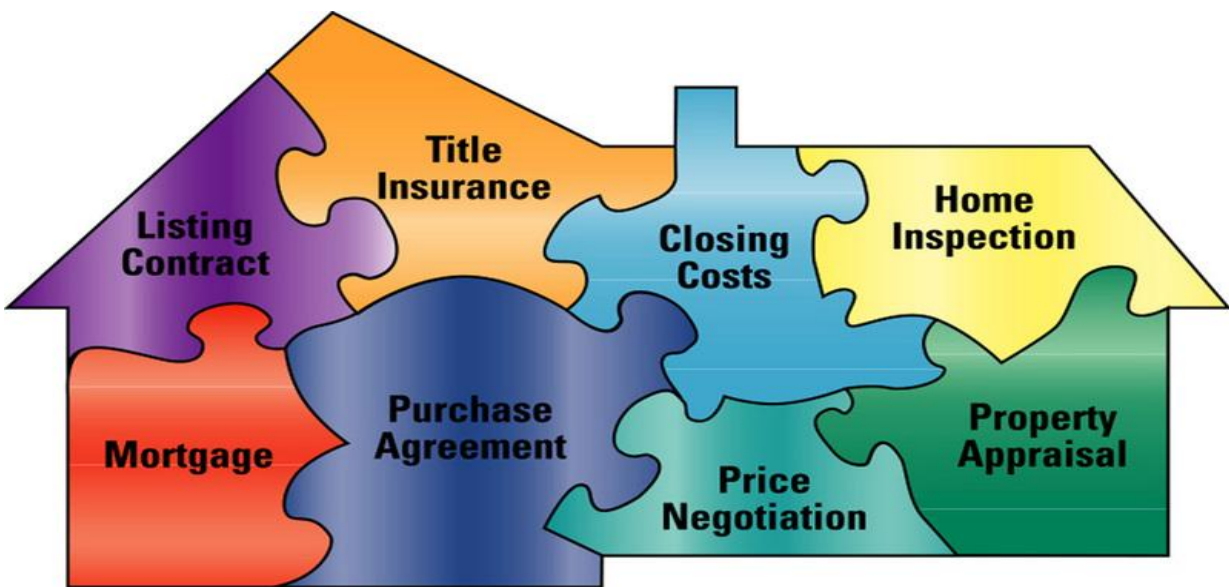




State Bank of Pakistan

Quarterly Housing Finance Review

For the Quarter ended June 30, 2015



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

The Team

Team Leader

Mr. Ghulam Muhammad - Director

Members

Dr. Muhammad Saleem - Additional Director

Mr. Awais Shafi Mojai – Assistant Director

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, Islamic banks, foreign banks, and DFIs. It portrays trend of different parameters pertaining to housing finance like disbursements, outstanding and recoveries. At present, twenty four 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 1.6 billion has been witnessed in gross outstanding of housing finance (2.86 percent). Overall housing finance portfolio stood at Rs. 56.13 Billion as of June 30, 2015. The continued growth in housing finance portfolio is an encouraging sign. HBFCL remained the largest shareholder, in terms of gross outstanding, with the share of 24 percent. However, based on category, Private Banks remained the largest players with 33 percent share in gross outstanding. Fresh disbursement for the quarter accounted for Rs. 4.12 billion with 1161 borrowers. Furthermore, NPLs declined to the level of Rs 13.51 billion compared to previous quarter's Rs 14.16 billion; a significant decrease of 4.60 percent during the quarter. HBFCL, being the largest player in the housing finance market, accounted for 61.07 percent of new borrowers and contributed 24.36 percent of the new disbursements equivalent to Rs. 1 billion. Islamic banks disbursed Rs. 2.21 billion. Furthermore, major chunk of total outstanding remained directed towards "Outright Purchase" category as 62.45 percent of gross outstanding was used to finance this category of housing loans. It was followed by "Construction" and "Renovation" products with 26.16 and 11.31 percent respectively. It seems people prefer outright purchase rather than construction of house.

