Quarterly Housing Finance Review

The Infrastructure, Housing & SME Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ending Sep 30, 2013. 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 have also been presented in it.

Infrastructure, Housing & SME Finance Department | Team Members

Imran Ahmad, Additional Director
Wasif Hussain, Assistant Director

Under the guidance of

Syed Samar Hasnain, 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 0.3 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 Recoveries 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 one microfinance bank 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 with mandate to cater to the lower-middle and low-income groups.

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 Sep 30, 2013 was Rs. 52.67 billion. It was Rs. 54.21 billion as of Sep 30, 2012 showing a decline of Rs. 1.54 billion (2.8 percent) over the year. At the end of last quarter, it was Rs. 52.2 billion. The number of outstanding borrowers also decreased from 85,505 to 78,275 over a year; showing a fall of 8.5 percent and 1.5 percent decline when compared to last quarter. Non-performing loans decreased from Rs. 19.1 billion (Sep 30, 2012) to Rs. 17.2 billion (Sep 30, 2013); a 10 percent decrease over the year. The stock of NPLs as on June 30, 2013 was Rs. 17.6 billion.

Around 808 new borrowers were extended house finance during the quarter (Jul-Sep, 2013), accounting for Rs. 2.58 billion of new disbursements. HBFCL accounted for 34 percent of these new borrowers and contributed 15.2 percent of the new disbursements equivalent to Rs. 393 million.

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

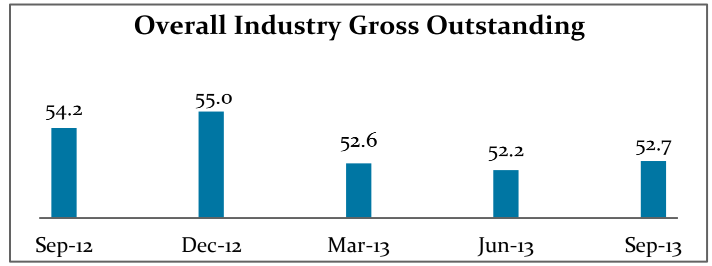
Major Trends

Gross Outstanding

The Gross outstanding reached to Rs. 52.7 billion; increased by one percent (Rs. 500 Million) over last quarter.

The gross outstanding finance as on Sep 30, 2013 of all banks and DFIs stood at Rs. 52.7 billion (Figure 1), compared to Rs. 54.2 billion as on Sep 30, 2012, showing a decrease of Rs. 1.5 billion (2.76 percent).

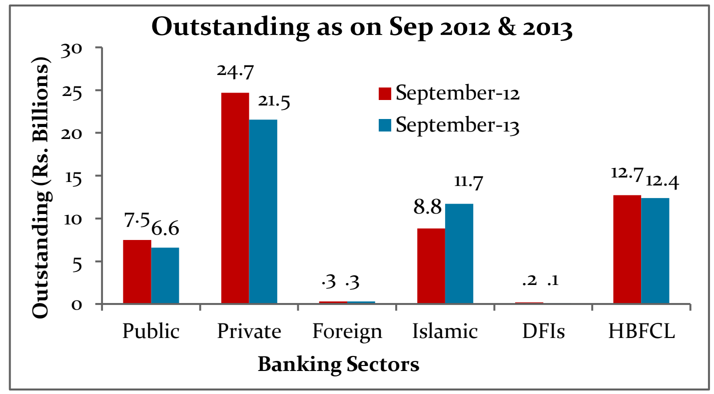
Figure 1 (Amount in Rs. Billion)



The Gross outstanding of the banking sector decreased over the year except for Islamic Banks which showed an increase of 33 percent and reached to Rs. 11.7 billion by the end of September 2013.

Banking sector-wise total outstanding on quarters ending Sep 2012 and 2013 are shown in Figure 2. Of the total outstanding as of Sep 30, 2013, commercial banks accounted for Rs. 40.2 billion; a 2.9 percent decline since quarter ending Sep 30, 2012. Private banks reported Rs. 21.5 billion followed by Islamic banks at Rs. 11.7 billion, public sector banks at Rs. 6.6 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.4 billion; down by 2.4 percent over the last year. Other DFIs had a meager share of Rs. 0.1 billion in outstanding loans.

