STATE BANK OF PAKISTAN

INFRASTRUCTURE, HOUSING AND SME FINANCE DEPARTMENT

Quarterly Housing Finance Review

January – March 2013

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
Wasif Hussain, Assistant Director

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 March 31, 2013 was Rs. 52.6 billion. It was Rs. 58.6 billion as of March 31, 2012 showing a decline of Rs. 6 billion (10.2 percent) over the year and Rs. 55 billion at the end of December 31, 2012. The total number of outstanding borrowers also decreased from 89,125 to 82,346 over a year; showing a fall of 7.6 percent and 2.9 percent decline when compared to last quarter. Non-performing loans decreased from Rs. 20.13 billion (March 31, 2012) to Rs. 18.36 billion (March 31, 2013); a 8.8 percent decrease over the year. The stock of NPLs as on December 31, 2012 was Rs. 18.94 billion.

Around 505 new borrowers were extended house finance during the quarter (Jan-Mar, 2013), accounting for Rs. 2.3 billion of new disbursements. HBFCL accounted for 38.6 percent of these new borrowers and contributed 12.9 percent of the new disbursements equivalent to Rs. 292 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. 52.6 billion, decreased by four percent (Rs. 2.4 Billion) over last quarter

The gross outstanding finance as on March 31, 2013 of all banks and DFIs stood at Rs. 52.6 billion (Figure 1), compared to Rs. 58.6 billion as on March 31, 2012, showing a decrease of Rs. 6 billion (10.2 percent).

The Gross outstanding of the banking sectors decreased over the year except for Islamic Banks which showed an increase of 11.6 percent and reached to Rs. 9.6 billion by the end of March 2013.

Banking sector-wise total outstanding on quarters ending March 2012 and 2013 are shown in Figure 2. Of the total outstanding as on March 31, 2013, commercial banks accounted for Rs. 39.8 billion; a 12 percent decline since quarter ending March 31, 2012. Private banks reported Rs. 23 billion followed by Islamic banks at Rs. 9.6 billion, public sector banks at Rs. 6.9 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.6 billion; down by 3.4 percent over the last year. Other DFIs had a meager share of Rs. 0.2 billion in outstanding loans.

The gross outstanding of Islamic Banking industry showed a decrease of Rs. 0.6 billion (four percent) over the quarter.

The gross outstanding housing finance as on March 31, 2013 of Islamic Banking Industry (Five Islamic Banks (IBs) & 12 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 13.2 billion. Compared to quarter ending March 2012, gross outstanding of Islamic banking Industry increased by six percent (Rs. 0.7 billion) as shown in Figure 3.

The Gross outstanding of IBs decreased by four percent and of IBDs decreased by six percent over the quarter.

Of the gross outstanding Islamic housing finance, Islamic banks accounted for Rs. 9.64 billion (11 percent increase over the year). IBDs of conventional banks posted Rs. 2.89 billion (24 percent decline since quarter ending March 31, 2012).

.

Figure 1 (Amount in Rs. Billion)