During the quarter ending June 30, 2015, Islamic banks and Private Banks remained active in extending housing finance. This impressive rise in disbursements is reflection of efforts to create enabling environment for housing finance in Pakistan. Furthermore, keeping in view growth pattern in housing finance during the last few quarters along with favorable change in policy rate and number of other economic factors, housing finance may grow further. All this will be instrumental in increasing economic growth through positive changes in 40 industries allied to housing sector.

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Major Trends

Gross Outstanding

The gross outstanding finance as on June 30, 2015 of all banks and DFIs stood at Rs. 56.1 billion (Figure 1), compared to Rs. 54.5 billion in previous quarter, showing a substantial increase of Rs. 1.6 billion (2.94 percent) over the quarter. Overall, housing finance portfolio showed growth of 6.45 percent over the year.

Banking sector-wise gross outstanding on quarters ending June 2014 and 2015 are shown in Figure 2. Private Banks reported Rs. 18.5 billion followed by Islamic banks at Rs. 18 billion, public sector banks at Rs. 6 billion and others (Foreign Banks and other DFIs excluding HBFCL) with Rs. 0.4 billion. The outstanding loans of HBFCL were Rs. 13.3 billion; up by 7.26 percent over the last year. 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.

Islamic and Private Banks remained major contributors in gross outstanding of housing finance during the year. Private Banks showed a marked increase of 15.51 percent over the previous quarter. Islamic Banks showed an increase of 10.43 percent from previous quarter and reached to Rs. 18 billion by the end of June 2015.

The gross outstanding housing finance of Islamic Banking Industry (Five Islamic Banks (IBs) & 14 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 21.12 billion as on June 30, 2015. Compared to quarter ended March 2015, gross outstanding of Islamic Banking Industry increased by 8.87 percent as shown in Figure 3. Islamic Banking Industry has maintained the increasing trend throughout the year.

Figure 1 (Amount in Rs. Billion)

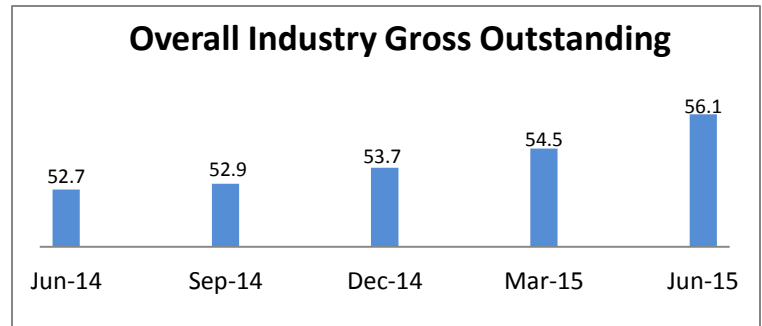


Figure 2 (Amount in Rs. Billion)

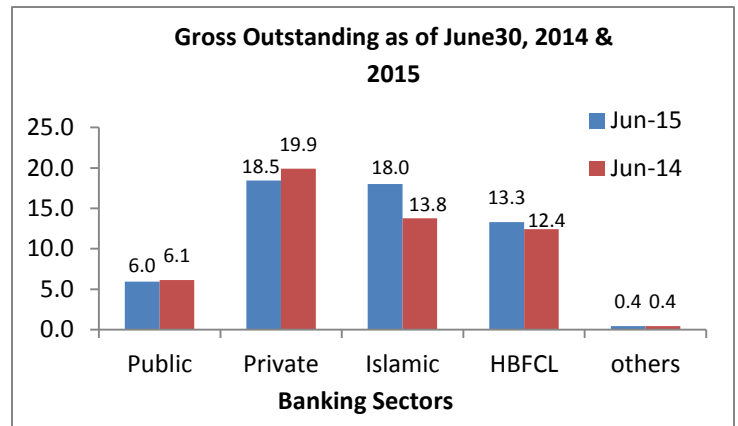
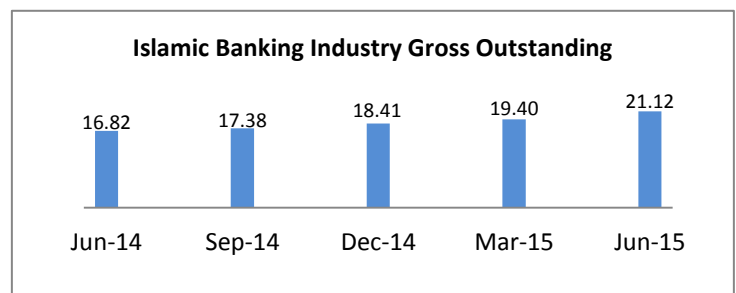