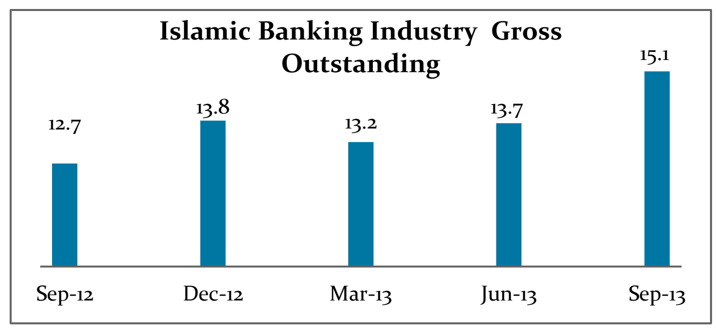
Figure 2



The gross outstanding of Islamic Banking industry showed an increase of Rs. 1.4 billion (10.2 percent) over the quarter.

The gross outstanding housing finance as on Sep 30, 2013 of Islamic Banking Industry (Five Islamic Banks (IBs) & 14 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 15.1 billion. Compared to quarter ending Sep 30, 2012, gross outstanding of Islamic banking Industry increased by 18.9 percent (Rs. 2.4 billion) as shown in Figure 3.

Figure 3 (Amount in Rs. Billion)



The Gross outstanding of IBs increased by 11 percent and of IBDs increased by 0.24 percent over the preceding quarter.

Of the gross outstanding in Islamic housing finance, Islamic banks accounted for Rs. 11.7 billion; a significant increase of 33 percent over the year). IBDs of conventional banks posted Rs. 3.4 billion (12.5 percent decline since quarter ending Sep 30, 2012).

The share of private banks has been decreased by two percent to 41 percent over the quarter. The share of Islamic Bank has been increased to 22 percent from 20 percent over the quarter. Furthermore, the share of public sector banks, foreign banks and HBFCL has been remained same at 13 percent, one percent and 24 percent respectively over the

The market share of Conventional Banking (excluding HBFCL) and HBFCL has been decreased by two percent and three percent respectively over the quarter. Furthermore, the share of Islamic Banking industry has been increased by five percent over the quarter.

Share of Banks

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) decreased marginally from 77 percent to 76 percent compared to the corresponding period last year. Within commercial banks, the share of Public Sector banks in the total outstanding decreased to 13 percent from 14 percent and the share of HBFCL in the total outstanding increased from 23 percent to 24 percent over the year. The share of Private Sector banks decreased to 41 percent from 48 percent over the year. The share of Islamic banks increased to 22 percent from 16 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 48 percent, 29 percent and 23 percent respectively as on Sep 30, 2013 (Figure 4.1). IBDs (12 windows) and Islamic banks (05 banks) have 24 percent and 76 percent share respectively (IBDs share decreased to 24 percent from 30 percent over the year) in housing finance portfolio of Islamic Banking Industry (Figure 4.2).

Figure 4

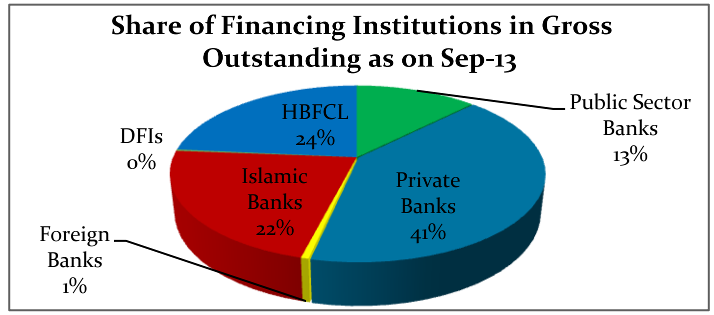


Figure 4.1:

