



State Bank of Pakistan

Quarterly Housing Finance Review

For the Quarter ended December 31, 2014



Infrastructure, Housing and SME Finance
Department,
State Bank of Pakistan (SBP).

The Team

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Executive Summary

The Infrastructure, Housing & SME Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review to reflect data on housing finance, collated on quarterly basis from public sector banks, private banks, foreign banks, and DFIs. It portrays trend of different parameters like disbursements, outstanding and recoveries. At present, twenty seven commercial banks, House Building Finance Company Limited (HBFCL) and one microfinance bank are catering to the housing finance needs.

During current quarter, an increase of Rs 0.8 billion was witnessed in gross outstanding of housing finance (1.49 percent). The continued growth in housing finance portfolio is an encouraging sign. Overall housing finance portfolio currently stands at Rs. 53.7 Billion. HBFCL remained the largest shareholder, in terms of gross outstanding, with the share of 23.65 percent. However, based on category, Private Banks remained the largest players with 36 percent share in gross outstanding. Fresh disbursement for the quarter accounted for Rs. 3.43 billion with 937 new borrowers. NPLs, however, in terms of their ratio to outstanding, declined at the level of 28.9 percent of the total outstanding portfolio during current quarter compared to 30 percent in preceding quarter. HBFCL, being the largest player in the housing finance market, accounted for 57.61 percent of new borrowers and contributed 22.71 percent of the new disbursements equivalent to Rs. 772 million. Islamic banks disbursed Rs. 1.90 billion as of December 31, 2014. Furthermore, major chunk of total outstanding remained directed towards “outright Purchase” category as 61.40 percent of total outstanding was used to finance “outright purchase” housing loans. It was followed by “Construction” and “Renovation” products with 27.56 and 11 percent respectively.

For the quarter ending December 31, 2014, Islamic banks remained active in extending housing finance; however, conventional commercial banks have not pursued housing finance products actively. Reasons behind the sluggishness in growth of mortgage portfolio are numerous; ranging from difficulties related to foreclosure law & clear title issues to overall financial environment. 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, secondary mortgage market, high transaction costs, unorganized real estate sector, inadequate property development framework and long term funding arrangements are also the major constraints towards the growth of housing and housing finance in the country.

However, keeping in view growth in housing finance during the last two quarters, housing finance has started picking up after 2008. It is expected that SBP’s stance of reducing policy rate will further help in enhancing affordability and demand for housing finance in Pakistan. All this will be instrumental to increase economic growth through positive changes in 40 allied industries to housing sector.

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Major Trends

Gross Outstanding

The gross outstanding finance as on December 31, 2014 of all banks and DFIs stood at Rs. 53.7 billion (Figure 1), compared to Rs. 52.9 billion in previous quarter, showing an increase of Rs. 0.8 billion (1.49 percent) over the quarter.

Banking sector-wise gross outstanding on quarters ending December 2014 and 2013 are shown in Figure 2. Of the gross outstanding as of December 31, 2014, commercial banks accounted for Rs. 40.8 billion. Private banks reported Rs. 19.6 billion followed by Islamic banks at Rs. 15.3 billion, public sector banks at Rs. 6 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.7 billion; up by 3.25 percent over the last year. Other DFIs had a meager share of Rs. 0.1 billion in outstanding loans. The data confirms that primary housing finance market in Pakistan is at nascent stage, which needs to be developed by creating enabling environment and initiatives by public and private sector.

Compared to the quarter ended September 30, 2014, gross outstanding of the banking sector decreased or remained stagnant over the year except for Islamic Banks and HBFCL. Islamic Banks showed an increase of 7 percent from previous quarter and reached to Rs. 15.3 billion by the end of December 2014. HBFCL showed a meager increase of 1.6 percent over the previous quarter.

The gross outstanding housing finance as on December 31, 2014 of Islamic Banking Industry (Five Islamic Banks (IBs) & 14 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 18.41 billion. Compared to quarter ended September 2014, gross outstanding of Islamic banking Industry increased by

Figure 1 (Amount in Rs. Billion)

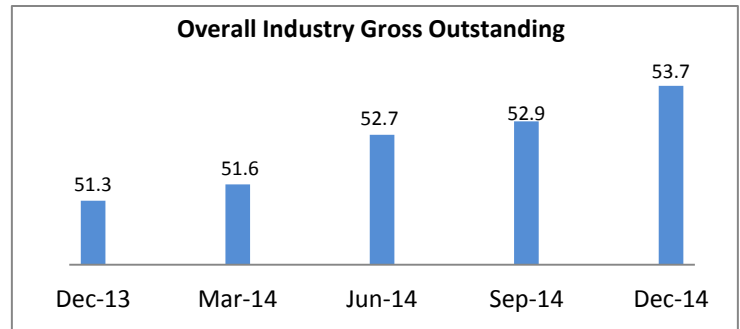


Figure 2 (Amount in Rs. Billion)

