STATE BANK OF PAKISTAN

INFRASTRUCTURE, HOUSING AND SME FINANCE DEPARTMENT

Quarterly Housing Finance Review

October-December 2012

The Infrastructure, Housing & SME Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ending September 30, 2012. This review contains data on housing finance, collated on a periodic basis from public sector banks, private banks, foreign banks, DFIs and House Building Finance Company Limited (HBFCL). It portrays trend of different parameters like disbursements, outstanding and recoveries. Some news pertaining to housing & housing finance are also presented in it.

Team Members

Imran Ahmad, Additional Director
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Contents

State of Housing Finance

Rapid urbanization in Pakistan has resulted in increasing the deficit of housing units. As per World Bank[1] studies in year 2009, there was a backlog of 7.5 million housing units in Pakistan which is accumulating by 0.35 million per year. Studies indicate that most of the housing finance is arranged through personal sources. The formal financial sector caters to only one to two percent of all housing transactions in the country, whereas informal lending caters to 10-12 percent of such transactions.

Although Pakistan has laws for land registration and transfer, the process is cumbersome at times, because of number of institutions involved. The reforms in the property titling and land administrative procedures including improvements of the legal provisions, standardization of processes, and computerization of all relevant revenue records will help enhance financing from the formal sector. Though the *Financial Institution Recovery Ordinance, 2001* empowers the financial institutions in case of default to foreclose a mortgage property without recourse to the court of law, its effectiveness lies in strict implementation.

Land records are manually maintained leading to errors and omissions especially in rural and some urban areas. Resultantly, they have modest commercial value for the mortgagee financial institutions. The lack of efficient and reliable system of ascertaining the bona-fide of property titles has forced banks to limit the access of housing finance to a certain number of urban localities within the urban centers.

Majority of builders and developers are working as sole proprietorships or in partnerships with limited capital and informal corporate governance structures, which gives rise to illegal construction, unreliable building permits, and legally unprotected advance purchase of units. The unstructured and unsupervised nature of business of real estate brokers/agencies, which could serve as natural arrangers for provision of financial services, is also a significant constraint to the provision of housing and housing finance. Consequently, it is difficult for financial institutions to verify the character, capital, and capacity of potential clients. Risk assessment and portfolio valuation is also fragile, which is another factor for the lenders' caution. As a result, financial institutions are reluctant to enter this market, which in turn causes scarcity of finance and constraints in the supply of housing.

At present, commercial banks, House Building Finance Company Limited (HBFCL) and two microfinance banks are catering to the housing finance needs. HBFCL is the only specialized housing bank in the country providing housing finance since 1952, while commercial banks entered the mortgage business in 2003. Although HBFCL's share in the total housing finance has reduced in absolute terms, it is still the only institution that continues to cater to the lower-middle and low-income groups and enjoys the largest customer base.

After registering a promising growth trend till 2008, the housing finance sector has been showing declining trend afterwards. The gross outstanding reported by banks and DFIs (including HBFCL) as of December 31, 2012 was Rs. 55 billion, which was Rs. 59.4 billion as of December 31, 2011, showing a decline of Rs. 4.4 billion (7.4 percent) over the year. It was Rs. 54.2 billion at the end of September 30, 2012. The total number of outstanding borrowers also decreased from 91,398 to 84,811 over a year; showing a fall of 7.2 percent and 0.8 percent decline when compared to last quarter. Non-performing loans decreased from Rs. 19.07 billion (December 31, 2011) to Rs. 18.94 billion (December 31, 2012); a 0.7 percent decrease over the year. The stock of NPLs as on September 30, 2012 was Rs. 19.09 billion.

Around 569 new borrowers were extended house finance during the quarter (Oct-Dec, 2012), accounting for Rs. 2 billion of new disbursements. HBFCL accounted for 31.8 percent of these new borrowers and contributed 11.6 percent of the new disbursements equivalent to Rs. 232 million.