Figure 3 (Amount in Rs. Billion)

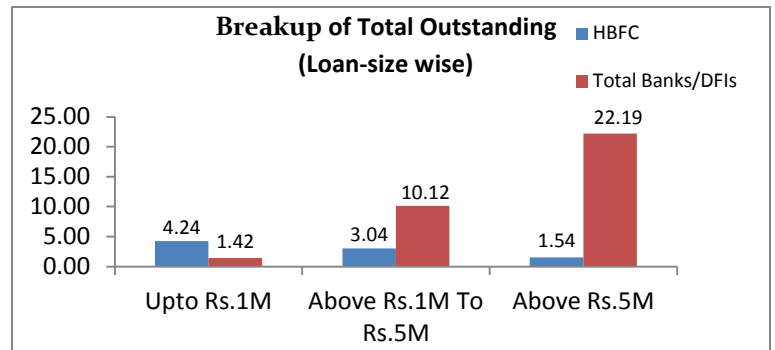


Of the gross outstanding in Islamic housing finance, Islamic banks accounted for Rs. 18 billion; an increase of 10.56 percent over the quarter. IBDs of conventional banks posted Rs. 3.13 billion.

Figure 4 shows the breakup of total outstanding in terms of loan size. As of June 30, 2015, HBFCL and All Banks & DFIs reported outstanding loans net of NPLs in the category 'Up to Rs. 1 million' as Rs. 4.24 billion and Rs. 1.42 billion against 16,247 and 4,086 borrowers respectively. In second category 'Above Rs. 1 Million to Rs. 5 Million', HBFCL reported Rs. 3.04 billion and all Bank & DFIs reported Rs. 10.12 billion outstanding. In the third category 'Above Rs. 5 Million', HBFCL reported Rs. 1.54 billion and All Banks & DFIs reported Rs. 22.19 billion outstanding. This reflects that major chunk of total outstanding in housing finance falls under the 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.

Figure 4 (Amount in Rs. Billion)



Share of Banks

Share of Islamic banks increased by two percent to 32 percent. However, share of Private and public sector banks, decreased by 1 percent each over the quarter.

The share of Conventional Banking, Islamic Banking Industry and HBFCL in the gross outstanding was 38.66 percent, 37.63 percent and 23.71 percent respectively as on June 30, 2015. IBDs (14 windows) and IBs (05 banks) have 15 percent and 85 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 2 percent and that of Islamic banking industry increased by 2 percent, at the level of 62 percent and 38 percent respectively.

Figure 5

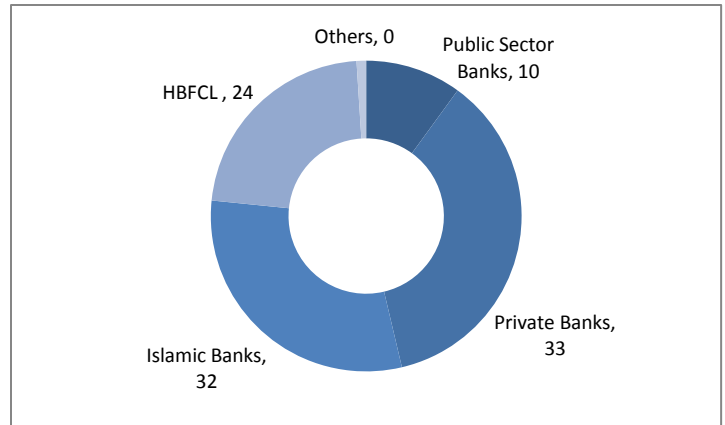
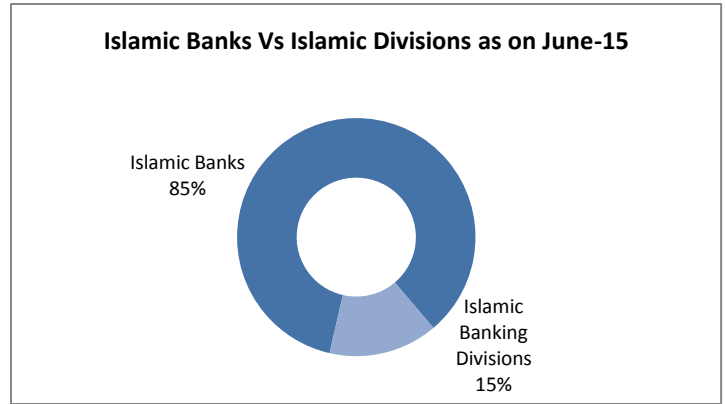


