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 Dec 31, 2013. This review contains data on housing finance, collated on a periodic basis from public sector

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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 0.3 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. The *Financial Institutions Recoveries Ordinance, 2001* empowers financial institutions in case of default to foreclose a mortgage property without recourse to the court of law. However, Section 15 of this Ordinance has been declared "ultra vires" to the constitution by Supreme Court of Pakistan.

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.

Housing Advisory Group (HAG) Recommendations, initiated in 2007, were a commendable way forward for the housing sector in Pakistan. These recommendations were drafted keeping in view the issues discussed above. SBP, realizing its role in market development, has been making efforts to ensure effective implementation of these recommendations. As a result, Mortgage Refinance Company (MRC) is now in its final phase of being incorporated. Establishment of Housing Observatory is being pursued on priority basis. To give boost to housing finance, separate Housing Finance (HF) PRs are being issued. Furthermore, Developer Finance guidelines are being issued to structure and streamline the Large Scale Developer Finance (LSDF). Also, SBP is actively involved in capacity building of HF industry through various workshops and training programs being conducted throughout Pakistan.

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 Dec 31, 2013 was Rs. 51.30 billion. It was Rs. 55 billion as of Dec 31, 2012

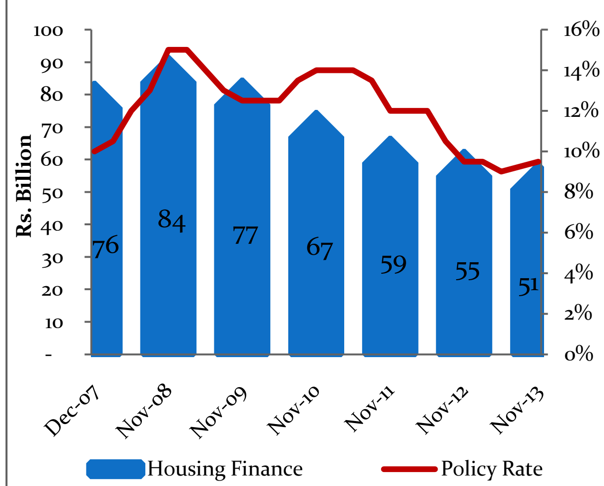
[1] See "Expanding Housing Finance to the Underserved in South Asia Market Review & Forward Agenda" by Tatiana Nenova, World Bank

showing a decline of Rs. 3.7 billion (6.7 percent) over the year. At the end of last quarter, it was Rs. 52.67 billion. The number of outstanding borrowers also decreased from 84,811 to 77,044 over a year; showing a fall of 9.15 percent and 1.6 percent decline when compared to last quarter. Non-performing loans decreased from Rs. 18.94 billion (Dec 31, 2012) to Rs. 15.92 billion (Dec 31, 2013); 16 percent decrease over the year. The stock of NPLs as on Dec 31, 2013 was Rs. 15.92 billion.

Around 737 new borrowers were extended house finance during the quarter (Oct-Dec, 2013), accounting for Rs. 2.85 billion of new disbursements. HBFCL accounted for 43.55 percent of these new borrowers and contributed 17.25 percent of the new disbursements equivalent to Rs. 492 million.

Figure 1 shows the relationship of housing finance trend with respect to policy rate of central bank. It can be seen from the figure that housing finance showed a good growth till the year 2008 due to easy monetary stance of SBP and expansion in the economy. Afterward, due to increase in policy rate, housing finance showed a decline of 9 percent at the end of year 2009, 13 percent at the end of year 2010, 11 percent at the end of year 2011, 7 percent at the end year 2012 and 7.2 percent at the end of Dec 2013 on YoY basis. It can be seen in the figure, when policy rate started rising the ratio of decline in housing finance was high when the policy rate was increasing. However, the decrease in policy rate also slowed down the ratio of decline in housing finance on YoY basis. Furthermore, it should also be noted that beside policy rate fluctuations, various other factors (discussed above) have also been responsible for decline in the housing finance portfolio.

Figure 1: Trends in Housing Finance



Major Trends

The Gross outstanding reached to Rs. 51.3 billion; decreased by 2.65 percent (Rs. 1.40 Billion) over last quarter.

Gross Outstanding

The gross outstanding finance as on Dec 31, 2013 of all banks and DFIs stood at Rs. 51.3 billion (Figure 2), compared to Rs. 55.0 billion as on Dec 31, 2012, showing a decrease of Rs. 3.7 billion (2.76 percent).

The Gross outstanding of the banking sector decreased over the year except for Islamic Banks which showed an increase of 16 percent and reached to Rs. 11.6 billion by the end of December 2013.

Banking sector-wise total outstanding on quarters ending Dec 2012 and 2013 are shown in Figure 3. Of the total outstanding as of Dec 31, 2013, commercial banks accounted for Rs. 38.9 billion; a 6.7 percent decline since quarter ending Dec 31, 2012. Private banks reported Rs. 20.6 billion followed by Islamic banks at Rs. 11.6 billion, public sector banks at Rs. 6.4 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.3 billion; down by 3.9 percent over the last year. Other DFIs had a meager share of Rs. 0.1 billion in outstanding loans.