[1] See "Expanding Housing Finance to the Underserved in South Asia Market Review & Forward Agenda" by Tatiana Nenova, World Bank

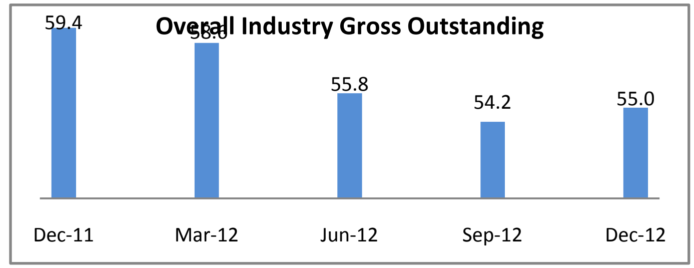
Major Trends

Gross Outstanding

The Gross outstanding reached to Rs. 55 billion, up by 1.4 percent over last quarter

The gross outstanding finance as on December 30, 2012 of all banks and DFIs stood at Rs. 55 billion (Figure 1), compared to Rs. 59.4 billion as on December 31, 2011, showing a decrease of Rs. 4.4 billion (7.4 percent).

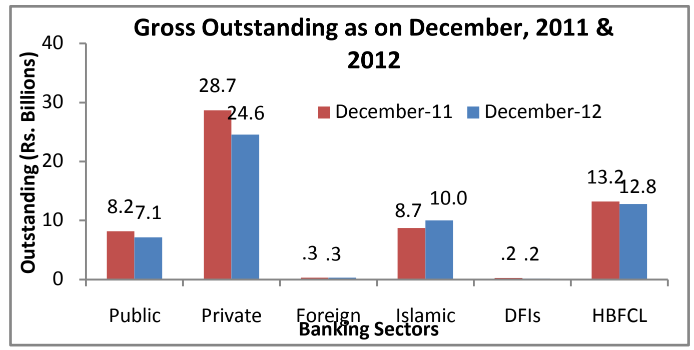
Figure 1 (Amount in Rs. Billion)



The Gross outstanding of the banking sectors decreased over the year except for Islamic Banks which showed an increase of 15 percent and reached to Rs. 10 billion by the end of year 2012.

Banking sector-wise gross outstanding on quarters ending December 31, 2011 and 2012 are shown in Figure 2. Of the gross outstanding as on December 31, 2012, commercial banks accounted for Rs. 42 billion; a 7.4 percent decline since quarter ending December 31, 2011. Private banks reported Rs. 24.6 billion followed by Islamic banks at Rs. 10 billion, public sector banks at Rs. 7.1 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.8 billion; down by 3.4 percent over the last year. Other DFIs had a meager share of Rs. 0.2 billion in outstanding loans.

Figure 2



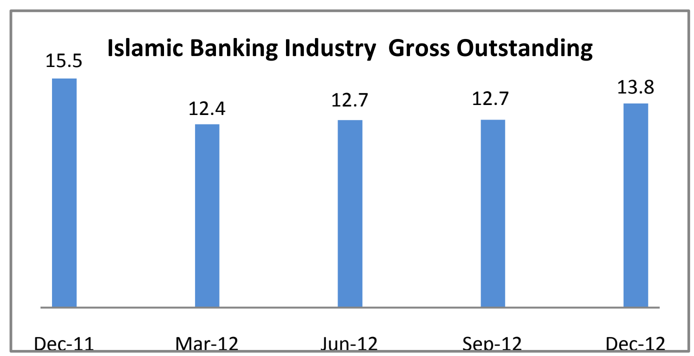
The total outstanding (net of NPLs) of Islamic Banking industry showed an increase of Rs. 1.2 billion (11.5 percent) over the quarter.

The gross outstanding housing finance as on December 31, 2012 of Islamic Banking Industry (Five Islamic Banks (IBs) & 12 Islamic Banking Divisions (IBDs)) of Conventional Banks) stood at Rs. 13.8 billion. Compared to quarter ending December 2011, outstanding of Islamic banking Industry decreased by 11 percent as shown in Figure 3**.**

The Gross outstanding of IBs increased by 13.2 percent and of IBDs decreased by 1.4 percent over the quarter.

Of the gross outstanding Islamic housing finance, Islamic banks accounted for Rs. 10 billion (14.4 percent increase over the year). IBDs of conventional banks posted Rs. 3.78 billion (one percent decline since quarter ending December 31, 2011).