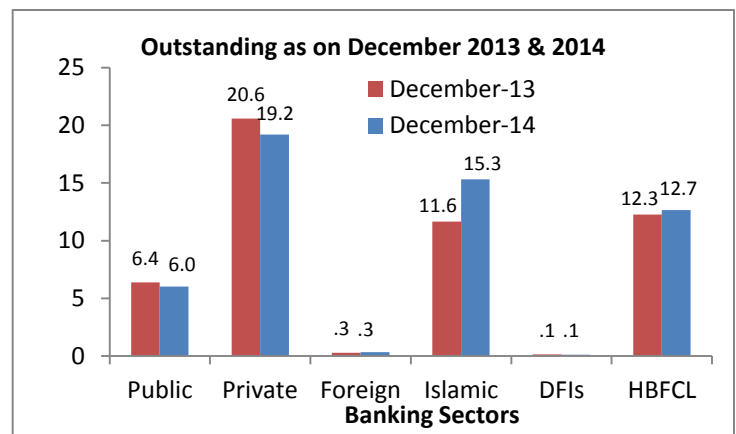
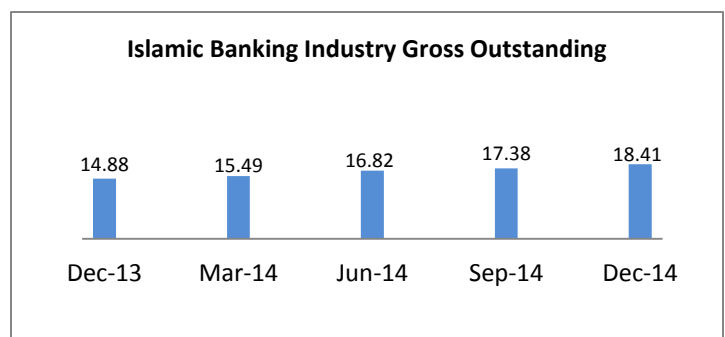


Figure 3 (Amount in Rs. Billion)

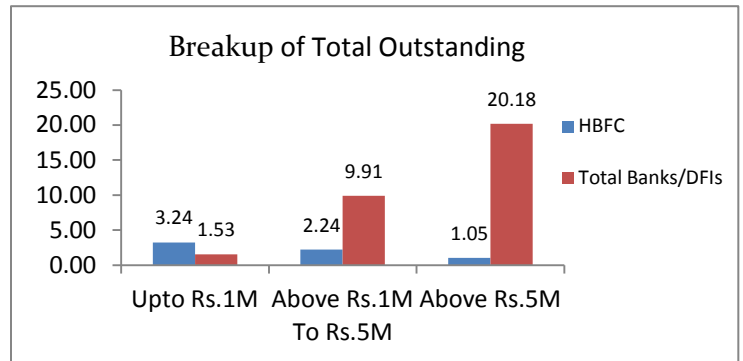


5.93 percent as shown in Figure 3. Islamic banking industry has maintained the increasing trend throughout the year.

Of the gross outstanding in Islamic housing finance, Islamic banks accounted for Rs. 15.318 billion; an increase of 7.28 percent over the quarter. IBDs of conventional banks posted Rs. 3.1 billion. Islamic bank’s aggressive efforts for pursuing housing finance have yielded such a growth in their outstanding portfolio.

Figure 4 shows the breakup of total outstanding in terms of loan size. As of December 31, 2014, HBFCL and All Banks & DFIs reported outstanding loans net of NPLs in the category ‘Up to Rs. 1 million’ as Rs. 3.24 billion and Rs. 1.53 billion against 12,486 and 4,833 borrowers respectively. In second category ‘Above Rs. 1 Million to Rs. 5 Million’, HBFCL reported Rs. 2.24 billion and all Bank & DFIs reported Rs. 9.91 billion outstanding. In the third category ‘Above Rs. 5 Million’, HBFCL reported Rs. 1.05 billion and all Banks DFIs reported Rs. 20.18 billion outstanding. This reflects that major chunk of total outstanding in housing finance is inclined towards category “Above Rs. 5 M”. Furthermore, it also shows that HBFCL has large portion of its portfolio in small-sized loans (Up to Rs. 1 M) compared to other Institutions that are tilted towards larger loan size (Up to Rs. 5 M & above).

