood at Rs.9.23 billion.

Active portfolio shows that Private Banks have taken a lead in financing for all three sectors; construction 42% share, 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 classified as foreclosures.

Weighted average interest rate

The overall weighted average interest rate for the quarter ended June 2009 comes to 15.61%; an increase of 2.16 percentage points when compared to quarter ended June 2008. Highest weighted average interest rate was reported by DFIs (excluding HBFC) at 17.8%, Islamic banks at 17.66% and foreign banks at 17.49%. Public sector banks reported a weighted average interest rate of 15.12% and private banks reported 15.01%.The weighted average interest rate reported by HBFC is 12.5%; a 1.21 percentage point decrease compared to quarter ended June 2008.

Average maturity periods

Average maturity periods have declined; from 12.9 years (June 2008) to 11.9 years (June 2009). Table 2 shows that among commercial banks, public sector banks have extended housing loans for an average tenure of 10.6 years followed by foreign banks with 11 years and private sector banks with 11.3 years. Islamic banks seem to be more aggressive with 14.5 years. HBFC's average maturity period is reported to be 15.2 years; a decrease from 16.7 years when compared to June 2008 figures, whereas DFIs (excluding HBFC) report 13.8 years.

Loan to Value ratio

The percentage of financing (Loan to Value ratio) extended by banks has marginally declined during last year (Table 3.A). The LTV ratios for housing finance fell from 58% during quarter ended June 2008 to 57% during quarter ended June 2009. The sharpest decline was witnessed among foreign banks where the LTV ratios fell from 59.8% to 51.6%. The LTVs for HBFC remained the same at 54%. Decline in LTV ratios and increasing interest rates reflects that housing finance is becoming less affordable, especially for the salaried class and lower middle income groups.

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. The processing time can be considerably reduced if land titling issues are resolved, documentation is standardized and institutional inefficiencies removed. Moreover, application processing is a centralized process, where branches forward applications to central branches/head offices for assessment and approvals.

Average loan size

Average loan size for disbursements made during the quarter ended June 2009 is Rs. 2.64 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs.1.08 million for the reporting quarter. Islamic banks have disbursed loans with an average loan size of Rs. 3.87 millions. This is an increase of over 36% in size (in Rs.) compared to quarter ended June 2008 when average loan size was reported at Rs. 2.84 million. Private banks report an average loan size of Rs. 2.48 million, foreign banks of Rs. 2.89 million and public sector banks report Rs. 1.92 million. The housing finance market is still inclined towards lending to high income group.

No. of foreclosures

No. of cases initiated for foreclosures have increased by 291 new cases during the quarter ended June 2009, for banks/DFIs.

Table 2

	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08
Public Sector Banks	15.12	14.96	14.3	13.33	13.13	10.6	10.6	10.8	9.4	11.1
Private Banks	15.01	14.55	13.34	13.61	12.94	11.3	11.9	11.9	11.9	12.1
Islamic Banks	17.66	17.81	18.23	14.86	13.22	14.5	14.9	15.3	15	16.6
Foreign Banks	17.49	17.53	16.89	15.05	14.67	11.1	12.0	11.8	9.1	12.5
All Banks	15.67	15.52	14.57	13.94	13.23	11.6	12.3	12.1	11.6	12.7
DFIs	17.80	17.6	16.84	16.01	14.84	13.8	14.5	14.7	12.4	14.7
All Banks & DFIs	15.77	15.60	14.65	14.02	13.29	11.7	12.4	12.2	11.6	12.8
HBFC	12.50	11.88	11.35	13.71	13.71	15.2	15.2	15.1	15.1	16.7
Total Average	15.61	15.42	14.4	13.97	13.45	11.9	12.5	12.4	11.8	12.9

Table 3. A

	Loan to Value Ratio					Average Time for Loan Processing (days)				
	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08
Public Sector Banks	61.6	60.5	63.1	58.3	63.7	34.6	31.7	38	38.6	39.2
Private Banks	58.5	55.3	40.3	52.7	57.9	21.8	22.8	22	22.8	22.6
Islamic Banks	56.9	55.3	39.8	56.7	59.1	34.6	30.4	36.9	33.6	21.5
Foreign Banks	51.6	36.1	41.9	36.5	59.8	20.7	22.5	23.6	18.8	23.8
All Banks	57.9	53.0	44	52.4	58.9	25.5	25.3	26.3	25.7	24.5
DFIs	43.3	43.1	44.2	49.1	45.4	30.0	30.0	30	30	30
All Banks & DFIs	57.3	52.6	44	52.3	58.3	25.8	25.5	26.4	25.9	24.7
HBFC	54.2	55.8	67.5	55	55	30.0	30.0	30	30	30
Total Average	57.1	52.8	44.7	52.3	58.1	26.0	25.7	26.6	26.1	25

Table 3.B

	Average Loan Size					No. of Foreclosures[2]		
	Jun-09	Mar-09	Dec-08	Sep-08	Jun-08	Jun-09	Mar-09	Dec-08
Public Sector Banks	1.92	1.75	1.46	1.8	2.08	N.A	N.A	N.A
Private Banks	2.48	2.29	2.4	2.38	4.12	316	228	178
Islamic Banks	3.87	3.70	2.52	3.63	2.84	33	14	12
Foreign Banks	2.89	2.68	2.79	1.97	2.48	121	88	69
All Banks	2.62	2.50	2.33	2.41	3.41	470	330	259
DFIs	3.12	3.09	3.01	2.47	2.73	1	1	1
All Banks & DFIs	2.64	2.52	2.35	2.41	3.38	471	331	260
HBFC	1.08	1.08	0.86	0.86	0.89	2,825	2,674	2,658
Total Average/Total	2.56	2.46	2.29	2.35	3.32	3,296	3,005	2,918

Conclusions

Like previous quarter, the quarter ending June 2009 continues to show signs of slowing growth. With a rising trend in NPLs, banks continue to show signs of cautious lending amidst decreased affordability of the borrowers and unfavorable macroeconomic conditions. Signs of cautious lending include fall in LTVs and a slight decline in average maturity periods. Average loan size has increased slightly implying that financing is extended mostly to the high income group. It is due to the small size of the housing finance portfolio that financial institutions are currently managing housing-related risk. 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

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

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 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 have agreed to work together for implementing key recommendations of HAG and bring about financing environment conducive to growth of housing sector by focusing on: restructuring of HBFC, establishment of Mortgage Refinance Company, low cost housing finance, establishment of an observatory for real estate market and capacity building of professionals engaged in housing finance through housing experts. Work on the establishment of Mortgage Refinance Company particularly is now being pursued aggressively. IFC has been engaged for development of detailed business plan for the Mortgage Refinance Company.

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, the 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.