Figure 3 (Amount in Rs. Billion)



Share of Banks

The share of Public Sector banks and Private banks decreased by one percent each and two percent increase were witnessed in the share of Islamic Banks, furthermore, the share of HBFCL and Foreign banks remained same at 23percent and one percent over the quarter.

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) decreased marginally from 78 percent to 77 percent compared to the corresponding period last year. Within commercial banks, the share of Public sector banks in the total outstanding decreased from 14 to 13 percent and the share of HBFCL in the total outstanding increased to 23 percent from 22 percent over the year. The share of Private Sector Banks decreased to 45 percent from 48 percent over the year. The share of Islamic banks increased to 18 percent from 15 percent and the share of Foreign Banks remained unchanged at one percent over the year as shown in Figure 4.

The share of Conventional Banking (excluding HBFCL), Islamic Banking Industry and HBFCL in the total outstanding was 52 percent, 25 percent and 23 percent respectively as on December 31, 2012 (Figure 4.1). IBDs (12 windows) and Islamic banks (05 banks) have 70 percent and 30 percent share (Islamic banks decreased and IBDs increased by one percent over the year) in housing finance portfolio of Islamic Banking Industry (Figure 4.2), which shows that conventional banks also consider the Islamic mode of financing an important part of their business strategy.

Figure 4

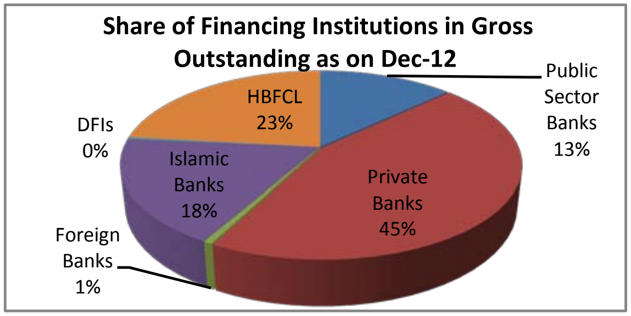


Figure 4.1:

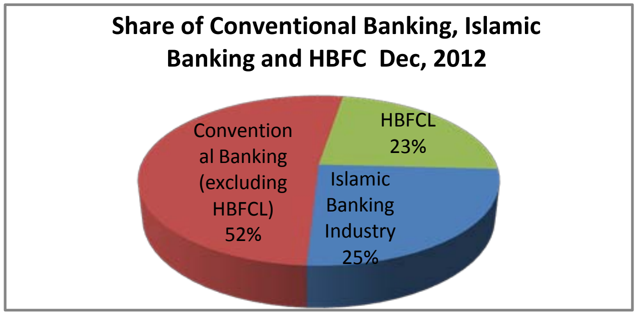
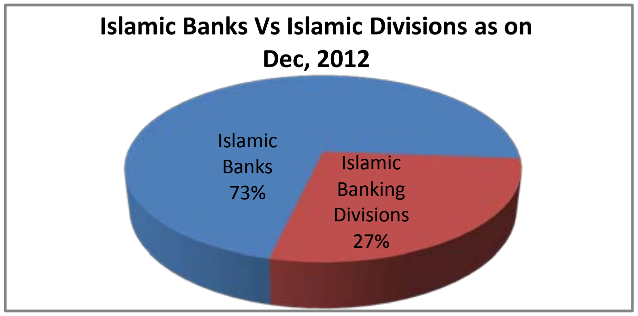


Figure 4.2: Share of Islamic Banks and Islamic Banking Divisions within Islamic Banking Industry in Total Outstanding.

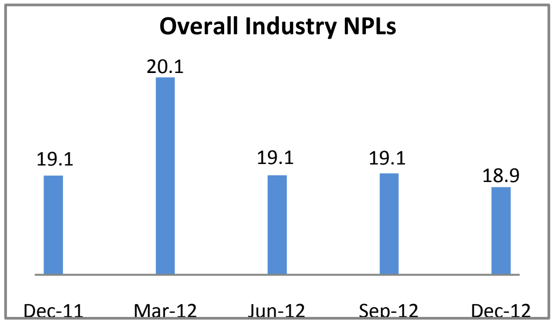


Non-Performing Loans (NPLs)

The stock of NPLs as on December 31, 2012 was Rs. 18.94 billion, showing a meager decrease of 0.78 percent over the yester quarter (Jul-Sep, 2012).