The total outstanding of Islamic Banking industry showed a decrease of Rs. 0.25 billion (1.92 percent) over the quarter.

The total outstanding housing finance as on Dec 31, 2013 of Islamic Banking Industry (Five Islamic Banks (IBs) & 14 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 13.1 billion can be seen in Figure 4. Compared to quarter ending Dec 31, 2012, total outstanding of Islamic banking Industry increased by 13.57 percent (Rs. 1.57 billion) as shown in Figure 4.

The total outstanding of IBs increased by 2.46 percent and that of IBDs decreased by 1.87 percent over preceding quarter.

Of the total outstanding in Islamic housing finance, Islamic banks accounted for Rs. 10.29 billion; an increase of 21.5 percent over the year. IBDs of conventional banks posted Rs. 2.79 billion (9.87 percent decline since quarter ending Dec 31, 2012).

Figure 2 (Amount in Rs. Billion)

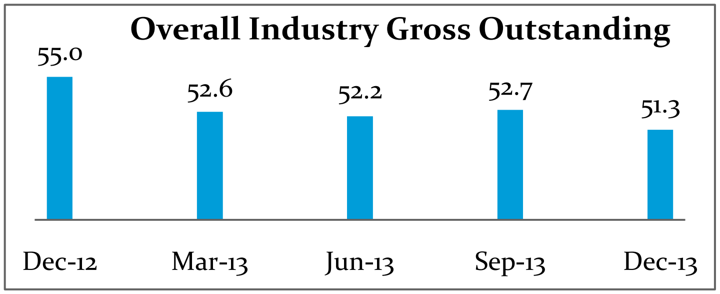


Figure 3

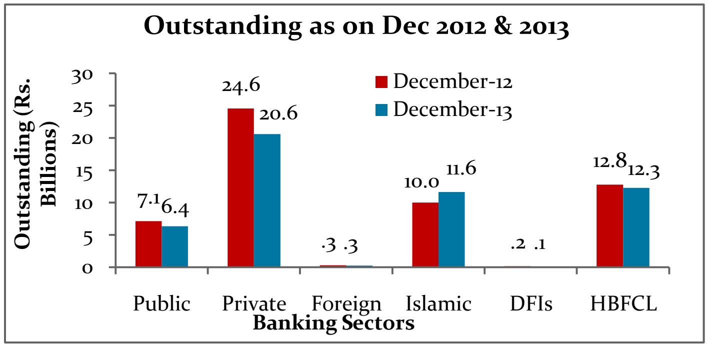
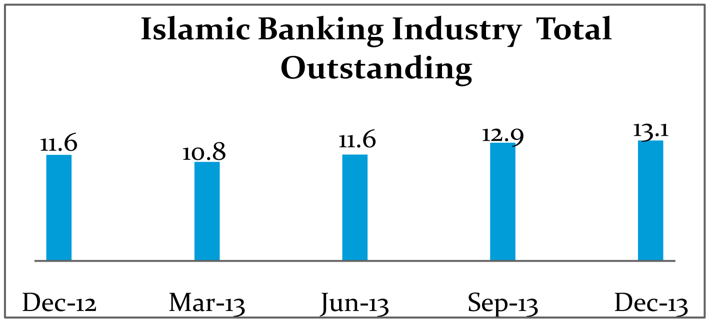


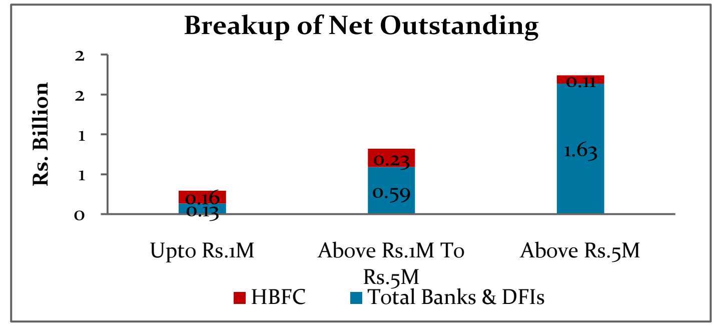
Figure 4 (Amount in Rs. Billion)



From Figure 5, it can be concluded that Commercial banks have more inclination towards big ticket items. However, HBFCL is catering the market requiring small ticket size.

Figure 5 shows the breakup of net outstanding in terms of loan size. As of December 31, 2013, HBFCL and All Banks & DFIs reported outstanding loans net of NPLs in the category 'Up to Rs. 1 million' as Rs. 3.1 billion and Rs. 1.9 billion against 12,620 borrowers and 5,699 borrowers respectively. In second category 'Above Rs. 1 Million to Rs. 5 Million', HBFCL reported Rs. 1.6 billion and All Bank & DFIs reported Rs. 10.6 billion outstanding. In the third category 'Above Rs. 5 Million', HBFCL reported Rs. 0.7 billion and All Banks DFIs reported Rs. 17.5 billion outstanding.

Figure 5



The share of private banks decreased by one percent to 40 percent over the quarter. The share of Islamic Banks increased to 23 percent from 22 percent over the quarter. Furthermore, the share of public sector banks decreased by one percent to 12 percent. However share of foreign banks and HBFCL remained unchanged 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 12 percent from 13 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 40 percent from 45 percent over the year. The share of Islamic banks increased to 23 percent from 18 percent and the share of Foreign Banks remained unchanged at one percent over the year as shown in Figure 6.