Figure 5.1:



Non-Performing Loans (NPLs)

NPLs decreased significantly from Rs. 14.16 billion (March, 2015) to Rs. 13.51 billion (June, 2015); 4.60 percent decrease during the quarter as shown in Figure 6. Figure 7 compares NPLs as a percentage of outstanding portfolios at the end of quarters on June 30, 2014 and 2015. 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. 0.5 billion (10 percent) over the yester quarter ending March, 2015. Also, HBFC's percentage share of NPLs in its total outstanding has decreased significantly by 17 percent over the year. At the end of current quarter, 33.77 percent of its total outstanding constitutes NPLs (Figure 7). HBFC's percentage share in total NPLs was 33 percent.

Excluding HBFC, NPLs for all banks and other DFIs decreased by 2.12 percent over the quarter. The percentage share of NPLs of all banks and other DFIs (excluding HBFC) was 67 percent in total NPLs as on June 30, 2015.

Among banks, as shown in Figure 8, NPLs of Islamic banks marginally increased during the year from Rs. 1.41 billion to Rs. 1.47 billion. Their NPLs constitute 10.91 percent, as on June 30, 2015, of total industry NPLs. NPLs of the public sector banks increased by 25 percent from Rs. 1.63 billion to Rs. 1.96 billion, over the year, which remained 33 percent of their gross outstanding as of June, 2015. Private Banks' NPLs decreased by 10.17 percent, from Rs. 5.94 billion to Rs. 5.27 billion. NPLs other Financial Institutions, decreased by 3.12 percent over the year.

Figure 6: (Amount in Rs. Billion)

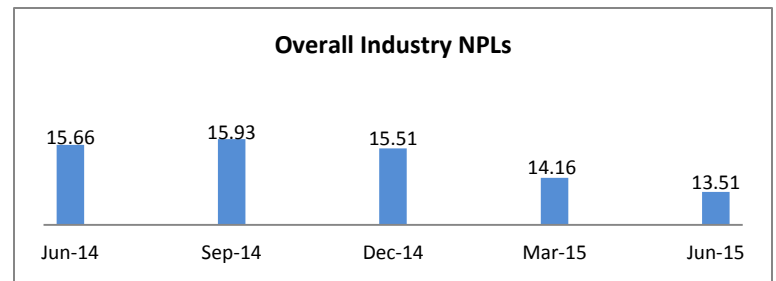


Figure 6.1: (Amount in Rs. Billion)