NPLs marginally decreased from Rs. 19.07 billion (December 31, 2011) to Rs. 18.94 billion (December 31, 2012); a 0.67 percent decrease during the year as shown in figure 5. Figure 6 shows a comparison of existing NPLs status of different banking sectors with last year. Figure 7 compares NPLs as a percentage of outstanding portfolios at the end of quarters on December 31, 2011 and December 31, 2011. NPLs as a proportion of total outstanding have witnessed an increasing trend over the last twelve months. This overall rise in NPLs is primarily due to rising inflation and decreasing outstanding with low disbursements.

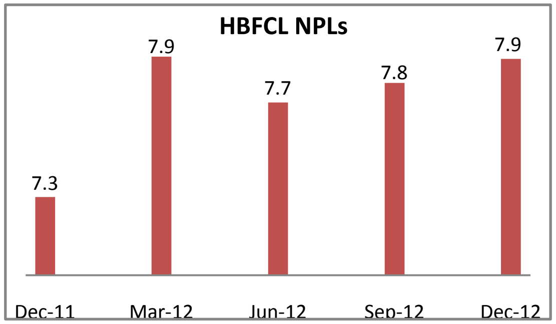
Figure 5: (amount in Rs. Billions)



HBFCL's NPLS showed an increase of Rs. 100 million (1.3 percent) over the yester quarter ended September, 2012.

HBFCL's NPLs increased from Rs. 7.3 billion to Rs. 7.9 billion during the year; a 13.9 percent increase as shown in Figure 5.1. Although growth of its NPLs remains relatively low in absolute terms when compared to some of the other banking sectors, its percentage share in its total outstanding, however, is the greatest, as 62 percent of its total outstanding constitutes NPLs (Figure 7). HBFCL's percentage share in total NPLs is 42 percent.

Figure 5.1: (amount in Rs. Billions)

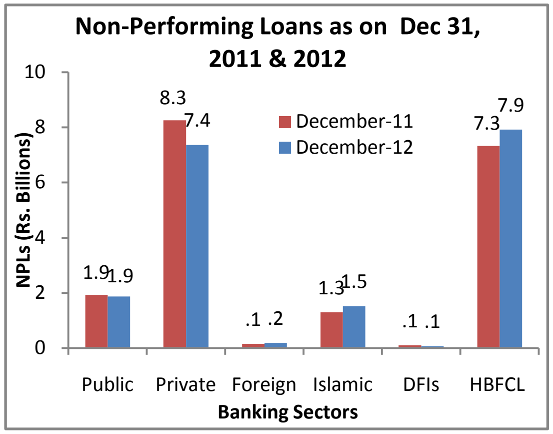


Excluding HBFCL, the NPLs of housing finance industry decreased by 2.2 percent (Rs. 252 million over the quarter)

Excluding HBFCL, NPLs for all banks and other DFIs have decreased by 6.1 percent over the year from Rs. 11.7 billion to Rs. 11.0 billion. The percentage share of NPLs of all banks and other DFIs (excluding HBFCL) was 58 percent in total NPLs as on December 31, 2012, compared to a 62 percent as of December 30, 2011.

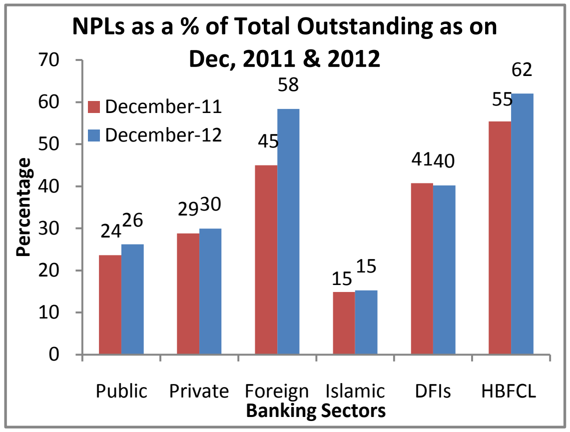
Among banks, Figure 6, non-performing finances (NPFs) of Islamic banks witnessed a increase of 17 percent during the year, from Rs. 1.3 billion to Rs. 1.5 billion. Their NPFs constitute eight percent, as on December 31, 2012, of total NPLs. NPLs of the public sector banks