The market share of Conventional Banking (excluding HBFCL) decreased by one percent over the last quarter. However, market share of HBFCL and Islamic Banking Industry remained unchanged over the quarter.

The share of Conventional Banking (excluding HBFCL), Islamic Banking Industry and HBFCL in the total outstanding was 47 percent, 29 percent and 24 percent respectively as on Dec 31, 2013 (Figure 6.1). IBDs (12 windows) and Islamic banks (05 banks) have 22 percent and 78 percent share respectively (IBDs share decreased to 22 percent from 27 percent over the year) in housing finance portfolio of Islamic Banking Industry (Figure 6.2).

Figure 6

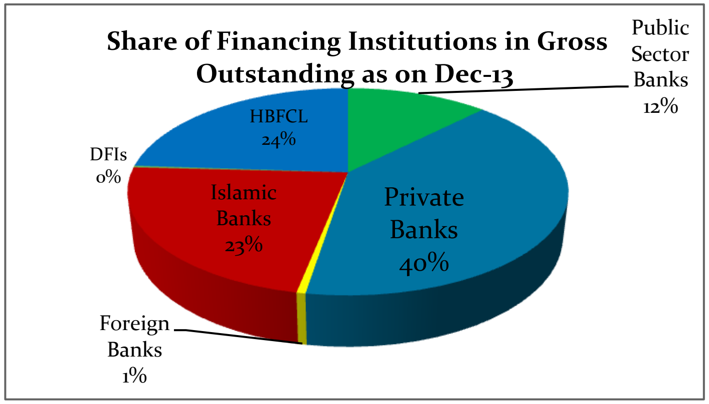


Figure 6.1:

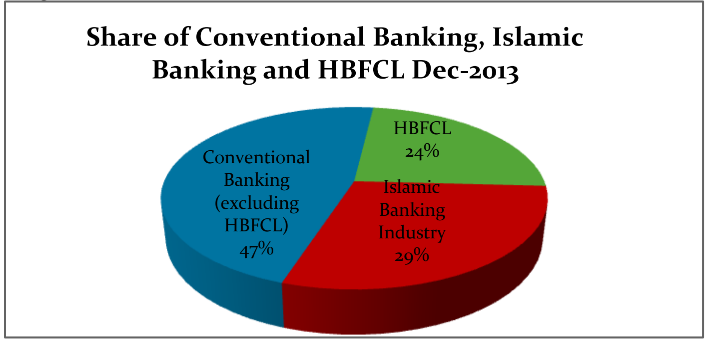
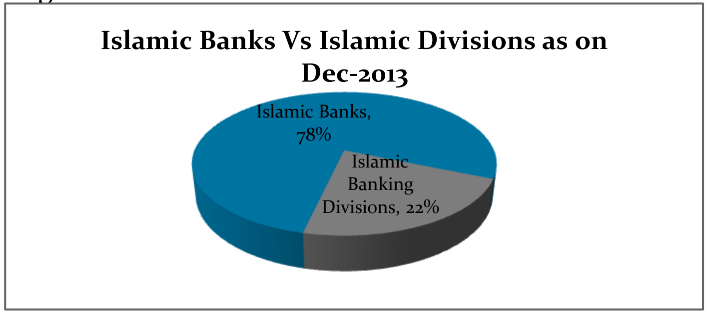


Figure 6.2:



Non-Performing Loans (NPLs)

The stock of NPLs as on Dec 31, 2013 was Rs. 15.92 billion, showing a 7.64 percent decrease over the yester quarter (Sep, 2013).

NPLs decreased from Rs. 18.94 billion (Dec 31, 2012) to Rs. 15.92 billion (Dec 31, 2013); a 15.9 percent (Rs. 3.02 billion) decrease during the year as shown in Figure 7. Figure 8 shows a comparison of existing NPLs status of different banking sectors with last year. Figure 9 compares NPLs as a percentage of outstanding portfolios at the end of quarters on Dec 31, 2013 and Dec 31, 2012. NPLs as a proportion of total outstanding have witnessed a decreasing trend over the last twelve months (from 35 percent to 32 percent).

HBFCL's NPLS showed a decrease of Rs 220 million (3.13 percent) over the yester quarter ended Sep, 2013.

HBFCL's NPLs decreased from Rs. 7.9 billion to Rs. 6.8 billion during the year; a 14.21 percent decrease as shown in Figure 7.1. 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 55 percent of its total outstanding constitutes NPLs (Figure 7). HBFCL's percentage share in total NPLs is 42.7 percent.

Excluding HBFCL, the NPLs of housing finance industry decreased by 10.74 percent (Rs. 1.09 billion over the quarter).

Excluding HBFCL, NPLs for all banks and other DFIs have decreased by 17.21 percent over the year from Rs. 11 billion to Rs. 9.12 billion. The percentage share of NPLs of all banks and other DFIs (excluding HBFCL) was 57.3 percent in total NPLs as on Dec 31, 2013, which was recorded at 58.2 percent at the end of Dec 31, 2013.