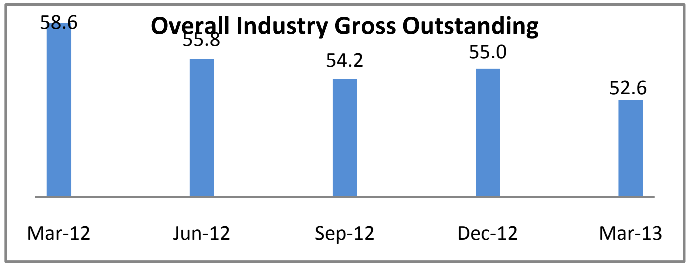


Figure 2

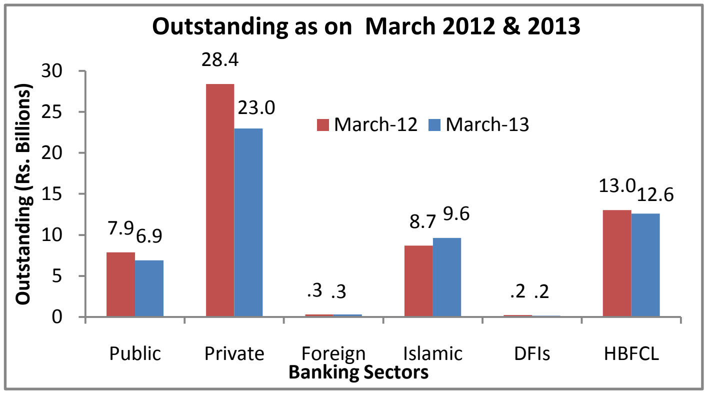
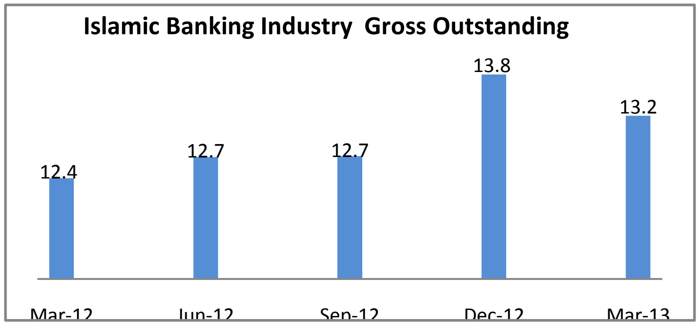


Figure 3 (Amount in Rs. Billion)



Share of Banks

The share of HBFCL increased by one percent and of private banks decreased by one percent over the quarter. Furthermore, the share of Public Sector Banks, Islamic Banks and Foreign banks remained same at 13 percent, 18 percent and one percent respectively over the quarter.

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) decreased marginally from 78 percent to 76 percent compared to the corresponding period last year. Within commercial banks, the share of Public Sector banks in the total outstanding remained unchanged at 13 percent and the share of HBFCL in the total outstanding increased from 22 percent to 24 percent over the year. The share of Private Sector banks decreased to 44 percent from 49 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 market share of HBFCL increased by one percent and the market share of Conventional Banking (excluding HBFCL) decreased by one percent over the quarter. Furthermore, the share of Islamic Banking industry remained same over the quarter.

The share of Conventional Banking (excluding HBFCL), Islamic Banking Industry and HBFCL in the total outstanding was 51 percent, 24 percent and 25 percent respectively as on March 31, 2013 (Figure 4.1). IBDs (12 windows) and Islamic banks (05 banks) have 27 percent and 73 percent share respectively (IBDs share increased to 27 percent from 21 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

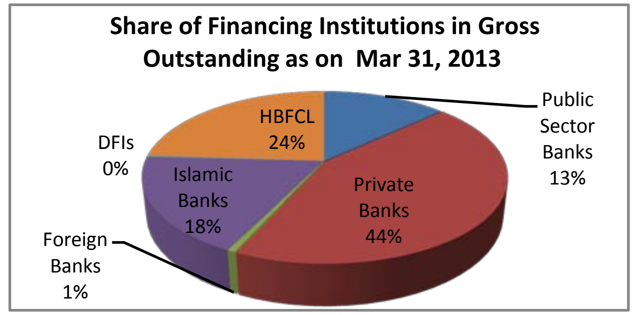


Figure 4.1:

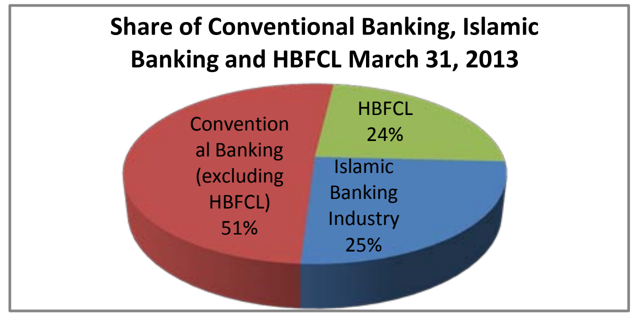
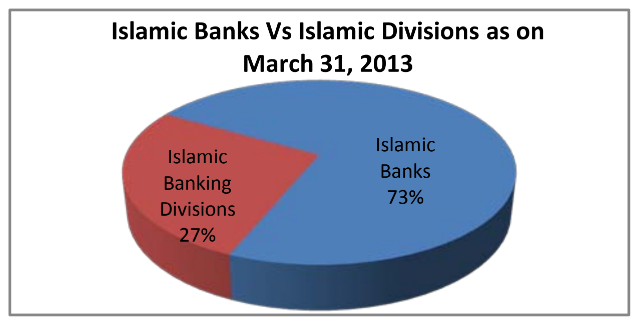