This confirms that banks are focusing on high-end customers. There is a need to increase primary mortgage market by extending services to low income and salaried class customers.



Share of Banks

The share of private banks decreased by one percent to 36 percent and that of Islamic Banks increased to 28 percent over the quarter. Share of public sector banks decreased by 1 percent to 11 percent. However, share of foreign banks and HBFCL remained unchanged over the quarter. It is worth mentioning that Islamic banks have surpassed HBFCL with respect to gross outstanding. This is in line with consumer's preference for Islamic banking over conventional banking. Islamic banking has huge potential in housing finance market which is still untapped.

The share of Conventional Banking (excluding HBFCL), Islamic Banking Industry and HBFCL in the gross outstanding was 42 percent, 34.33 percent and 23.61 percent respectively as on December 31, 2014. IBDs (12 windows) and IBs (05 banks) have 17 percent and 83 percent share respectively in housing finance portfolio of Islamic Banking Industry (Figure 5.1). Compared to previous quarter, market share of Conventional Banking (excluding HBFCL) decreased by 1.44 percent over the last quarter. The share of Islamic banking industry, however, increased by 1.5 percent over the previous quarter. On the other hand, market share of HBFCL remained unchanged since September 2014.

Figure 5

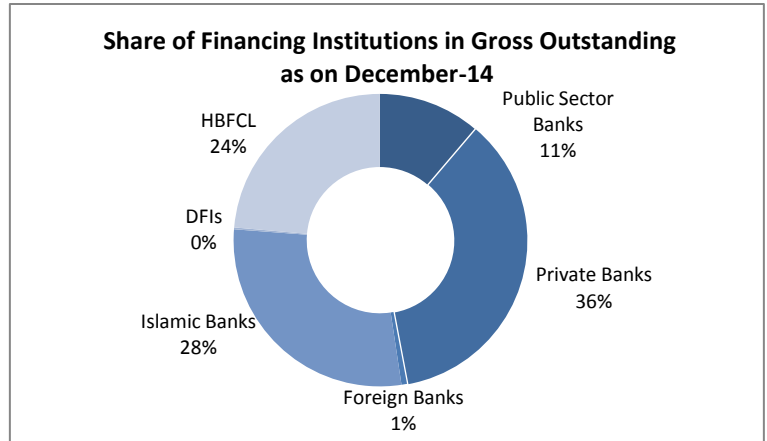
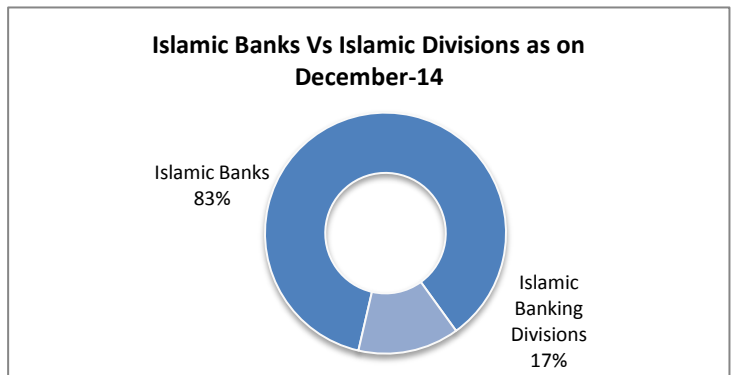


Figure 5.1:



Non-Performing Loans (NPLs)

NPLs decreased from Rs. 15.93 billion (September 30, 2014) to Rs. 15.51 billion (December 31, 2014); 2.63 percent decrease during the quarter as shown in Figure 6. Figure 7 compares NPLs as a percentage of gross outstanding portfolios at the end of quarters on December 31, 2014 and 2013. Figure 8 shows a comparison of existing NPLs status of different banking sectors with last year.

HBFC's NPLs showed a marked decrease of Rs. 231 million (4.68 percent) over the yester quarter ended September, 2014. However, its percentage share in its total outstanding is greatest after Foreign Banks' NPLs. At the end of current quarter, 48 percent of its total outstanding constitutes NPLs (Figure 7). HBFC's percentage share in total NPLs is 39.5 percent.

Excluding HBFC, NPLs for all banks and other DFIs have decreased by 2.01 percent over the quarter. The percentage share of NPLs of all banks and other DFIs (excluding HBFC) was 60.5 percent in total NPLs as on December 31, 2014.