Figure 6



decreased by 2.8 percent from Rs. 1.92 billion to Rs. 1.87 billion, over the year, which were 26 percent of total outstanding as of December 31, 2012. Private Banks' NPLs have decreased by 10.8 percent, from Rs. 8.3 billion to Rs. 7.4 billion which was 30 percent of their total outstanding, as of December 31, 2012. NPLs of foreign banks as a percentage of their outstanding portfolio increased from 45 percent (at the quarter end Oct–Dec, 2011) to 58 percent as of December 31, 2012. NPLs of DFIs (excluding HBFCL) have decreased from Rs. 100 million to Rs. 71 million, over a year; a 29 percent decrease over the year with 40 percent of its total outstanding classified as NPLs as on December 30, 2012.

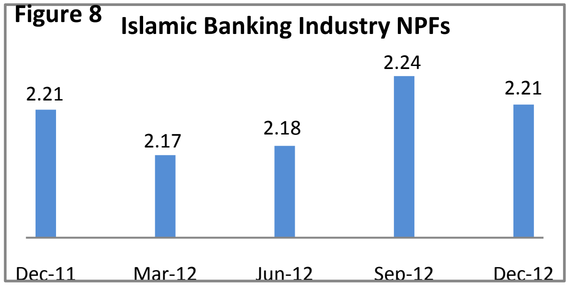
Figure 7



The NPFs of Islamic Banking industry decreased by 1.1 percent (Rs. 24 million) over the quarter.

Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.21 billion on December 31, 2012, which were same billion at the end of year 2011, remained unchanged.

Figure 8



Number of Borrowers

Total number of borrowers decreased from 91,398 to 84,811 since December 30, 2011; a decline of 7.2 percent. As shown in Table 1, there is a decrease in number of borrowers in each category.

In terms of percentage, approximately 62 percent of total borrowers of housing finance have been classified as non-performing. However, this is primarily due to HBFCL's number (49,582) of non-active borrowers, classified as non-performing, which accounts for 78 percent of its borrowers. Thus, by excluding HBFCL, 15 percent of total borrowers of housing loans have been classified as non-performing.

Table 1

Banks/ DFIs	December – 12			December – 11		
	No. Active Borrowers	**No. of Borrowers classified as NPLs**	**Total O/s Borrowers**	**No. Active Borrowers**	**No. of Borrowers classified as NPLs**	**Total O/s Borrowers**
Public Sector	4,982	717	5,699	5,420	981	6,401
Private Banks	10,389	2,102	12,491	11,152	2,160	13,312
Foreign Banks	34	48	82	51	33	84
Islamic Banks	2,387	288	2,675	2,311	224	2,535
DFIs	68	11	79	87	9	96
HBFCL	14,203	49,582	63,785	18,172	50,798	68,970
Total	**32,063**	**52,748**	**84,811**	**37,193**	**54,205**	**91,398**

Disbursements

During the quarter ended December 31, 2012, total disbursements made were reported as Ts. two billion which were Rs.0.6 billion greater than the disbursements made during the quarter ended September 30, 2012.

Fresh disbursements of Rs. 2 billion (Figure 9) were made to 568 borrowers during the quarter ending December 31, 2012 (Table 2). Islamic Banks extended new disbursements with Rs. 0.91 billion followed by Private banks with Rs. 0.81 billion, public sector banks with Rs. 19 million and foreign banks with Rs. 18 million. HBFCL's fresh disbursements for the quarter were reported to be Rs. 232 million. Among commercial banks, the number of new borrowers totaled 387, with private banks serving 179 borrowers and Islamic banks 159 customers. HBFCL extended loans to 181 new borrowers during the reporting quarter.

Fresh disbursement for Islamic Banking Industry was Rs. 1.07 billion to 190 new borrowers during the quarter ending December 31, 2012. This includes new disbursements of Rs. 0.16 billion to 31 customers by IBDs of conventional banks.