Figure 4.2: Share of Islamic Banks and Islamic Banking Divisions within Islamic Banking Industry in Total Outstanding



Non-Performing Loans (NPLs)

The stock of NPLs as on March 31, 2013 was Rs. 18.36 billion, showing a three percent decrease over the yester quarter (Oct–Dec, 2012)

NPLs decreased from Rs. 20.13 billion (March 31 30, 2012) to Rs. 18.36 billion (March 31, 2013); a 8.79 percent (Rs. 1.77 billion) 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 March 31, 2013 and March 31, 2012. 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 decreasing outstanding with low disbursements.

HBFCL's NPLS showed a decrease of Rs. 500 million (six percent) over the yester quarter ended December, 2012.

HBFCL's NPLs decreased from Rs. 7.9 billion to Rs. 7.4 billion during the year; a six percent decrease as shown in Figure 5.1. Although, HBFCL's NPLs decreased low in absolute terms when compared to some of the other banking sectors, its percentage share in its total outstanding, however, is the greatest after foreign bank NPLs, as 59 percent of its total outstanding constitutes NPLs (Figure 7). HBFCL's percentage share in total NPLs is 40 percent.

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 10.1 percent over the year from Rs. 12.2 billion to Rs. 11 billion. The percentage share of NPLs of all banks and other DFIs (excluding HBFCL) was 60 percent in total NPLs as on March 31, 2013, compared to a 61 percent as of March 31, 2012.

Among banks, Figure 6, non-performing finances (NPFs) of Islamic banks witnessed an increase of 21 percent during the year, from Rs. 1.4 billion to Rs. 1.7 billion. Their NPFs constitute nine percent, as on March 31, 2013, of total NPLs. NPLs of the public sector banks decreased by 10 percent from Rs. 2 billion to Rs. 1.8 billion, over the year, which were 26 percent of their total outstanding as of March 31,

Figure 5: (amount in Rs. Billions)

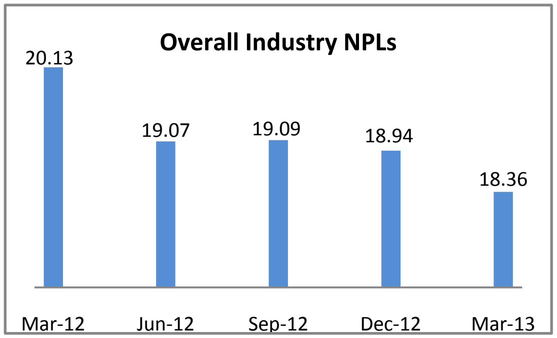


Figure 5.1: (amount in Rs. Billions)