Among banks, as shown in Figure 8, non-performing finances (NPFs) of Islamic banks witnessed an increase of 15.38 percent during the year, from Rs. 1.3 billion to Rs. 1.5 billion. Their NPFs constitute 9.6 percent, as on December 31, 2014, of total industry NPLs. NPLs of the public sector banks increased by 5.88 percent from Rs. 1.7 billion to Rs. 1.8 billion, over the year, which remained 31 percent of their gross outstanding as of December 31, 2014. Private Banks' NPLs decreased by 3.39 percent, from Rs. 5.9 billion to Rs. 5.7 billion. NPLs of foreign banks as a percentage of their outstanding portfolio remained at 80 percent. NPLs of DFIs (excluding HBFC) decreased from Rs. 56.98 million to Rs. 54.11 million; a 5.04 percent decrease over the year.

NPFs for Islamic Banking Industry (IBs & IBDs) shown in Figure 9 were reported as Rs. 1.86 billion on

Figure 6: (Amount in Rs. Billion)

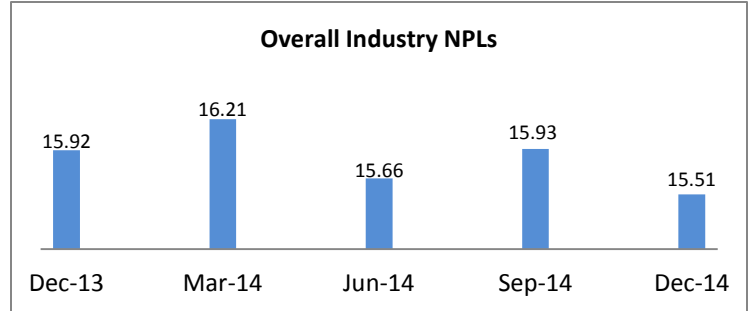


Figure 6.1: (Amount in Rs. Billion)

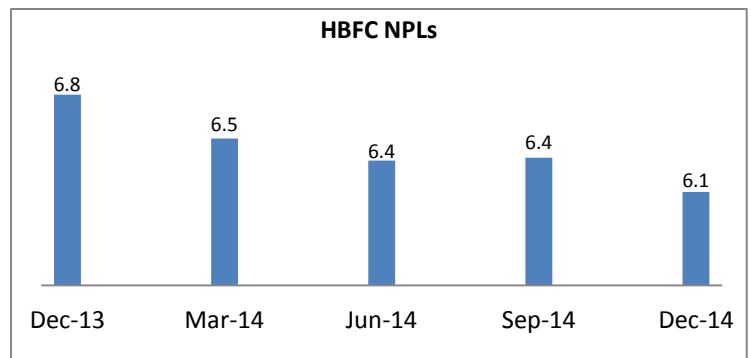
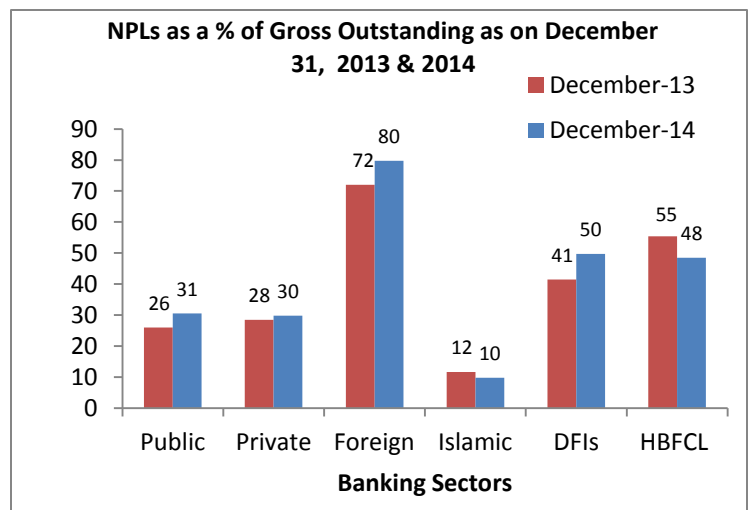


Figure 7 (Percentage)



December, 2014, which were Rs. 1.91 billion at the end of September 30, 2014, showing decrease of 2.61 percent.