Among banks, as shown in Figure 9, non-performing finances (NPFs) of Islamic banks witnessed a decrease of 11.64 percent during the year, from Rs. 1.52 billion to Rs. 1.35 billion. Their NPFs constitute 8.47 percent, as on Dec 31, 2013, of total industry NPLs. NPLs of the public sector banks decreased by 11.53 percent from Rs. 1.87 billion to Rs. 1.66 billion, over the year, which were 26.01

Figure 7: (amount in Rs. Billion)

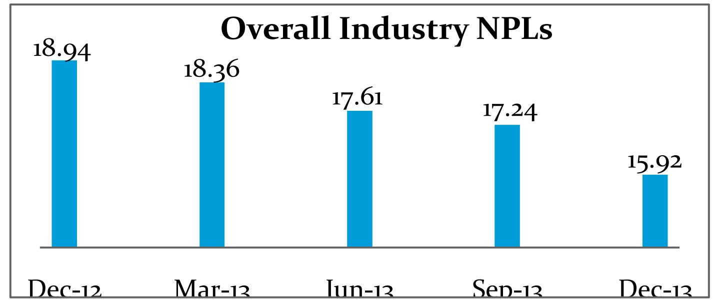


Figure 7.1: (amount in Rs. Billion)

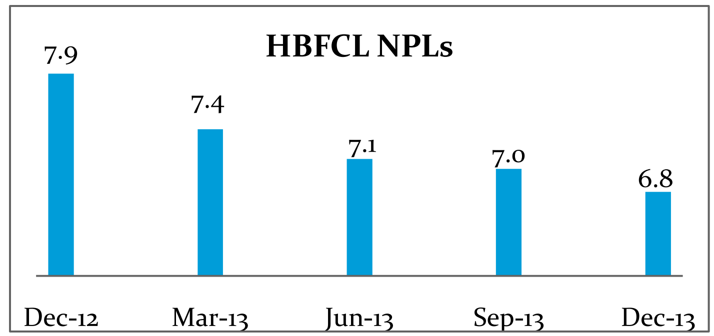
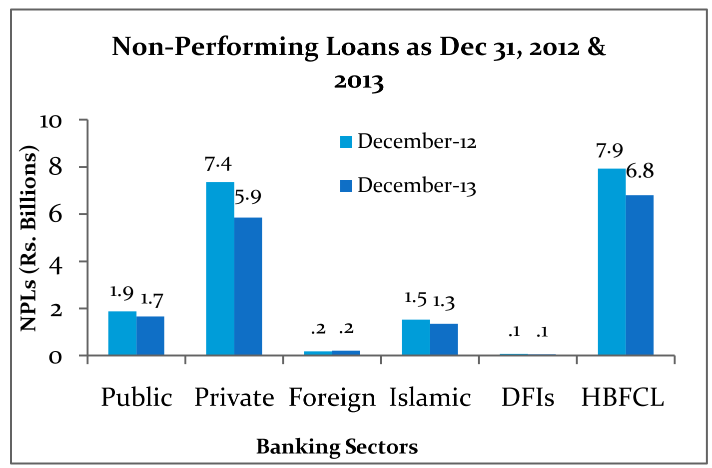


Figure 8



percent of their total outstanding as of Dec 31, 2013. Private banks' NPLs decreased by 20.47 percent, from Rs. 7.36 billion to Rs. 5.86 billion which were 28.45 percent of their total outstanding. NPLs of foreign banks as a percentage of their outstanding portfolio increased from 58.37 percent (at the quarter ended Dec, 2012) to 72.04 percent as of Dec 31, 2013. NPLs of DFIs (excluding HBFCL) decreased from Rs. 71 million to Rs. 56 million; a 21.11 percent decrease over the year with 41.47 percent of its total outstanding classified as NPLs as on Dec 31, 2013.

The NPFs of Islamic Banking industry decreased by 19.38 percent (Rs. 419 million) over the quarter.

Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) shown in Figure 10 were reported as Rs. 1.74 billion on Dec 31, 2013, which were Rs. 2.21 billion at the end of Dec 31, 2012 showing decrease of 21.19 percent (Rs. 469 million).

All Banks & DFIs have disbursed, till Dec 2013, to 14,718 borrowers in the category 'Upto Rs. 1 M' out which only 724 borrowers turned NPLs. However, All Banks & DFIs disbursed above Rs. 5 million to 9,727, till Dec-13, out of which 793 borrowers turns bad. In terms of ratio, loans below one million performed well as compared to the loans above Rs. 5 million.

Figure 11 shows the breakup of NPLs in terms of Loan disbursed i.e. upto Rs. 1 million, above Rs. 1 million to Rs. 5 Million and above Rs. 5 million. As of December 31, 2013, Rs. 6.04 billion of 44,064 borrowers were recorded as NPLs in the category of 'upto Rs. 1 Million' out of which Rs. 5.72 billion belonged to HBFCL against 43,343 borrowers and Rs. 0.33 billion was reported by All Banks & DFIs against 724 borrowers. In the second category 'Above Rs. 1 million' total defaulters were 2,202 with the amount Rs. 4.72 billion, as of December 31, 2013, out of which Rs. 1.04 against 731 borrowers were reported by HBFCL and Rs. 3.73 billion against 1,471 borrowers were reported by All Banks & DFIs. In the third category 'Above 5 Million', total NPLs, as of December 31, 2013, was Rs. 6.4 billion against 897 borrowers out of which 101 defaulters with the amount of Rs. 0.26 billion were of HBFCL and Rs.6.16 against 793 borrowers belongs to All Banks & DFIs.