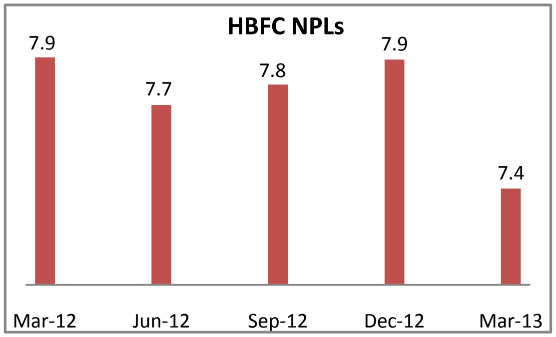
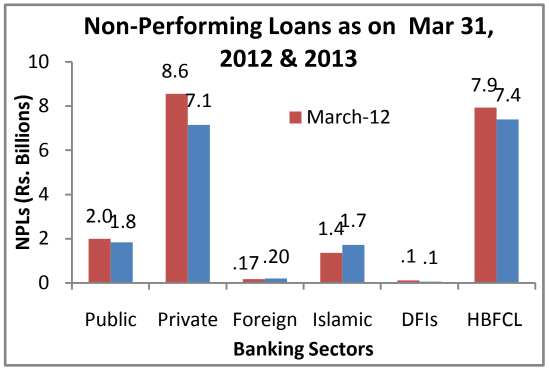
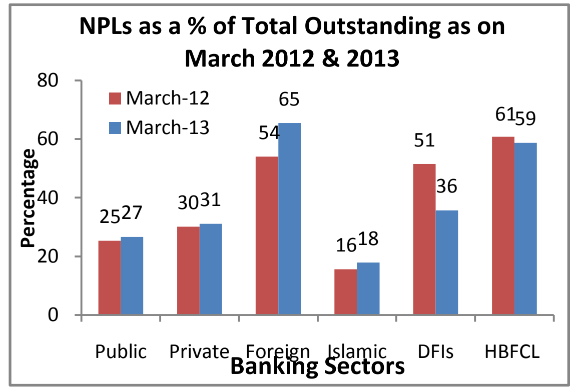


Figure 6



2013. Private Banks' NPLs have decreased by 17.4 percent, from Rs. 8.6 billion to Rs. 7.1 billion which was 31 percent of their total outstanding, as of March 31, 2013. NPLs of foreign banks as a percentage of their outstanding portfolio increased from 54 percent (at the quarter end March, 2012) to 65 percent as of March 31, 2013. NPLs of DFIs (excluding HBFCL) have decreased from Rs. 112 million to Rs. 55 million; a 51 percent decrease over the year with 36 percent of its total outstanding classified as NPLs as on March 31, 2013.

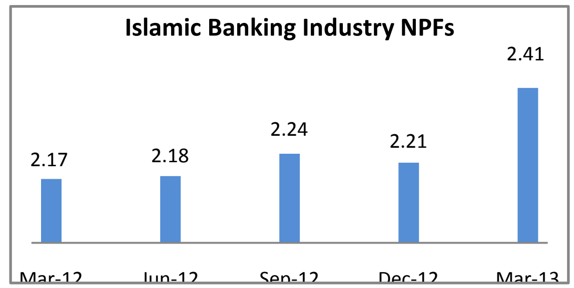
Figure 7



The NPFs of Islamic Banking industry rose by 9 percent (Rs. 200 million) over the quarter.

Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.41 billion on March 31, 2013, which were Rs. 2.17 billion at the end of March 31, 2012 showing an increase of two percent (Rs. 40 million).

Figure 8



Number of Borrowers

Number of borrowers decreased from 89,125 to 82,346 since March 31, 2013 over the year; a decline of 7.6 percent. As shown in Table 1, there is a decrease in number of borrowers in each category.

In terms of percentage, approximately 61 percent of total borrowers of housing finance have been classified as non-performing. However, this is primarily due to HBFCL's number (47,318) of non-active borrowers, classified as non-performing, which accounts for 76 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	March – 13			March – 12		
	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	4,924	683	5,607	5,213	1,000	6,213
Private Banks	9,987	2,065	12,052	10,925	2,228	13,153
Foreign Banks	31	49	80	41	38	79
Islamic Banks	2,298	340	2,638	2,305	246	2,551
DFIs	64	10	74	76	11	87
HBFCL	14,577	47,318	61,895	15,727	51,315	67,042
Total	**31,881**	**50,465**	**82,346**	**34,287**	**54,838**	**89,125**

Disbursements

During the quarter ended March 31, 2013, total disbursements made were reported as Rs. 2.3 billion which were Rs. 266 million higher than the disbursements made during the quarter ended December 31, 2012.