Figure 10 shows the breakup of NPLs in terms of Loan disbursed i.e. up to Rs. 1 million, above Rs. 1 million to Rs. 5 Million and above Rs. 5 million. As of December 31, 2014, Rs. 5.28 billion of 40,333 borrowers were recorded as NPLs in the category of ‘up to Rs. 1 Million’ out of which Rs. 4.94 billion belonged to HBFCL and Rs. 0.34 billion was reported by All Banks & DFIs. In the second category ‘Above Rs. 1 million to Rs. 5 million’, total defaulters were 2,034 with the amount Rs. 4.24 billion, as on December 31, 2014, out of which Rs. 0.95 against 674 borrowers were reported by HBFCL and Rs. 3.29 billion against 1,360 borrowers were reported by All Banks & DFIs. In the third category ‘Above 5 Million’, total NPLs were Rs. 6 billion against 849 borrowers. Out of these, 101 defaulters with the amount of Rs. 0.25 billion were of HBFCL and Rs.5.74 against 748 borrowers belonged to All Banks & DFIs.

Figure 8 (Amount in Rs. Billion)

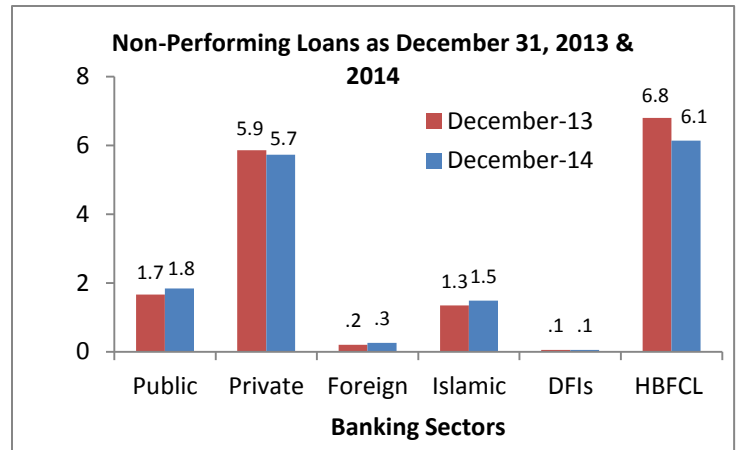


Figure 9 (Amount in Rs. Billion)

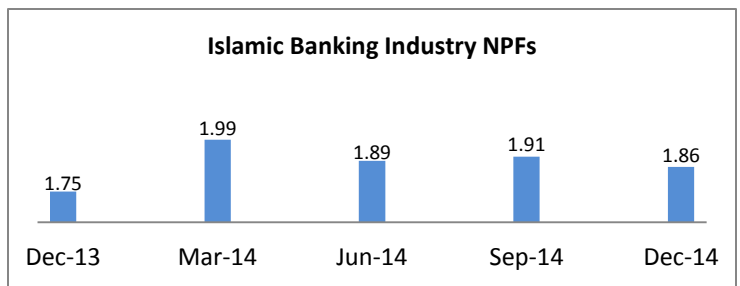
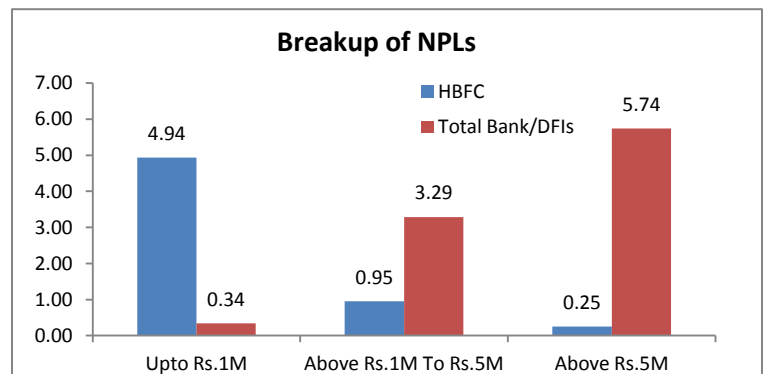


Figure 10 (Amount in Rs. Billion)



Number of Borrowers

Number of borrowers decreased from 77,044 to 74,147 since December 31, 2013; a decline of 3.76 percent. As shown in Table 1, there was a decrease in number of borrowers in each category except in Islamic Banks. It may be inferred that borrowers, currently, prefer Islamic banking over conventional banking and find it more attractive in terms of product and structure.

Compared to previous quarter, number of borrowers decreased by 0.43 percent. Furthermore, excluding HBFCL, 15.03 percent of total borrowers of housing loans have been classified as non-performing.