Figure 9

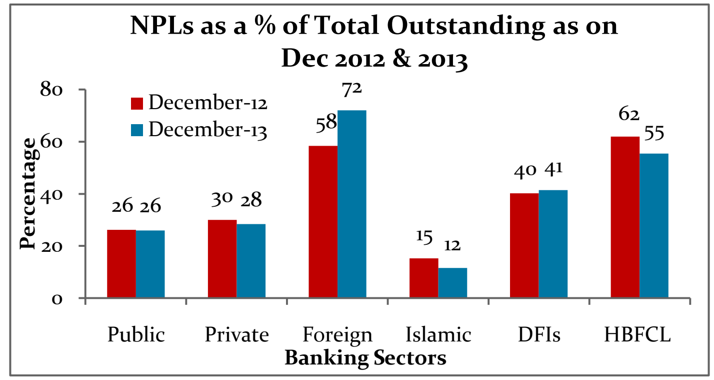


Figure 10

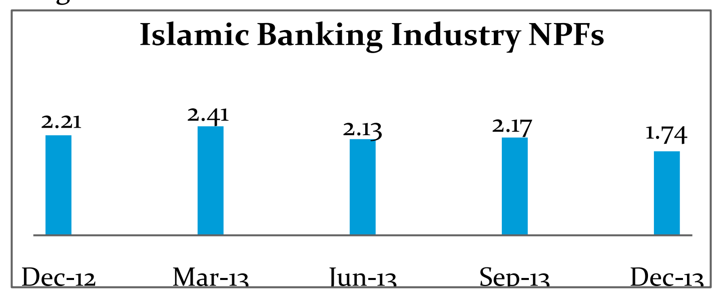
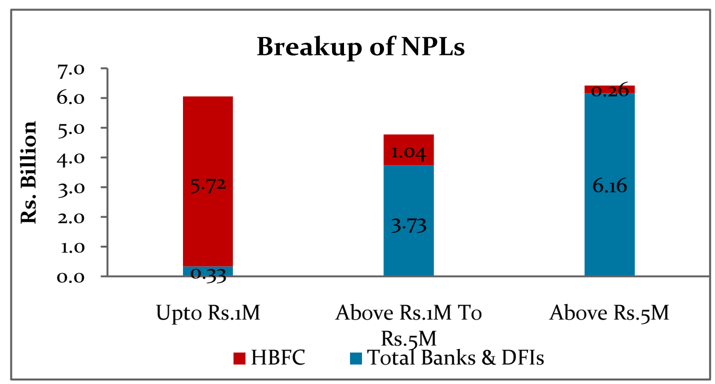


Figure 11



Number of borrowers decreased by 1.6 percent (1231) over the yester quarter (Sep, 2013).

Number of Borrowers

Number of borrowers decreased from 84,811 to 77044 since Dec 31, 2012 over the year; a decline of 9.16 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 percent of total borrowers of housing finance have been classified as non-performing. However, this is primarily due to HBFCL's number (43,117) of non-active borrowers, classified as non-performing, which account for 75.67 percent of its borrowers. Thus, by excluding HBFCL, 14 percent of total borrowers of housing loans have been classified as non-performing.

Figure 12

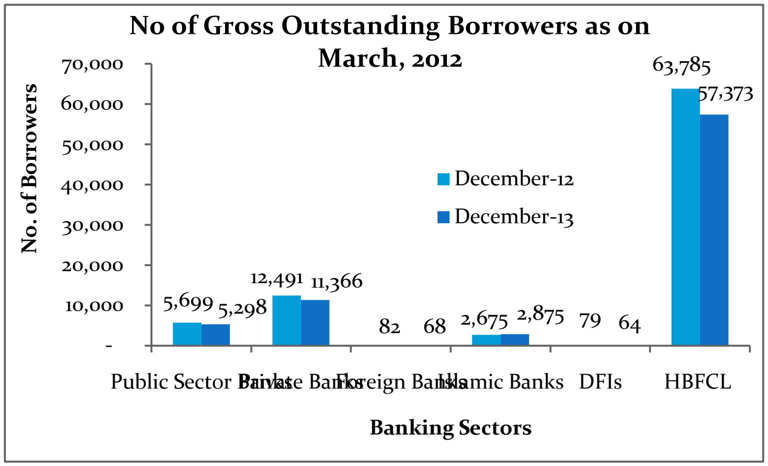


Table 1

Banks/ DFIs	Dec – 13			Dec – 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	4,654	644	5,298	4,982	717	5,699
Private Banks	9,548	1,818	11,366	10,389	2,102	12,491
Foreign Banks	23	45	68	34	48	82
Islamic Banks	2,623	252	2,875	2,387	288	2,675
DFIs	51	13	64	68	11	79
HBFCL	13,956	43,417	57,373	14,203	49,582	63,785
Total	**30,855**	**46,189**	**77,044**	**32,063**	**52,748**	**84,811**

Disbursements

During the quarter ended Dec 31, 2013, total disbursements made were reported as Rs. 2.85 billion which were Rs. 270 million higher than the disbursements made during the quarter ended Sep 30, 2013.