Fresh disbursements of Rs. 2.3 billion (Figure 9) were made to 505 borrowers during the quarter ending March 31, 2013 (Table 2). Islamic Banks extended new disbursements with Rs. 1.37 billion followed by Private Banks with Rs. 547 million, Public Sector banks with Rs. 58 million and foreign banks with Rs. 4 million. HBFCL's fresh disbursements for the quarter were reported to be Rs. 292 million. Among commercial banks, the number of new borrowers totaled 310, with private banks serving 115 borrowers and Islamic banks 154 customers. HBFCL extended loans to 195 new borrowers during the reporting quarter.

Fresh disbursement for Islamic Banking Industry was Rs. 1.484 billion to 176 new borrowers during the quarter ending March 31, 2013. This includes new disbursements of Rs. 0.12 billion to 22 customers by IBDs of conventional banks.

Table 2

New Disbursements during the quarter ending March 31, 2013		
	Amount (Rs. Millions)	**No. of Borrowers**
Public Sector Banks	58	39
Private Banks	547	115
Foreign Banks	4	2
Islamic Banks	1,365	154
All Banks	**1,974**	**310**
DFIs	-	-
HBFCL	292	195
Total	2,266	505
Islamic Industry	**1,484**	**176**

Figure 9: (Amount in Rs. Billions)

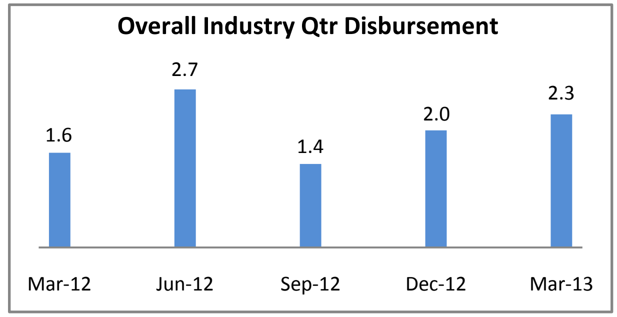
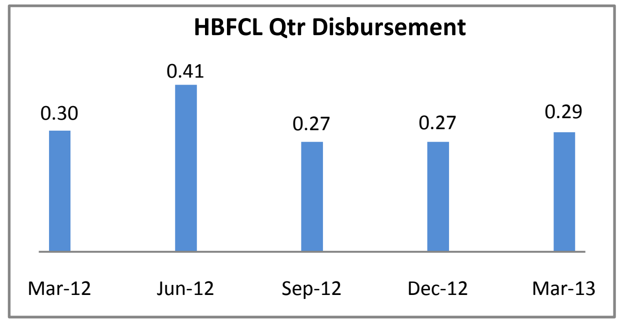


Figure 10: (Amount in Rs. Billions)



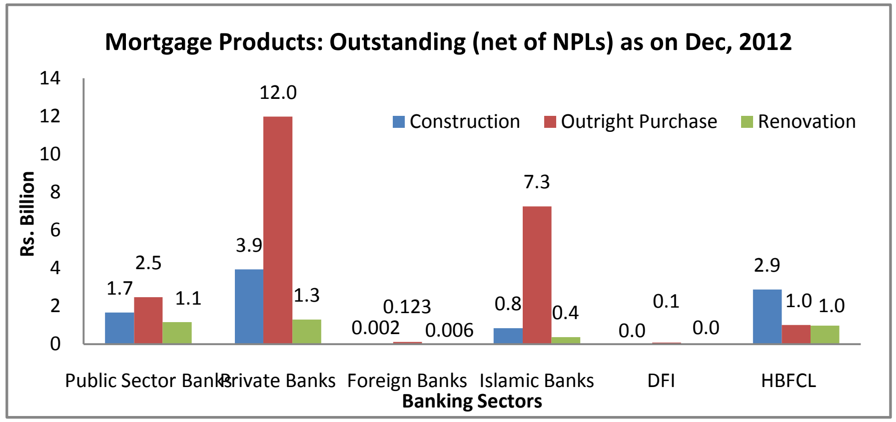
Products Category-Wise Share

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

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

The outstanding for outright purchase stood at Rs. 31.1 billion as on March 31, 2013; a 59 percent share in total outstanding of Rs. 52.6 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 15.4 billion and that of renovation stood at Rs. 6.0 billion. Active portfolio shows that private banks have taken a lead in financing for two sectors; outright purchase 53 percent and renovation 33 percent but HBFCL has taken lead in financing construction category, i.e., 52 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 Markup rate