Figure 11 (Number of Borrowers)

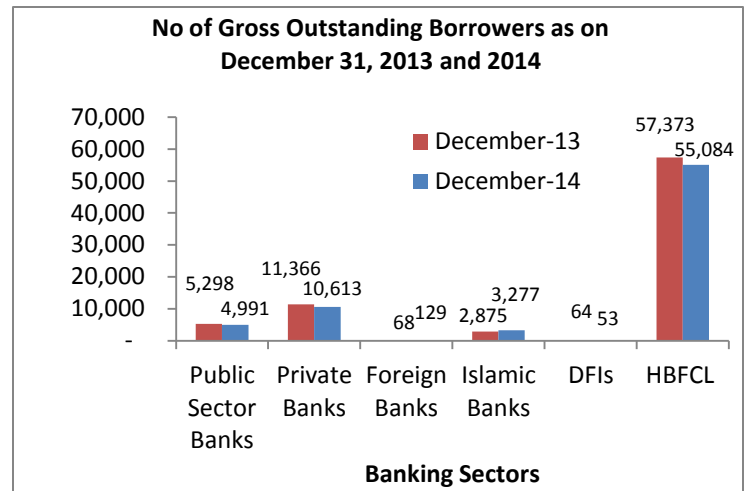


Table 1

Banks/ DFIs	December - 14				December - 13				
	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	No. Active Borrowers	No. of Borrowers classified as NPLs	Total O/s Borrowers
Public Sector	4,268	723	4,991	4,654	644	5,298			
Private Banks	8,848	1,765	10,613	9,548	1,818	11,366			
Foreign Banks	18	111	129	23	45	68			
Islamic Banks	3,023	254	3,277	2,623	252	2,875			
DFIs	41	12	53	51	13	64			
HBFL	14,733	40,351	55,084	13,956	43,417	57,373			
Total	30,931	43,216	74,147	30,855	46,189	77,044			

Disbursements

Fresh disbursements of Rs. 3.43 billion (Figure 12) were made to 937 borrowers during the quarter ending December 31, 2014 (Table 2). Islamic banks extended new disbursements with Rs. 1.90 billion followed by private banks with Rs. 734 million and public sector banks with Rs. 28 million. HBFCL's fresh disbursements (Figure 13) for the quarter were reported to be Rs. 772 million. Among commercial banks, the number of new borrowers totaled 397, with private banks serving 134 new borrowers and Islamic banks 249 customers. HBFCL extended loans to 540 new borrowers during the quarter under review.

Fresh disbursement for Islamic Banking Industry was Rs. 2.14 billion to 280 new borrowers during the quarter ending December 31, 2014. This includes new disbursements of Rs. 242.1 million to 31 customers by IBDs of conventional banks.

Figure 14 shows the disbursement break-up in terms of loan size. Commercial banks disbursed Rs. 1.96 billion (147 borrowers) in terms of loans above Rs. 5 million and Rs. 0.05 billion (45 borrowers) against the category up to Rs. 1 million.

Table 2

New Disbursements during the quarter ending December 31, 2014		
	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	28	14
Private Banks	734	134
Foreign Banks	-	-
Islamic Banks	1,901	249
All Banks	2,662	397
DFIs	-	-
HBFC	772.0	540.0
Total	3,434	937
Islamic Industry	2,143	280

Figure 12: (Amount in Rs. Billion)

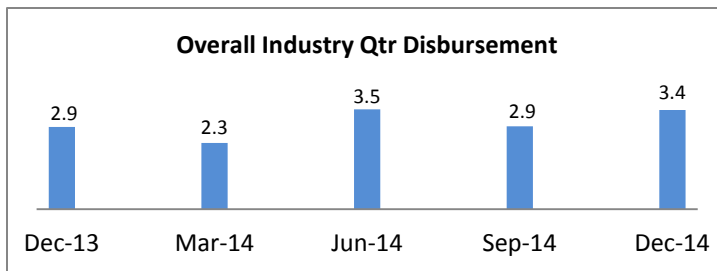


Figure 13: (Amount in Rs. Billion)