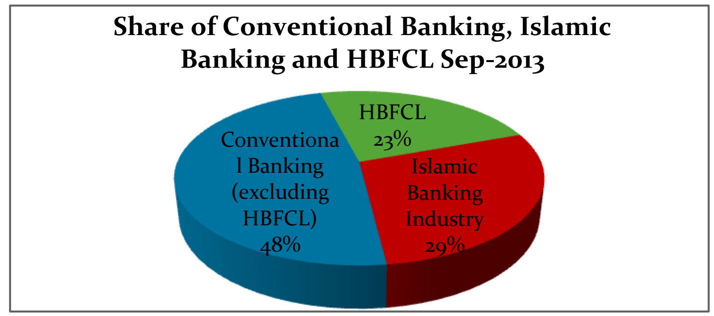
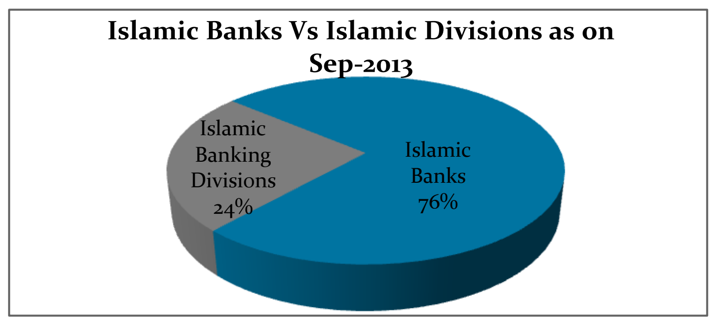


Figure 4.2:



Non-Performing Loans (NPLs)

The stock of NPLs as on Sep 30, 2013 was Rs. 17.24 billion, showing a two percent decrease over the yester quarter (Apr–Jun, 2013).

NPLs decreased from Rs. 19.09 billion (Sep 30, 2012) to Rs. 17.24 billion (Sep 30, 2013); a 9.7 percent (Rs. 1.85 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 Sep 30, 2013 and Sep 30, 2012. NPLs as a proportion of total outstanding have witnessed a decreasing trend over the last twelve months (from 35 percent to 32 percent). This overall rise in NPLs is primarily due to decreasing outstanding with low disbursements.

HBFCL's NPLS showed a decrease of Rs. 100 million (1.4 percent) over the yester quarter ended June, 2013.

HBFCL's NPLs decreased from Rs. 7.8 billion to Rs. 7.0 billion during the year; a 10.25 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 Banks' NPLs, as 57 percent of its total outstanding constitutes NPLs (Figure 7). HBFCL's percentage share in total NPLs is 40.6 percent.

Excluding HBFCL, the NPLs of housing finance industry decreased by 2.5 percent (Rs. 270 million over the quarter).

Excluding HBFCL, NPLs for all banks and other DFIs have decreased by 9.3 percent over the year from Rs. 11.3 billion to Rs. 10.24 billion. The percentage share of NPLs of all banks and other DFIs (excluding HBFCL) was 59.3 percent in total NPLs as on Sep 30, 2013, which was recorded at same level at the end of Sep 30, 2013.

Among banks, as shown in Figure 6, non-performing finances (NPFs) of Islamic banks witnessed an increase of 13.3 percent during the year, from Rs. 1.5 billion to Rs. 1.7 billion. Their NPFs

Figure 5: (amount in Rs. Billion)

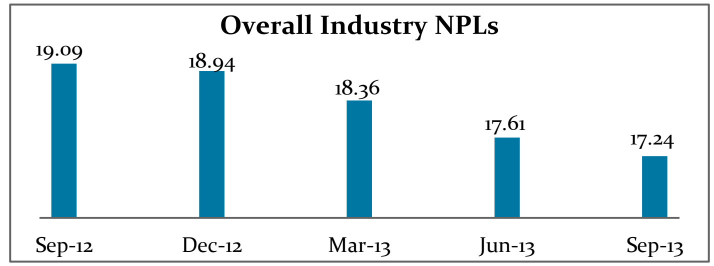


Figure 5.1: (amount in Rs. Billion)