The overall weighted average Markup rate was 13.5 percent at the end of the current quarter as shown in Table 3. Highest weighted average profit rate was reported by Foreign Banks 14.3 percent, followed by Islamic Banks and Private Banks 14 percent, Public Sector banks 13.2 percent, while HBFCL average came to 13.1 percent.

Table 3

	Weighted Average Interest Rate (%)				
	Mar-13	Dec-12	Sep-12	Jun-12	Mar-12
Public Sector Banks	13.2	13.7	14.5	15.6	10.2
Private Banks	14.0	14.7	15.0	15.1	11.7
Foreign Banks	14.3	14.3	16.0	16.7	9.8
Islamic Banks	14.0	14.9	15.5	15.9	10.4
All Banks	**13.9**	**14.6**	**15.1**	**15.4**	**11.5**
DFIs	-	-	-	-	-
All Banks & DFIs	**13.9**	**14.6**	**15.1**	**15.4**	**11.5**
HBFCL	13.1	13.9	15.2	16.0	13
Total Average	**13.5**	**14.2**	**15.2**	**15.7**	**12.3**

Average maturity periods

Average maturity period of outstanding loans as on March 31, 2013 was 12.3 years. HBFCL's average maturity period was 14.2 years, while that of Public Sector Banks is 13.4 years. Table 4 shows that among commercial banks, Private Banks extended housing finance loans for average tenure of 12.8 years followed by Foreign Banks with 10.7 years and Islamic Banks with 10.3 years.

Table 4

	Average Maturity Period (Years)				
	Mar-13	Dec-12	Sep-12	Jun-12	Mar-12
Public Sector Banks	13.4	12.5	8.6	10.4	10.2
Private Banks	12.8	11.6	10.6	11.7	11.7
Foreign Banks	10.7	10.7	10.3	10.7	9.8
Islamic Banks	10.3	9.9	9.7	9.2	10.4
All Banks	**11.8**	**10.5**	**10.1**	**10.8**	**11.5**
DFIs	-	-	-	-	-
All Banks & DFIs	**11.8**	**10.5**	**10.1**	**10.8**	**11.5**
HBFCL	14.2	13.5	13.3	11.6	13
Total Average	**12.3**	**12**	**11.7**	**11.2**	**12.3**

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs increased during last year (Table 5) from 39 percent to 43.9 percent. Average LTVs of commercial banks increased from 38.1 percent to 44.9 percent over the year. The average LTV for HBFCL increased from 39.8 percent to 42.9 percent over the year.

Table 5

	Loan to Value Ratio				
	Mar-13	Dec-12	Sep-12	Jun-12	Mar-12
Public Sector Banks	46.7	46.7	46.7	46.7	46.7
Private Banks	49	42.4	30.3	31.3	33.8
Foreign Banks	44	44.7	47	46.7	47
Islamic Banks	40	37.3	41.7	42.3	43.5
All Banks	**44.9**	**42.8**	**41.4**	**41.8**	**38.1**
DFIs	-	-	-	-	-
All Banks & DFIs	**44.9**	**42.8**	**41.4**	**41.8**	**38.1**
HBFCL	42.9	45.9	46.9	41.8	39.8
Total Average	**43.9**	**44.3**	**44.2**	**41.8**	**39**

Average loan size

Average loan size for disbursements made during the quarter ending March 31, 2013, Table 6, was Rs. 4.5 million for all banks, except HBFCL. The average loan size for HBFCL was Rs. 2.8 million. Private Banks reported an average financing size of 5.6 million, Foreign Banks and Islamic Banks reported an average financing size Rs. 3.7 million and Rs. 3.3 million respectively, and Public sector banks 2.9 million.