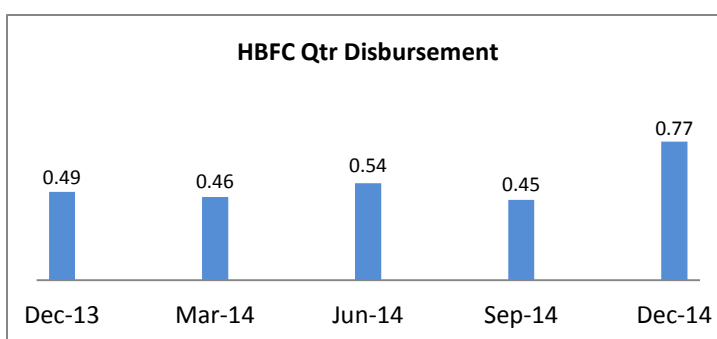
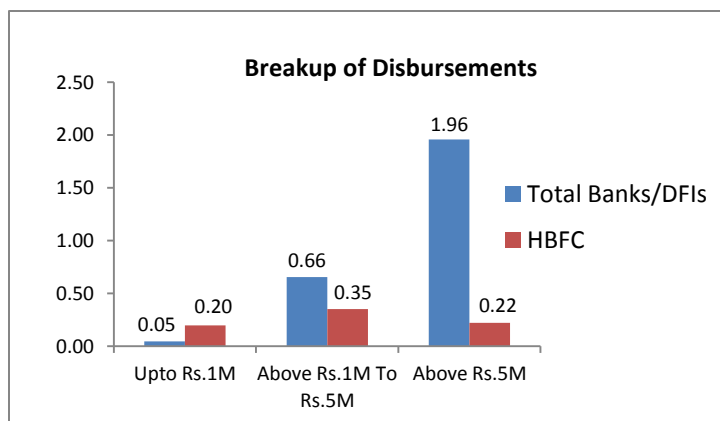


Figure 14 (Amount in Rs. Billion)

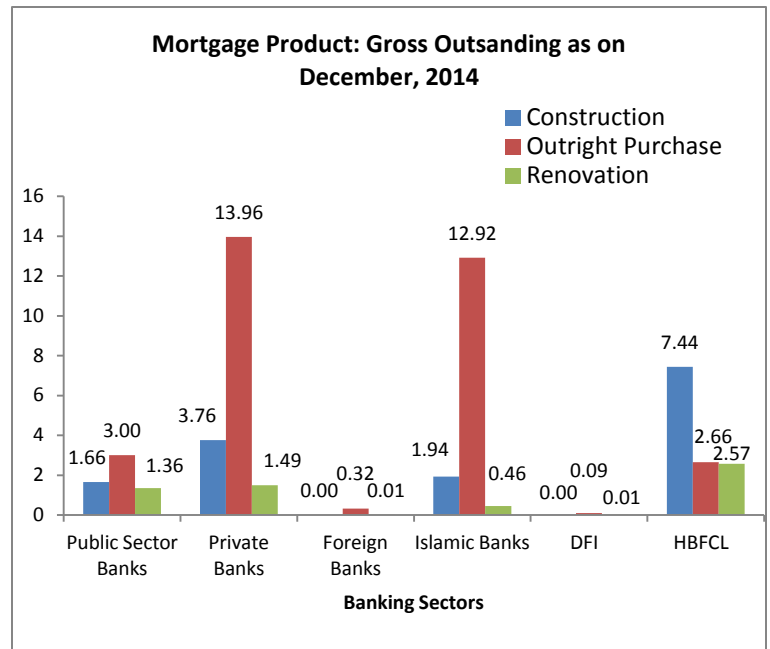


Products Category-Wise Share

The biggest share of housing finance continued to be attracted towards outright purchase (Figure 15).

The gross outstanding for 'outright purchase' stood at Rs. 32.95 billion as on December 31, 2014; a 61.4 percent share in total outstanding of Rs. 53.65 billion. This is followed by the 'construction' category where gross outstanding reported at quarter-end stood at Rs. 14.80 billion and that of 'renovation' stood at Rs. 5.90 billion. Active portfolio shows that private banks took a lead in financing for outright purchase at 42 percent followed by Islamic banks that have the share of 39.22 percent in outright purchase financing. HBFCL has taken lead in financing two sectors i.e. construction category 50.31 percent and renovation category 43.52 percent.

Figure 15 (Amount in Rs. Billion)



Analysis of Financing Variables adopted by Banks/DFIs and HBFCL

Tables 3 to 6 summarize financing variables across all banking sectors including weighted average markup 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 as 14 percent by HBFCL and foreign banks. Islamic Bank's rate stood at 13.4 percent and Private Sector banks at 10.8 percent.

Table 3

		Weighted Average Interest Rate (%)				
		Dec-14	Sep-14	Jun-14	Mar-14	Dec-13
Public Sector Banks		13.7	13.7	14.0	14.0	10.8
Private Banks		10.8	10.8	11.7	13.2	13.8
Foreign Banks		14.0	14.0	14.0	14.0	14.7
Islamic Banks		13.4	13.4	13.2	13.1	12.9
All Banks		12.2	12.2	12.4	13.3	13.3
DFIs		-	-	-	-	-
All Banks & DFIs		12.2	12.2	12.4	13.3	13.3
HBFCCL		14.0	14.0	14.0	14.0	13.0
Total Average		13.1	13.1	13.2	13.7	13.1

Average maturity periods

Average maturity period of outstanding loans as on December 31, 2014 was 12.8 years. HBFCL's average maturity period was 12.8 years, while that of Public Sector Banks is 10 years. Table 4 shows that among commercial banks, Private Banks extended housing finance loans for average tenure of 13.6 years followed by Foreign Banks with 12.5 years and Islamic Banks with 11.2 years.