Figure 9: (Amount in Rs. Billions)

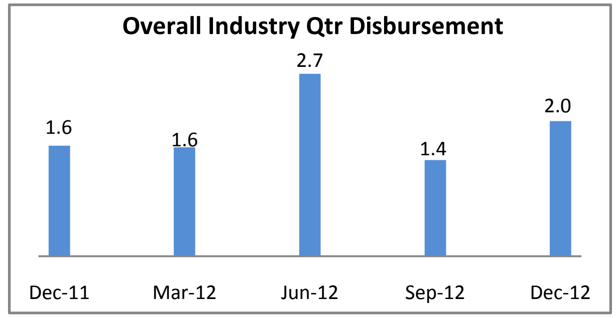


Figure 10: (Amount in Rs. Billions)

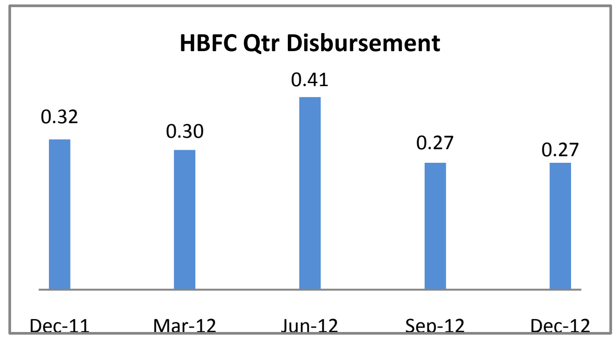


Table 2

New Disbursements during the quarter ending Dec 31 2010		
	Amount (Rs. Millions)	**No. of Borrowers**
Public Sector Banks	19	41
Private Banks	813	179
Foreign Banks	18	8
Islamic Banks	914	159
All Banks	**1,764**	**387**
DFIs	-	-
HBFCL	232	181
Total	1,996	569
Islamic Industry	**1,074**	**190**

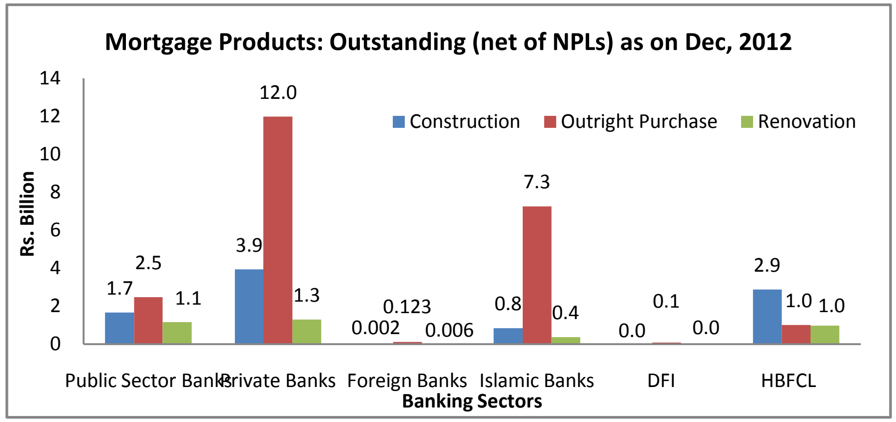
Products Category-Wise Share

The biggest share of housing finance continued to be attracted towards outright purchase (Figure 11).

The highest amount of financing being outstanding was remained in outright purchase.

The outstanding for outright purchase stood at Rs. 32.5 billion as on December 31, 2012; a 59 percent share in total outstanding of Rs. 55 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 16.3 billion and that of renovation stood at Rs. 6.2 billion. Active portfolio shows that private banks have taken a lead in financing for two sectors; outright purchase 54 percent and renovation 34 percent but HBFCL has taken lead in financing construction category, i.e., 51 percent.

Figure 11



Analysis of Loan Variables adopted by Banks/DFIs and HBFCL

Tables 3 to 6 summarize loan variables across all banking sectors including weighted average interest rate, average maturity period, Loan-to-Value ratio (% financing by banks) and average loan size.

Weighted average interest rate

The overall weighted average interest rate was 14.2% at the end of the current quarter as shown in Table 3. Highest weighted average profit rate was reported by Islamic Banks 14.9%, followed by Private Banks 14.7%, Foreign Banks 14.3, HBFCL 13.9%, while public sector banks average came to 13.7%.