Table 6

	Average Loan Size (Rs. Millions)				
	Mar-13	Dec-12	Sep-12	Jun-12	Mar-12
Public Sector Banks	2.9	2.5	2.2	2.1	1.4
Private Banks	5.6	7.3	5.1	4.2	3.9
Foreign Banks	3.7	4.0	4.3	4.0	1.7
Islamic Banks	3.3	3.6	2.9	3.7	1.7
All Banks	**4.5**	**7.0**	**4.1**	**3.8**	**2.4**
DFIs	-	-	-	-	-
All Banks & DFIs	**4.5**	**7.0**	**4.1**	**3.8**	**2.4**
HBFCL	2.8	2.3	1.3	2.1	1.3
Total Average	**3.6**	**4.6**	**2.7**	**3.0**	**1.9**

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The outstanding housing finance of Micro Finance Banks (MFBs) was Rs. 160.53 millions as on March 31, 2013 which was Rs. 154.98 millions at the end of December 31, 2012. It registered an increase of 3.58 percent, over the last quarter.

Number of Borrowers

The number of outstanding borrowers decreased from 2552 to 2,331 since Dec 31, 2012; a decrease of nine percent.

Non-Performing Loans

NPLs for MFBs decreased from Rs. 0.51 million (December 31, 2012) to Rs. 0.35 million (March 31, 2013); showing a decrease of 31 percent over the last quarter. NPLs of MFBs arising out of housing finance business are around 0.2 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 Microfinance banks were equal to Rs. 52.6 Billion as of March 31, 2013.
- Amount of finance availed by employees of the banks and DFIs was Rs. 76.38 Billion as of March 31, 2013.
- Nominal GDP for FY 2011-12 was Rs. 19,436.83[2] billion

Mortgage to GDP Ratio = Total Mortgages/GDP

Mortgage to GDP ratio in Pakistan remained below 1% and to be exact it was 0.66% as of March 31, 2013.

[2] http://www.pbs.gov.pk/sites/default/files/national_accounts/tables/newtable2.pdf

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) has been extending its endeavors to flourish the housing finance system in the country. Being the regulator of financial institutions, SBP is thriving hard to build the capacity of the financial industry. During the quarter ended March 31, 2013, two days' training program was conducted in Multan on the topic "Islamic Housing Finance". Contents of the training can be accessed on http://www.sbp.org.pk/departments/ihfd-house.htm

Workshop on Regional & National Models of Housing Finance

SBP & Association of Mortgage Bankers (AMB) jointly organized the workshop on Regional & National Models of Housing Finance. Mr. Ashraf Mahmood Wathra gave the inaugural speech. Contents of the training can be accessed on http://www.sbp.org.pk/departments/ihfd-house.htm

News on Housing Finance

House Finance

All of us know that housing finance is a fairly and comparatively new phenomenon in the country and the players involved in housing finance are few and commercial banks have entered the business only a few years ago. The capacity of these institutions needs to be enhanced, especially in knowledge-based sharing and development.

In this regard, the Mortgage Bankers Association (MBA) needs to be strengthened with human and financial resources. The association is required to attract human resources through creating strategic partnerships with good business schools in the country.

[Published in Business Recorder dated January 29, 2013] For full text: http://www.brecorder.com/articles-a-letters/187/1148104/

Housing finance issues discussed

A delegation of Association of Builders & Developers (ABAD), led by its chairman M Anwar Gagai, called on House Building Finance Co. Ltd (HBFCL) Managing Director Saeed Khan and discussed issues of housing finance.

[Published in The Nation dated January 10, 2013] For full text: http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/business/10-Jan-2013/housing-finance-issues-discussed

Conclusion

The quarter ending March 31, 2013 depicted a decline in gross outstanding of housing finance by Rs. six billion (10.2 percent) from Rs. 58.6 billion to Rs. 52.6 billion over the year which were reported as Rs. 55 billion at the end of December 31, 2012. Though in absolute terms NPLs of the housing finance portfolio have decreased over a period of year but in terms of their ratio to outstanding they display a rising trend over the years 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. 1.48 billion 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.