Fresh disbursements of Rs. 2.85 billion (Figure 13) were made to 737 borrowers during the quarter ending Dec 31, 2013 (Table 2). Islamic banks extended new disbursements with Rs. 1.44 billion followed by private banks with Rs. 693 million, public sector banks with Rs. 219 million and foreign banks with Rs. 3 million. HBFCL's fresh disbursements (Figure 14) for the quarter were reported to be Rs. 492 million. Among commercial banks, the number of new borrowers totaled 416, with private banks serving 91 new borrowers and Islamic banks 238 customers. HBFCL extended loans to 321 new borrowers during the quarter under review.

Fresh disbursement for Islamic Banking Industry was Rs. 1.57 billion to 255 new borrowers during the quarter ending Dec 31, 2013. This includes new disbursements of Rs. 125 million to 17 customers by IBDs of conventional banks.

Figure 15 shows the disbursement break-up in terms of loan size. Commercial banks disbursed Rs. 1.63 (137 borrowers) billion in terms of loans above Rs. 5 million and Rs. 0.13 billion (110 borrowers) against the category upto Rs. 1 million.

Table 2

New Disbursements during the quarter ending Dec 31, 2013		
	Amount (Rs. Millions)	**No. of Borrowers**
Public Sector Banks	219	82
Private Banks	693	91
Foreign Banks	3	5
Islamic Banks	1,444	238
All Banks	2,359	416
DFIs	-	-
HBFCL	492.0	321.0
Total	2,851	737
Islamic Industry	1,570	255

Figure 13: (Amount in Rs. Billion)

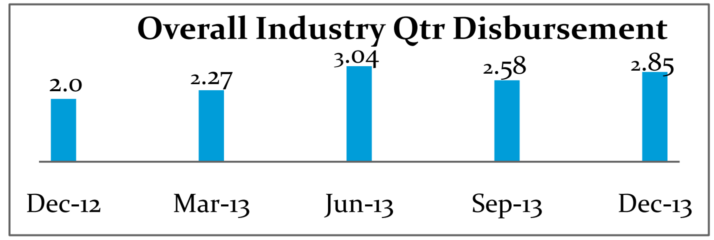


Figure 14: (Amount in Rs. Billion)

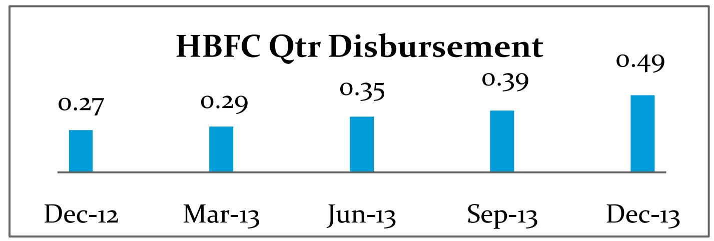
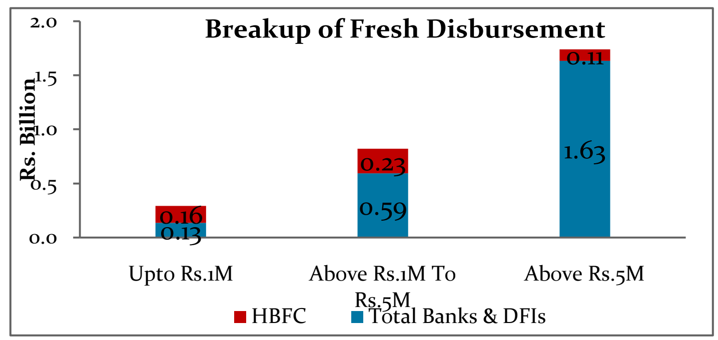


Figure 15: (Amount in Rs. Billion)



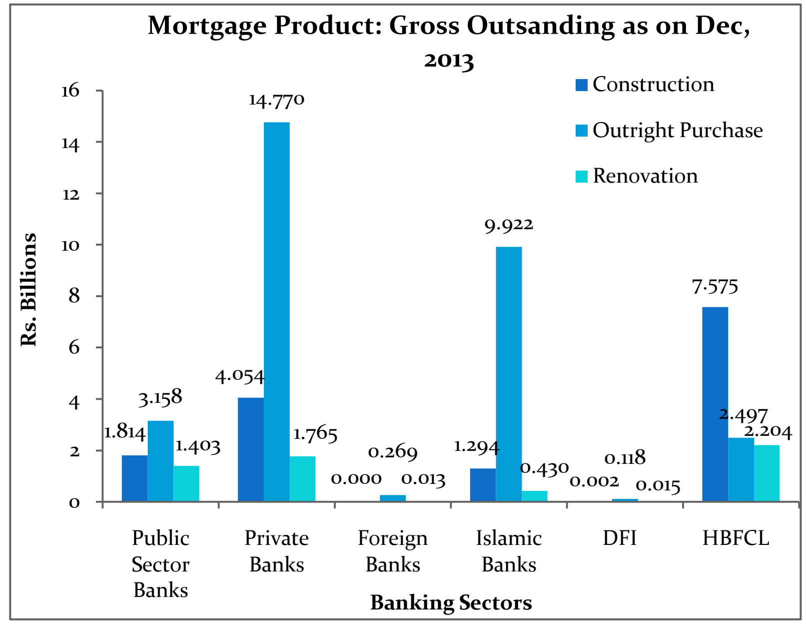
Products Category-Wise Share

The biggest share of housing finance continued to be attracted towards outright purchase (Figure 16).