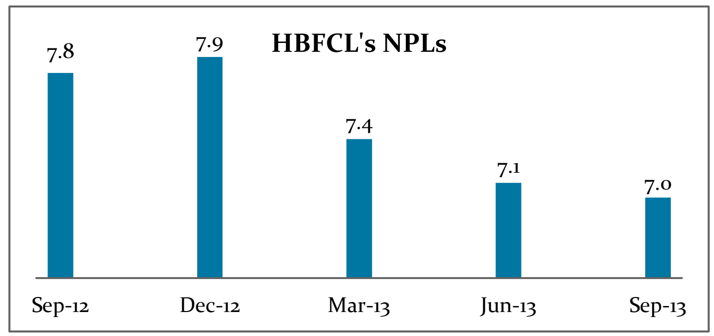
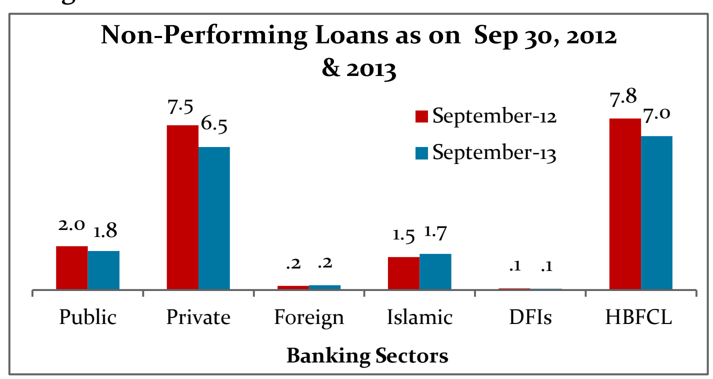


Figure 6



constitute 9.8 percent, as on Sep 30, 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 27 percent of their total outstanding as of Sep 30, 2013. Private banks' NPLs decreased by 13.3 percent, from Rs. 7.5 billion to Rs. 6.5 billion which were 30 percent of their total outstanding. NPLs of foreign banks as a percentage of their outstanding portfolio increased from 60 percent (at the quarter ended Sep, 2012) to 71 percent as of Sep 30, 2013. NPLs of DFIs (excluding HBFCL) decreased from Rs. 69.5 million to Rs. 53.14 million; a 23.5 percent decrease over the year with 39 percent of its total outstanding classified as NPLs as on Sep 30, 2013.

Figure 7

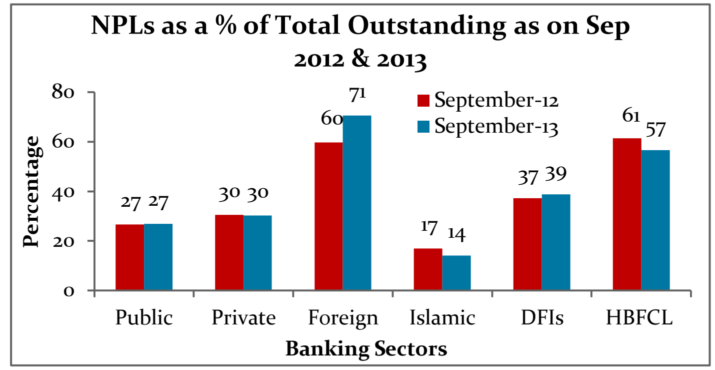
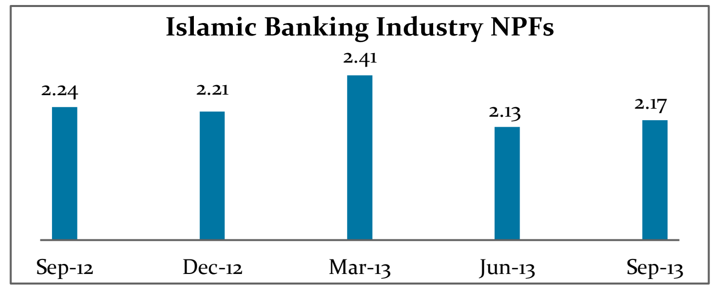


Figure 8



The NPFs of Islamic Banking industry increased by 1.9 percent (Rs. 40 million) over the quarter.

Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.17 billion on Sep 30, 2013, which were Rs. 2.24 billion at the end of Sep 30, 2012 showing a modest decrease of 3.1 percent (Rs. 70 million).

Number of Borrowers

Number of borrowers decreased from 85,505 to 78,275 since Sep 30, 2012 over the year; a decline of 8.5 percent. As shown in Table 1, there is a decrease in number of borrowers in each category except in Islamic Banks.

In terms of percentage, approximately 60.4 percent of total borrowers of housing finance have been classified as non-performing. However, this is primarily due to HBFCL's number (44,178) of non-active borrowers, classified as non-performing, which account 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	Sep – 13			Sep – 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	4,732	664	5,396	5,030	804	5,834
Private Banks	9,780	1,952	11,732	10,433	2,152	12,585
Foreign Banks	27	48	75	34	43	77
Islamic Banks	2,465	315	2,780	2,315	277	2,592
DFIs	58	9	67	71	9	80
HBFCL	14,047	44,178	58,225	14,580	49,757	64,337
Total	**31,109**	**47,166**	**78,275**	**32,463**	**53,042**	**85,505**

Disbursements

During the quarter ended Sep 30, 2013, total disbursements made were reported as Rs. 2.6 billion which were Rs. 400 million lesser than the disbursements made during the quarter ended June 30, 2013.