Table 3

	Weighted Average Interest Rate (%)				
	Dec-12	Sep-12	Jun-12	Mar-12	Dec-11
Public Sector Banks	13.7	14.5	15.6	14.0	15.7
Private Banks	14.7	15.0	15.1	15.3	15.8
Foreign Banks	14.3	16.0	16.7	17.0	16.8
Islamic Banks	14.9	15.5	15.9	16.2	16.7
All Banks	**14.6**	**15.1**	**15.4**	**15.6**	**16.1**
DFIs	-	-	-	-	-
All Banks & DFIs	**14.6**	**15.1**	**15.4**	**15.6**	**16.1**
HBFCL	13.9	15.2	16.0	16.0	16.0
Total Average	**14.2**	**15.2**	**15.7**	**15.8**	**16.0**

Average maturity periods

Average maturity period of outstanding loans as on December 31, 2012 was 12 years. HBFCL's average maturity period was 13.5 years, while that of Public Sector Banks is 11.6 years. Table 4 shows that among commercial banks, Private Banks have extended housing finance loans for average tenure of 11.6 years followed by Foreign Banks with 10.7 years and Islamic Banks with 9.9.

Table 4

	Average Maturity Period (Years)				
	Dec-12	Sep-12	Jun-12	Mar-12	Dec-11
Public Sector Banks	12.5	8.6	10.4	10.2	8.1
Private Banks	11.6	10.6	11.7	11.7	11.7
Foreign Banks	10.7	10.3	10.7	9.8	8.6
Islamic Banks	9.9	9.7	9.2	10.4	9.9
All Banks	**10.5**	**10.1**	**10.8**	**11.5**	**10.4**
DFIs	-	-	-	-	-
All Banks & DFIs	**10.5**	**10.1**	**10.8**	**11.5**	**10.4**
HBFCL	13.5	13.3	11.6	13.0	14.1
Total Average	**12.0**	**11.7**	**11.2**	**12.3**	**12.2**

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs meagerly increased during last year (Table 5) from 44.2% to 44.3%. Average LTVs of commercial banks have increased from 37.3% to 42.8% over the year. The average LTV for HBFCL has increased from 42.9% to 45.9% over the year.

Table 5

	Loan to Value Ratio				
	Dec-12	Sep-12	Jun-12	Mar-12	Dec-11
Public Sector Banks	46.7	46.7	46.7	46.7	30.6
Private Banks	42.4	30.3	31.3	33.8	36.5
Foreign Banks	44.7	47.0	46.7	47.0	47.1
Islamic Banks	37.3	41.7	42.3	43.5	43.6
All Banks	**42.8**	**41.4**	**41.8**	**38.1**	**37.3**
DFIs	-	-	-	-	-
All Banks & DFIs	**42.8**	**41.4**	**41.8**	**38.1**	**37.3**
HBFCL	45.9	46.9	41.8	39.8	42.9
Total Average	**44.3**	**44.2**	**41.8**	**39.0**	**40.1**

Average loan size

Average loan size for disbursements made during the quarter ending December 31, 2012, Table 6, was Rs. 12.6 million for all banks, except HBFCL. The average loan size for HBFCL was Rs. 1.9 million. Private Banks reported an average financing size of 11.2 million, Foreign Banks and Islamic Banks reported an average financing size Rs. 3.7 million and Rs. 3.4 million respectively, and Public sector banks 0.9 million.

Table 6

	Average Loan Size (Rs. Millions)				
	Sep-12	Jun-12	Mar-12	Dec-11	Sep-11
Public Sector Banks	0.9	2.5	2.2	2.1	1.4
Private Banks	11.2	7.3	5.1	4.2	3.9
Foreign Banks	3.7	4.0	4.3	4.0	1.7
Islamic Banks	3.4	3.6	2.9	3.7	1.7
All Banks	**12.6**	**7.0**	**4.1**	**3.8**	**2.4**
DFIs	-	-	-	-	-
All Banks & DFIs	**12.6**	**7.0**	**4.1**	**3.8**	**2.4**
HBFCL	1.9	2.3	1.3	2.1	1.3
Total Average	**7.3**	**4.6**	**2.7**	**3.0**	**1.9**

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The total outstanding housing finance of Micro Finance Banks (MFBs) was Rs. 154.98 millions as on December 31, 2012 which was Rs. 153.7 millions at the end of September 30, 2012. It registered an increase of 0.8 percent, over the last quarter.