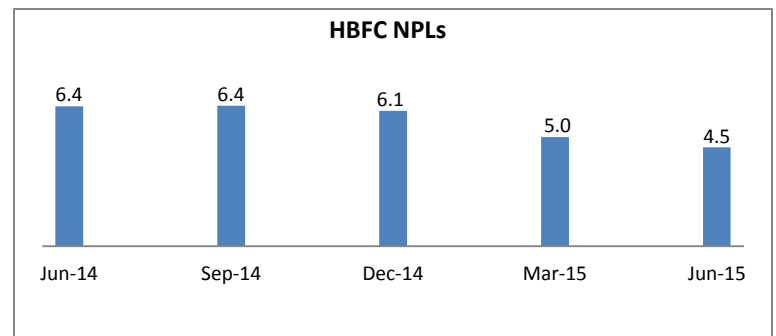
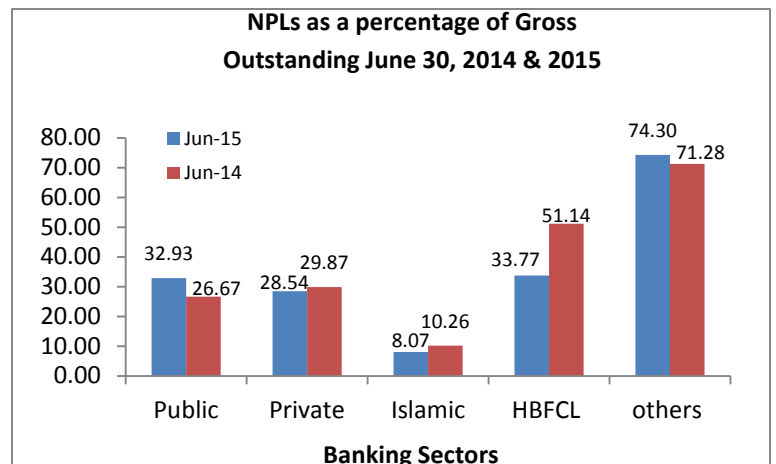


Figure 7 (Percentage)



NPLs for Islamic Banking Industry (IBs & IBDs) shown in Figure 9 were reported as Rs. 1.81 billion on June 30, 2015, which were Rs. 1.89 billion at the end of June, 2014, showing decrease of 4.23 percent over the year.

Figure 10 shows the breakup of NPLs in terms of Loans disbursed i.e. up to Rs. 1 million, above Rs. 1 million to Rs. 5 Million and above Rs. 5 million. As of June 30, 2015, Rs. 4.07 billion of 35,478 borrowers were recorded as NPLs in the category of 'up to Rs. 1 Million' out of which Rs. 3.07 billion belonged to HBFCL and Rs. 0.37 billion was reported by All Banks & DFIs. In the second category 'Above Rs. 1 million to Rs. 5 million', total defaulters were 2,071 with an amount Rs. 3.73 billion, as on June 30, 2015, out of which Rs. 0.62 billion against 401 borrowers was reported by HBFCL and Rs. 3.12 billion against 1,670 borrowers were reported by All Banks & DFIs. In the third category 'Above 5 Million', total NPLs were Rs. 5.70 billion against 982 borrowers. Out of these, 64 defaulters with the amount of Rs. 0.18 billion were of HBFCL and Rs.5.53 against 918 borrowers belonged to All Banks & DFIs.

Figure 8 (Amount in Rs. Billion)

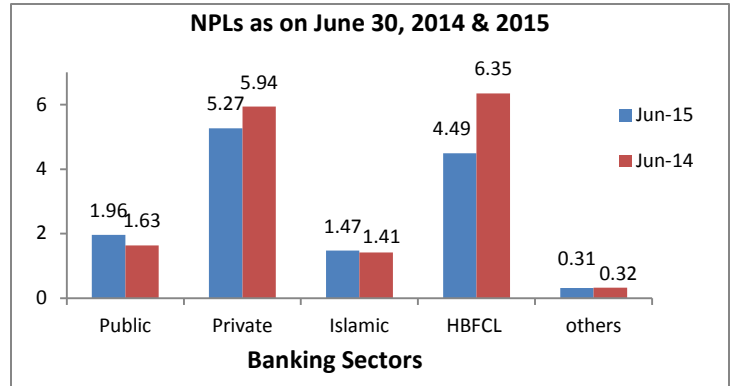


Figure 9 (Amount in Rs. Billion)