Fresh disbursements of Rs. 2.6 billion (Figure 9) were made to 808 borrowers during the quarter ending Sep 30, 2013 (Table 2). Islamic banks extended new disbursements with Rs. 1.114 billion followed by private banks with Rs. 949 million, public sector banks with Rs. 126 million and foreign banks with Rs. 1 million. HBFCL's fresh disbursements for the quarter were reported to be Rs. 393 million. Among commercial banks, the number of new borrowers totaled 531, with private banks serving 274 new borrowers and Islamic banks 202 customers. HBFCL extended loans to 275 new borrowers during the quarter under review.

Fresh disbursement for Islamic Banking Industry was Rs. 1.32 billion to 228 new borrowers during the quarter ending Sep 30, 2013. This includes new disbursements of Rs. 205 million to 26 customers by IBDs of conventional banks.

Figure 9: (Amount in Rs. Billion)

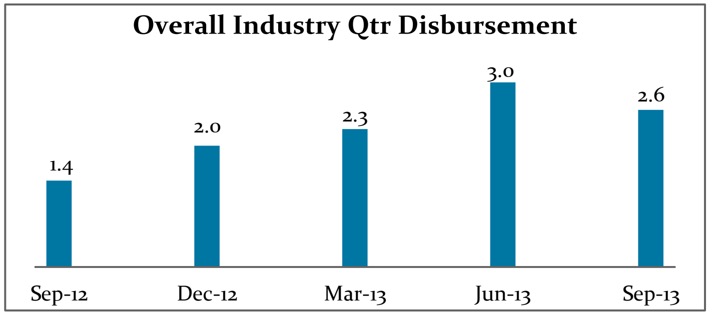


Figure 10: (Amount in Rs. Billion)

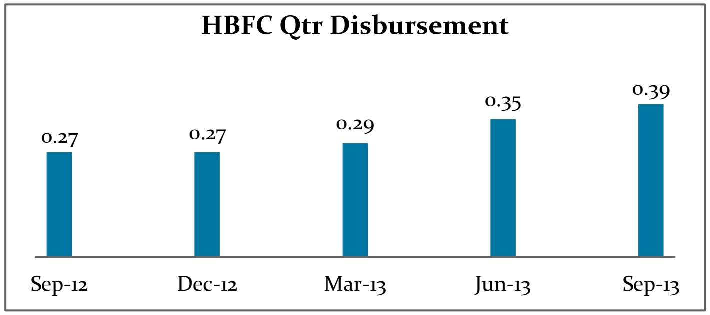


Table 2

New Disbursements during the quarter ending June 30, 2013		
	Amount (Rs. Millions)	**No. of Borrowers**
Public Sector Banks	126	54
Private Banks	949	274
Foreign Banks	1	1
Islamic Banks	1,114	202
All Banks	**2,190**	**531**
DFIs	-	2.0
HBFCL	393.0	275
Total	**2,583**	**808**
Islamic Industry	**1,319**	**228**