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

The gross outstanding for 'outright purchase' stood at Rs. 30.73 billion as on Dec 31, 2013; a 60 percent share in total outstanding of Rs. 51.3 billion. This is followed by the 'construction' category where gross outstanding reported at quarter-end stood at Rs. 14.74 billion and that of 'renovation' stood at Rs. 5.8 billion. Active portfolio shows that private banks took a lead in financing for outright purchase at 48 percent. Islamic banks have the share of 32 percent in outright purchase financing. HBFCL has taken lead in financing two sectors i.e. construction category 51 percent and renovation category 38 percent.

Figure 15



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 10.8 percent, while HBFCL average came to 13 percent.

Table 3

	Weighted Average Interest Rate (%)				
	Dec-13	Sep-13	Jun-13	Mar-12	Dec-12
Public Sector Banks	10.8	11.3	12.8	13.2	13.7
Private Banks	13.8	13.8	14.3	14.0	14.7
Foreign Banks	14.7	14.7	14.7	14.3	14.3
Islamic Banks	12.9	12.9	13.0	14.0	14.9
All Banks	**13.3**	**13.3**	**13.7**	**13.9**	**14.6**
DFIs	-	-	-	-	-
All Banks & DFIs	**13.3**	**13.3**	**13.7**	**13.9**	**14.6**
HBFCL	13.0	13.0	13.0	13.1	13.9
Total Average	**13.1**	**13.1**	**13.4**	**13.5**	**14.2**

Average maturity periods

Average maturity period of outstanding loans as on Dec 31, 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)				
	Dec-13	Sep-13	Jun-13	Mar-12	Dec-12
Public Sector Banks	9.0	9.0	12.5	13.4	12.5
Private Banks	13.7	13.7	11.6	12.8	11.6
Foreign Banks	10.8	10.8	10.8	10.7	10.7
Islamic Banks	10.7	10.7	9.9	10.3	9.9
All Banks	**12.1**	**12.1**	**10.8**	**11.8**	**10.5**
DFIs		-	-	-	-
All Banks & DFIs	**12.1**	**12.1**	**10.8**	**11.8**	**10.5**
HBFCL	12.2	12.2	12.7	14.2	13.5
Total Average	**12.2**	**12.2**	**11.7**	**12.3**	**12.0**

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs remained 44 percent during the year (Table 5). Average LTVs of commercial banks increased from 42.8 percent to 43.4 percent over the year. The average LTV for HBFCL was reported at 44.6 percent at the end of quarter Oct-Dec, 2013.

Table 5

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

Average loan size

Average loan size for disbursements made during the quarter ending Dec 31, 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)				
	Dec-13	Sep-13	Jun-13	Mar-12	Dec-12
Public Sector Banks	3.6	3.6	2.9	2.5	2.2
Private Banks	4.4	4.4	5.6	7.3	5.1
Foreign Banks	5.0	5.0	3.7	4.0	4.3
Islamic Banks	5.1	5.1	3.3	3.6	2.9
All Banks	**4.5**	**4.5**	**4.5**	**7.0**	**4.1**
DFIs	-	-	-	-	-
All Banks & DFIs	**4.5**	**4.5**	**4.5**	**7.0**	**4.1**
HBFCL	2.0	2.0	2.8	2.3	1.3
Total Average	**3.3**	**3.3**	**3.6**	**4.6**	**2.7**

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The outstanding housing finance of Microfinance Banks (MFBs) was Rs. 199.75 million as on Dec 31, 2013 which was Rs. 181.58 million at the end of Sep 30, 2013. It registered an increase of 10 percent, over the last quarter.

Number of Borrowers

The number of outstanding borrowers decreased from 2,072 to 2,039 over the quarter; a decrease of 1.6 percent.

Non-Performing Loans

NPLs for MFBs decreased by Rs. 0.44 million to zero; showing a marked decrease of 100 percent over the last quarter.

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. 51.5 Billion as of Dec 31, 2013.
- Amount of finance availed by employees of the banks and DFIs was Rs. 63.60 Billion as of Dec 31, 2013.
- Nominal GDP for FY 2011-12 was Rs. 22,909.079[2] billion

Mortgage to GDP Ratio = Total Mortgages/GDP

Mortgage to GDP ratio was 0.50% as of Dec 31, 2013.

Share of Housing Finance in Consumer Finance:

At the end of quarter ended December 31, 2013, the housing finance to consumer finance was 18.78 percent whereas the ratio of housing finance NPLs to consumer finance loans was 42.78 percent being the second highest share among the NPLs of other consumer products.