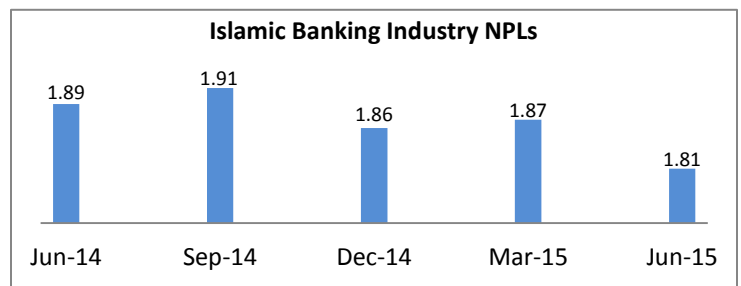
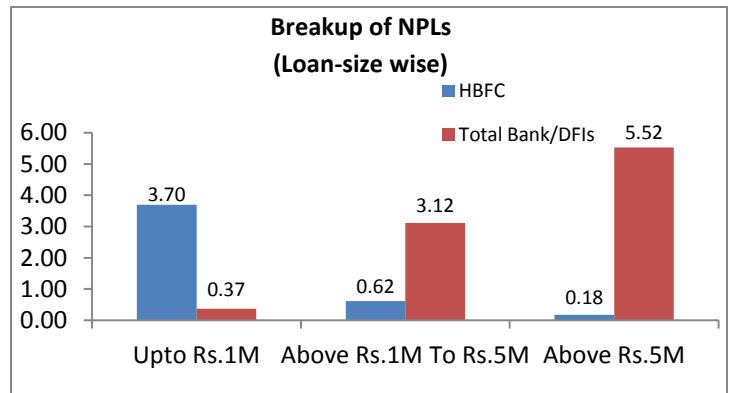


Figure 10 (Amount in Rs. Billion)



Number of Borrowers

Number of borrowers decreased from 74,894 to 70,080 since June 2014; a decline of 6.42 percent. As shown in Table 1, there was a decrease in number of borrowers in each category except in Islamic Banks.

However, compared to previous quarter, number of active borrowers increased by 4 percent. This increasing trend in number of active borrowers is in line with the rising portfolio of housing finance during recent quarters.

Figure 11 (Number of Borrowers)

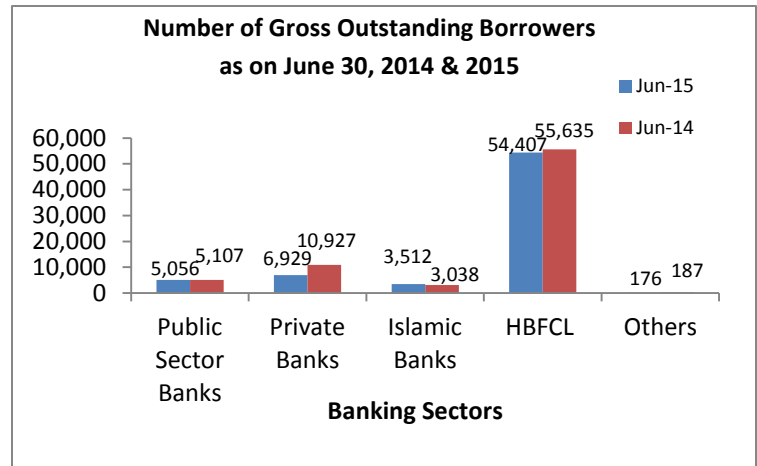


Table 1

Banks/DFIs	June - 15				June - 14			
	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	
Public Sector	4,015	1,041	5,056	4,508	599	5,107		
Private Banks	5,282	1,647	6,929	9,168	1,759	10,927		
Islamic Banks	3,249	263	3,512	2,771	267	3,038		
HBFCL	19,419	34,988	54,407	14,280	41,355	55,635		
Others	51	125	176	64	123	187		
Total	32,016	38,064	70,080	30,791	44,103	74,894		

Disbursements

Fresh disbursements of Rs. 4.1 billion (Figure 12) were made to 1,161 borrowers during the quarter ending June 30, 2015 (Table 2). Over the year, total disbursement made by banks & DFIs amounted to Rs. 17.2 billion. Islamic banks extended new disbursements with Rs. 2.21 billion followed by HBFCL's fresh disbursements (Figure 13) amounting to Rs. 1 billion. Private Banks and Public Sector Banks reported fresh disbursement of Rs. 833 million and Rs. 73 million respectively.

Among commercial banks, the number of new borrowers totaled 451, with Islamic banks serving 299 new borrowers, private banks serving 132 and Public Sector Banks 20 new customers. HBFCL extended loans to 709 new borrowers during the quarter under review.