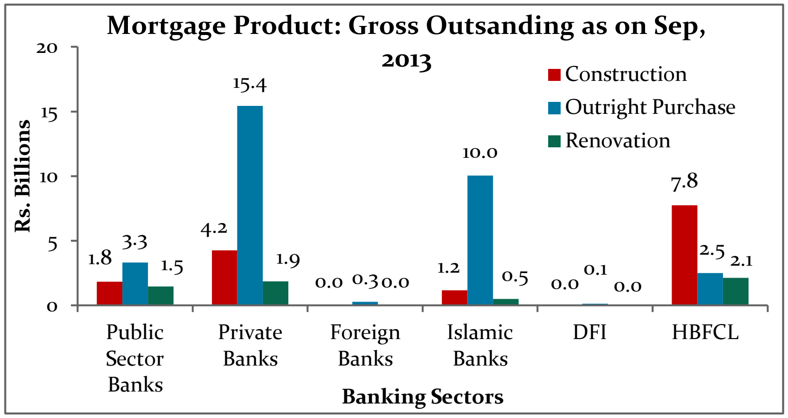
Products Category-Wise Share

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 gross outstanding for 'outright purchase' stood at Rs. 31.7 billion as on Sep 30, 2013; a 60 percent share in total outstanding of Rs. 52.7 billion. This is followed by the 'construction' category where gross outstanding reported at quarter-end stood at Rs. 15 billion and that of 'renovation' stood at Rs. 6 billion. Active portfolio shows that private banks took a lead in financing for outright purchase at 49 percent and renovation at 31 percent. Islamic banks have the share of 38 percent in outright purchase financing. HBFCL has taken lead in financing two sectors i.e. construction category 52 percent and renovation category 36 percent.

Figure 11



Analysis of Financing Variables adopted by Banks/DFIs and HBFCL

Tables 3 to 6 summarize financing variables across all banking sectors including weighted average mark-up 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 13.1 percent at the end of the current quarter as shown in Table 3. Highest weighted average profit rate was reported by Foreign Banks 14.7 percent, followed by Private Banks 13.8 percent, Islamic Banks 12.9 percent and Public Sector banks 11.3 percent, while HBFCL average came to 13 percent.

Table 3

	Weighted Average Interest Rate (%)				
	Sep-13	Jun-13	Mar-13	Dec-12	Sep-12
Public Sector Banks	11.3	12.8	13.2	13.7	14.5
Private Banks	13.8	14.3	14.0	14.7	15.0
Foreign Banks	14.7	14.7	14.3	14.3	16.0
Islamic Banks	12.9	13.0	14.0	14.9	15.5
All Banks	**13.3**	**13.7**	**13.9**	**14.6**	**15.1**
DFIs	-	-	-	-	-
All Banks & DFIs	**13.3**	**13.7**	**13.9**	**14.6**	**15.1**
HBFCL	13.0	13.0	13.1	13.9	15.2
Total Average	**13.1**	**13.4**	**13.5**	**14.2**	**15.2**

Average maturity periods

Average maturity period of outstanding loans as on Sep 30, 2013 was 12.2 years. HBFCL's average maturity period was 12.2 years, while that of Public Sector Banks is 9 years. Table 4 shows that among commercial banks, Private Banks extended housing finance loans for average tenure of 13.7 years followed by Foreign Banks with 10.8 years and Islamic Banks with 10.7 years.

Table 4

	Average Maturity Period (Years)				
	Sep-13	Jun-13	Mar-13	Dec-12	Sep-12
Public Sector Banks	9.0	12.5	13.4	12.5	8.6
Private Banks	13.7	11.6	12.8	11.6	10.6
Foreign Banks	10.8	10.8	10.7	10.7	10.3
Islamic Banks	10.7	9.9	10.3	9.9	9.7
All Banks	**12.1**	**10.8**	**11.8**	**10.5**	**10.1**
DFIs	-	-	-	-	-
All Banks & DFIs	**12.1**	**10.8**	**11.8**	**10.5**	**10.1**
HBFCL	12.2	12.7	14.2	13.5	13.3
Total Average	**12.2**	**11.7**	**12.3**	**12.0**	**11.7**

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs reached to 44 percent during the year (Table 5) from 44.2. Average LTVs of commercial banks increased from 41.4 percent to 43.4 percent over the year. The average LTV for HBFCL was reported at 44.6 percent at the end of quarter Jul-Sep, 2013.

Table 5

	Loan to Value Ratio				
	Sep-13	Jun-13	Mar-13	Dec-12	Sep-12
Public Sector Banks	46.7	46.7	46.7	46.7	46.7
Private Banks	41.6	40.2	49.0	42.4	30.3
Foreign Banks	44.0	44.0	44.0	44.7	47.0
Islamic Banks	41.3	43.5	40.0	37.3	41.7
All Banks	**43.4**	**43.6**	**44.9**	**42.8**	**41.4**
DFIs	-	-	-	-	-
All Banks & DFIs	**43.4**	**43.6**	**44.9**	**42.8**	**41.4**
HBFCL	44.6	42.8	42.9	45.9	46.9
Total Average	**44.0**	**43.2**	**43.9**	**44.3**	**44.2**

Average loan size

Average loan size for disbursements made during the quarter ending Sep 30, 2013 (Table 6) was Rs. 4.5 million for all banks, except HBFCL. The average loan size for HBFCL was Rs. 2 million. Private Banks reported an average financing size of Rs. 4.4 million, Foreign Banks and Islamic Banks reported an average financing size Rs. 5 million and Rs. 5.1 million respectively, and Public sector banks 3.6 million.