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

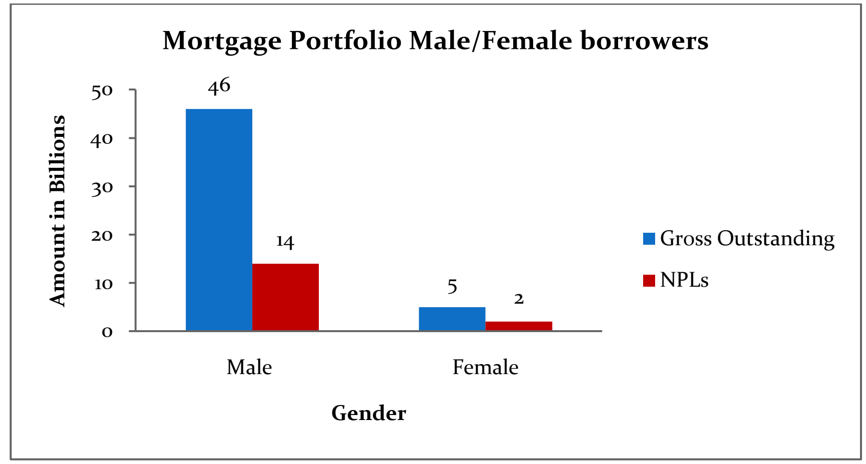
Two Days Training Session on Recoveries & Foreclosures and Product Restructuring/Rescheduling in Housing Finance:

Two Days training session on Recoveries & Foreclosures and Product Restructuring/Rescheduling in Housing Finance was organized by State Bank of Pakistan on October 11 and October 12, 2014 at NIBAF, Islamabad. 37 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.

Gender wise research survey with respect to existing housing finance borrowers:

SBP took an initiative to gauge the level of financial inclusion in Pakistan. In this regard, the data from different Mortgage Financing Institutions (MFIs) was also congregated on required parameters. Results showed that in the current mortgage portfolio, 85 percent borrowers (62,472) are male and the remaining 15 percent (10,752) are female. Also, similar ratio has been observed in terms of NPL portfolio results (Figure 16).

Figure 16



Mortgage Refinance Company (MRC):

Mortgage Refinance Company (MRC) is now in its final phase of incorporation. MRC is expected to address the critical issue of providing liquidity of Primary Mortgage Lenders (PMLs). This will ultimately result in bolstering the Mortgage Finance market in Pakistan.

Strategic Plan for Housing Finance in Pakistan:

The Objective of this report is to analyze the current scenario of housing finance industry in the country and to suggest various policy initiatives for the strengthening of this sector. A meeting with major players in Mortgage industry was held in order to obtain their input in this regard. The document is expected to be published in coming quarter.

News on Housing Finance

PM approves low-cost 'Apna Ghar' housing scheme:

Prime Minister Muhammad Nawaz Sharif in November, 2013 approved the establishment of a company under the supervision of the Ministry of Housing and Works to initiate "Apna Ghar" housing scheme for the low-income strata of society. The scheme aims at providing housing units to low-income sections of society at low-cost and easy installments.

[http://dunyanews.tv/index.php/en/Pakistan/200453-PM-approves-lowcost-%E2%80%98Apna-Ghar%E2%80%99-housing-schem]

Section 15 of the Financial Institutions (Recovery of Finance) Ordinance 2001 declared "ultra vires" to the constitution:

Supreme Court declared Section 15 of the Financial Institutions (Recovery of Finance) Ordinance 2001 "ultra vires" to the constitution. This section empowered Financial Institutions to foreclose and register a mortgage property without recourse to the court of law.

[http://tribune.com.pk/story/660739/regulations-wanted-stronger-stricter-foreclosure-laws/]

India's urban housing shortage has lessened by 25 percent:

Minister of housing and urban poverty alleviation, India briefed at a press conference in September, 2013 that the deficit in housing had dropped by almost 25 percent from what was expected. According to earlier estimates, the urban development ministry was expecting a deficit of 26.5 million homes in urban areas, which now stands at 18.78 million.

[http://m.firstpost.com/economy/good-news-indias-urban-housing-shortage-has-lessened-by-25-465074.html]

U.S. refinance program hits its stride; reaches more than 3 million:

The Home Affordable Refinance Program, or HARP, allows borrowers with loans backed by Fannie Mae and Freddie Mac to cut monthly payments by refinancing at lower interest rates even if they have little to no equity in their homes.

[http://www.reuters.com/article/2014/02/10/us-usa-housing-fhfa-idUSBREA191BQ20140210]

Government of India and World Bank Sign $100 Million Agreement to Help Low-Income Families Secure Housing Loans:

The Low Income Housing Finance Project is expected to be implemented by the National Housing Bank (NHB). It will help to support financial inclusion by making it easier for low-income households in urban areas to access housing finance.

[http://www.worldbank.org/en/news/press-elease/2013/08/14/india-overnment-of-india-world-bank-sign-agreement-to-help-low-income-families-secure-housing-loans]

Conclusion

The quarter ending Dec 31, 2013 depicted a decrease in gross outstanding of housing finance of Rs.3.7 billion (6.72 percent) over the year and decline of 2.61 percent (Rs. 1.37 billion) over the quarter. However, quarterly disbursements over the yester quarter increased by 1.5 percent. The increase in quarterly disbursement was majorly contributed by Islamic banks which disbursed Rs. 1.44 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 31 percent from 34.44 percent. Further, 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 key drivers of the economy.