Fresh disbursement for Islamic Banking Industry was Rs. 2.48 billion to 339 new borrowers during the quarter ending June 30, 2015. This includes new disbursements of Rs. 278.23 million to 40 customers by IBDs of conventional banks.

Figure 14 shows the disbursement break-up in terms of loan size. Commercial Banks/DFIs disbursed Rs. 2.28 billion (166 borrowers) in terms of loans above Rs. 5 million and Rs. 0.05 billion (50 borrowers) against the category up to Rs. 1 million.

Figure 12: (Amount in Rs. Billion)

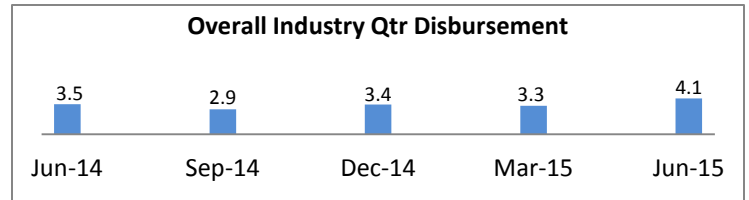


Figure 13: (Amount in Rs. Billion)

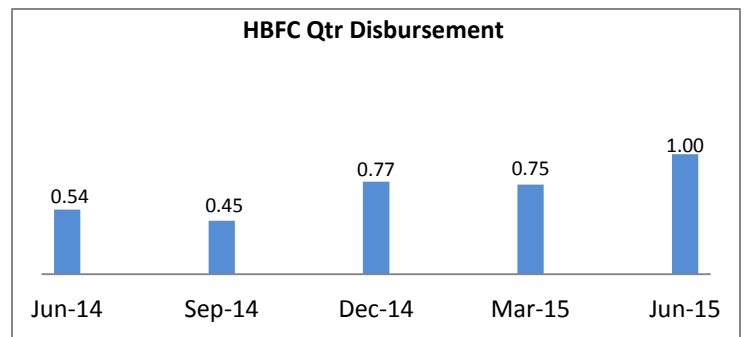


Figure 14 (Amount in Rs. Billion)

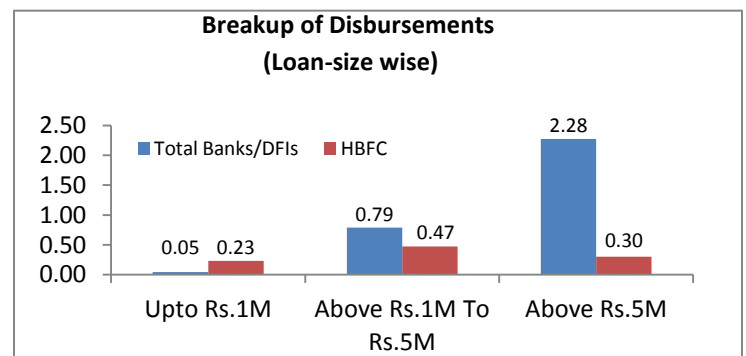


Table 2

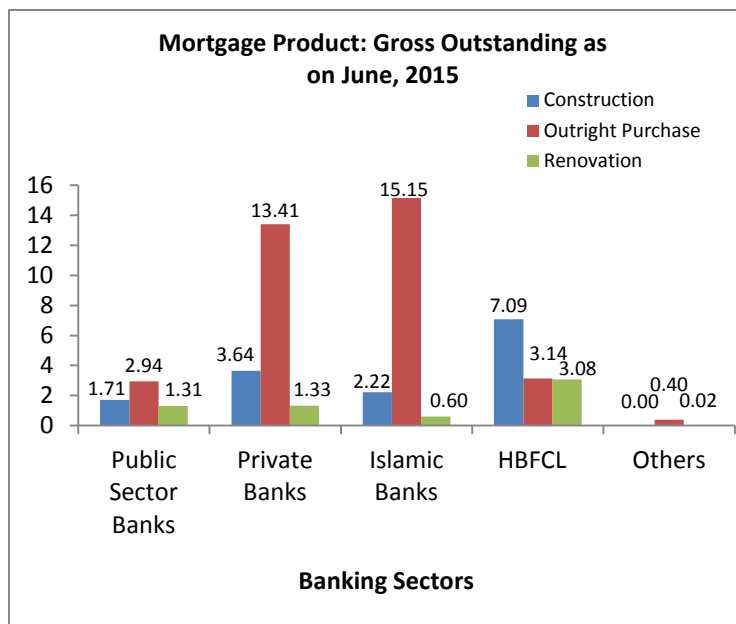
New Disbursements during the quarter ending June 30, 2015		
	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	73	20
Private Banks	833	132
Islamic Banks	2,210	299
HBFC	1,003	709
Total	4,119	1160
Islamic Industry	2,488	339