Number of Borrowers

Total number of outstanding borrowers decreased from 2,693 to 2,552 since Sep 30, 2012; a decrease of five percent.

Non-Performing Loans

NPLs for MFBs have increased from Rs. 0.39 million (September 30, 2012) to Rs. 0.51 million (December 30, 2012); showing an increase of 31.43 percent over the last quarter. NPLs of MFBs arising out of housing finance business are around 0.3 percent of their outstanding housing finance portfolio.

Mortgage to GDP Ratio:

While calculating mortgage to Grand Domestic Product (GDP Nominal), following figures were taken in to account.

- Outstanding finances of Commercial Banks, DFIs and Micro finance banks were equal to Rs. 55 Billion as of September 2012.
- Amount of finance availed by employees of the Commercial banks and DFIs was Rs. 76.46 Billion as of December 2012.
- Nominal GDP for year 2010-11 was Rs. 18,100 Billion

Mortgage to GDP Ratio = Total Mortgages/GDP

Mortgage to GDP ratio in Pakistan remained below 1% and to be exact it was 0.73% as of December 2012.

Share of Housing Finance in Consumer Finance:

At the end of quarter ended December 31, 2012, the housing finance to consumer finance was 22 percent whereas the ratio of housing finance NPLs to consumer finance loans was 43.2 percent being the second highest share among the NPLs of other consumer products.

Conclusion

The quarter ending December 31, 2012 depicted an increase of 1.4 percent (Rs. 0.8 billion) compared to quarter ending September 30, 2012, in overall outstanding portfolio of housing finance industry. NPLs of the housing finance portfolio display a rising trend over the year and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers due to inflated prices of property/houses, labor and construction material. Another reason hindering the growth of housing finance in Pakistan is reluctance of banks for lending outside few big cities. However, after a long time, mortgage industry showed an increase in outstanding amount over the quarter majorly contributed by Islamic banks which disbursed Rs. 914 million during the quarter. Unlike last quarters, outstanding amount of Islamic Banks increased by 16 percent during the quarter. However, the lack of effective institutional framework and secondary mortgage market and high interest rates are still the major constraints towards the growth of housing and housing finance sector which is one of the potential key drivers of the economy.

Initiatives and Achievements

Recognizing the importance of housing sector in boosting the domestic economy, following initiatives have been taken by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

Capacity building Program

State Bank of Pakistan (SBP) is extending its endeavors to flourish the housing finance system in the country. Being the regulator of financial institutions, SBP is thriving hard to educate the financial industry. In continuation to SBP efforts, we actively pursue this goal of SBP to train the financial industry. During the quarter ended December 31, 2012, Infrastructure & Housing Finance Division conducted two training programs one in Hyderabad on the topic “General Housing Finance” and the other in Lahore on “Recoveries & Foreclosures in Housing Finance.

SBP-AMB Meeting

SBP & Association of Mortgage Bankers (AMB) are in close coordination to bring the market based mechanism to enhance the housing finance in Pakistan. Last meeting of SBP-AMB was held on January 21, 2013. The minutes of the meeting can be accessed on http://www.ambp.org.pk

News on Housing Finance

SBP asked to start mortgage financing to develop housing sector

To overcome the lack of housing finance, the State Bank of Pakistan (SBP) should take immediate steps to introduce investment bonds to generate liquidity for mortgage financing at affordable rate to develop housing sector that has potential to push GDP up to 9 per cent, he said.

[Published in One Pakistan] For full text: http://business.onepakistan.com.pk/news/general/12596-sbp-asked-to-start-mortgage-financing-to-develop-housing-sector.html

Banks reluctant to reenter housing finance business

Mortgage lending by commercial banks may continue to take a dip next year mainly because of rising credit risk associated with this segment, said experts

[Published in The News dated November 22, 2012] For full text: http://www.thenews.com.pk/Todays-News-3-144236-Banks-reluctant-to-reenter-housing-finance-business