Table 6

	Average Loan Size (Rs. Millions)				
	Sep-13	Jun-13	Mar-13	Dec-12	Sep-12
Public Sector Banks	3.6	2.9	2.5	2.2	2.1
Private Banks	4.4	5.6	7.3	5.1	4.2
Foreign Banks	5.0	3.7	4.0	4.3	4.0
Islamic Banks	5.1	3.3	3.6	2.9	3.7
All Banks	**4.5**	**4.5**	**7.0**	**4.1**	**3.8**
DFIs	-	-	-	-	-
All Banks & DFIs	**4.5**	**4.5**	**7.0**	**4.1**	**3.8**
HBFCL	2.0	2.8	2.3	1.3	2.1
Total Average	**3.3**	**3.6**	**4.6**	**2.7**	**3.0**

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The outstanding housing finance of Microfinance Banks (MFBs) was Rs. 181.58 million as on Sep 30, 2013 which was Rs. 169.25 million at the end of June 30, 2013. It registered an increase of 7 percent, over the last quarter.

Number of Borrowers

The number of outstanding borrowers decreased from 2,314 to 2,072 over the quarter; a decrease of 10.45 percent.

Non-Performing Loans

NPLs for MFBs increased from Rs. 0.27 million (June 30, 2013) to Rs. 0.44 million (Sep 30, 2013); showing an increase of 62 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 Rs. 52.88 Billion as of Sep 30, 2013.
- Amount of finance availed by employees of the banks and DFIs was Rs. 66.18 Billion as of Sep 30, 2013.
- Nominal GDP for FY 2011-12 was Rs. 22,909.71[2] billion

Mortgage to GDP Ratio = Total Mortgages/GDP

Mortgage to GDP ratio in Pakistan remained below 1% and to be exact it was 0.52% as of Sep 30, 2013.

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.

---

2 http://www.sbp.org.pk/reports/stat_reviews/Bulletin/2013/Sep/EconomicGrowth.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.

Half Day Training Session on Issues in Islamic Housing Finance

A half Day training session on Issues in Islamic Housing Finance was organized by State Bank of Pakistan on September 23, 2013 at LRC, SBP, Karachi. 36 participants from different financial institutions participated in the session. For the presentation of the session please visit: http://www.sbp.org.pk/departments/ihfd-house.htm

News on Housing Finance

Visit of IFC Mission:

Mission of International Finance Corporation (IFC) visited Pakistan during the quarter under review. They held meeting with various stake holders for the revalidation of Business plan and Feasibility report of Mortgage Refinance Company (MRC) according to current market scenario. They will present the draft report in the first week of November 2013.

Formation of Steering Committees:

Various steering committees have been constituted at federal level to take forward the initiative of providing house finance at 8 percent on the finance ranging from Rs. 1.5 million to Rs. 5 million and another initiative for the provision of low cost 500,000 housing units as announced in the budget speech for FY 2013-2014. Numerous meetings have been held to devise the policies to take forward the initiatives at fast pace.

Conclusion

The quarter ending Sep 30, 2013 depicted a decrease in gross outstanding of housing finance of Rs. 1.5 billion (2.76 percent) over the year and slight growth of one percent (Rs. 500 million) over the quarter. Despite a decline in quarterly disbursements over the yester quarter, outstanding amount still increased by one percent. The increase in quarterly disbursement was majorly contributed by Islamic banks which disbursed Rs. 1.1 billion during the quarter. In absolute terms, NPLs of the housing finance portfolio decreased over a period of year and in terms of their ratio to outstanding they were recorded at 32 percent from 35 percent. Further, in spite of low and favorable policy rate over the year, banks have not followed the housing finance products due to lack of implementation of foreclosure law, defective titles and availability of risk free investment avenues. Another reason hindering the growth of housing finance in Pakistan is reluctance of banks for lending outside few big cities. Moreover, the lack of effective institutional framework and secondary mortgage market and long term funding arrangements are still the major constraints towards the growth of housing and housing finance which is one of the potential key drivers of the economy.