Table 4

		Average Maturity Period (Years)				
		Dec-14	Sep-14	Jun-14	Mar-14	Dec-13
Public Sector Banks		10.0	10.0	12.0	6.3	9.0
Private Banks		13.6	13.6	13.7	11.5	13.7
Foreign Banks		12.5	12.5	12.5	12.5	10.8
Islamic Banks		11.2	11.2	11.2	9.9	10.7
All Banks		12.2	12.2	12.7	10.5	12.1
DFIs		-	-	-	-	-
All Banks & DFIs		12.2	12.2	12.7	10.5	12.1
HBFCCL		12.8	12.8	12.5	11.5	12.2
Total Average		12.8	12.8	12.5	11.5	12.2

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs remained 37.2 percent during the quarter (Table 5). Average LTVs of commercial banks remained 41 percent over the quarter. The average LTV for HBFCL was reported at 33.4 percent at the end of quarter Oct-Dec, 2014.

Table 5

		Loan to Value Ratio (%)				
		Dec-14	Sep-14	Jun-14	Mar-14	Dec-13
Public Sector Banks		46.7	46.7	46.7	46.7	46.7
Private Banks		33.2	33.2	30.4	28.7	41.6
Foreign Banks		45.3	45.3	45.3	45.3	44.0
Islamic Banks		38.9	38.9	42.1	39.0	41.3
All Banks		41.0	41.0	41.1	39.9	43.4
DFIs		-	-	-	-	-
All Banks & DFIs		41.0	41.0	41.1	39.9	43.4
HBFCCL		33.4	33.4	40.3	44.2	44.6
Total Average		37.2	37.2	40.7	42.1	44.0

Average loan size

Average loan size for disbursements made during the quarter ending December 31, 2014 (Table 6) was Rs. 3.8 million. The average loan size for HBFCL was Rs. 2.5 million. Private Banks reported an average financing size of Rs. 5.8 million, Foreign Banks 5 million and Islamic Banks reported an average financing size Rs. 5.1 million. Public sector bank's average loan size stood at Rs. 3 million.

Table 6

	Average Loan Size (Rs. Millions)				
	Dec-14	Sep-14	Jun-14	Mar-14	Dec-13
Public Sector Banks	3.0	3.0	6.5	2.2	3.6
Private Banks	5.8	5.8	8.6	8.9	4.4
Foreign Banks	5.0	5.0	5.0	5.0	5.0
Islamic Banks	5.1	5.1	6.0	4.6	5.1
All Banks	5.1	5.1	7.5	6.9	4.5
DFIs	-	-	-	-	-
All Banks & DFIs	5.1	5.1	7.5	6.9	4.5
HBFCCL	2.5	2.5	2.6	2.2	2.0
Total Average	3.8	3.8	5.0	4.5	3.3

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The outstanding housing finance of Microfinance Banks (MFBs) remained Rs. 216.07 million as on December 31, 2014 which was Rs. 218.56 million at the end of previous quarter. It registered a decrease of 1.14 percent, over the last quarter.

Number of Borrowers

The number of outstanding borrowers increased from 2,177 to 2,154 over the quarter; a decrease of 1.06 percent.

Non-Performing Loans

NPLs for MFBs were reported 0.43 million for the current quarter.

Mortgage to GDP Ratio:

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

- Outstanding finances of Commercial Banks, DFIs and Microfinance banks were Rs. 53.7 billion as of December 31, 2014.
- Amount of finance availed by employees of the banks and DFIs was Rs. 62.67 billion as of December 31, 2014.
- Nominal GDP for FY14 was Rs. 25,401.89 billion

Mortgage to GDP Ratio = Total Mortgages/GDP

Mortgage to GDP ratio was **0.46%** as of December 31, 2014.

Acronyms

ABAD	Association of Builders and Developers
DFI	Development Finance Institution
GDP	Gross Domestic Product
HAG	Housing Advisory Group
HF	Housing Finance
HBFCL	House Building Finance Company Limited
HFCs	House Finance Companies
IB	Islamic Bank
IBD	Islamic Banking Division
LSDF	Large Scale Developer Finance
LTV	Loan to Value Ratio
MRC	Mortgage Refinance Company
NPL	Non Performing Loan
NPF	Non Performing Fund