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. 35.04 billion as on June 30, 2015; a 62.45 percent share in gross outstanding of Rs. 56.1 billion. This is followed by the 'construction' category where gross outstanding reported at quarter-end stood at Rs. 14.66 billion and that of 'renovation' stood at Rs. 6.34 billion. Active portfolio shows that Islamic Banks took a lead in financing for outright purchase at 43.25 percent followed by Private Banks that have the share of 38 percent in outright purchase financing. HBFCL has taken lead in financing two sectors i.e. construction category 48.36 percent and renovation category 48.59 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 12.6 percent at the end of the current quarter as shown in Table 3. Highest weighted average profit rate was reported as 19 percent by other Financial Institutions. Islamic Bank's rate stood at 12.2 percent and Private Sector banks at 9.7 percent.

Average maturity periods

Average maturity period of outstanding loans as on June 30, 2015 was 11.6 years. HBFCL's average maturity period was 11.7 years, while that of Public Sector Banks is 12.3 years. Table 4 shows that among commercial banks, Private Banks extended housing finance loans for average tenure of 11.2 years followed by other Financial Institutions with 12.5 years and Islamic Banks with 10.3 years.

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs remained 45.3 percent during the quarter (Table 5). Average LTVs of commercial banks remained 43.0 percent over the quarter. The average LTV for HBFCL was reported at 32 percent at the end of quarter April-June, 2015.

Table 3

		Weighted Average Interest Rate (%)				
		Jun-15	Mar-15	Dec-14	Sep-14	Jun-14
Public Sector Banks		11.2	13.7	13.7	14.0	14.0
Private Banks		9.7	10.8	10.8	13.2	11.7
Islamic Banks		12.2	13.4	13.4	13.1	13.2
All Banks		11.0	12.2	12.2	13.3	12.4
Others		19.3	14.0	14.0	14.0	14.0
All Banks & DFIs		13.1	12.2	12.2	13.3	12.4
HBFCCL		11.0	14.0	14.0	14.0	14.0
Total Average		12.6	13.1	13.1	13.7	13.2

Table 4

		Average Maturity Period (Years)				
		Jun-15	Mar-15	Dec-14	Sep-14	Jun-14
Public Sector Banks		12.3	10.0	10.0	10.0	12.0
Private Banks		11.2	13.6	13.6	13.6	13.7
Islamic Banks		10.3	11.2	11.2	11.2	11.2
All Banks		11.2	12.2	12.2	12.2	12.7
Others		12.5	12.5	12.5	12.5	12.5
All Banks & DFIs		11.5	12.2	12.2	12.2	12.7
HBFCCL		11.7	12.8	12.8	12.8	12.5
Total Average		11.6	12.8	12.8	12.8	12.5

Table 5

		Loan to Value Ratio (%)				
		Jun-15	Mar-15	Dec-14	Sep-14	Jun-14
Public Sector Banks		46.7	46.7	46.7	46.7	46.7
Private Banks		40.4	33.2	33.2	33.2	30.4
Islamic Banks		42.0	38.9	38.9	38.9	42.1
All Banks		43.0	41.0	41.0	41.0	41.1
Others		65.3	45.3	45.3	45.3	45.3
All Banks & DFIs		48.6	41.0	41.0	41.0	41.1
HBFCCL		32.0	33.4	33.4	33.4	40.3
Total Average		45.3	37.2	37.2	37.2	40.7

Table 6

	Average Loan Size (Rs. Millions)				
	Jun-15	Mar-15	Dec-14	Sep-14	Jun-14
Public Sector Banks	4.5	3.0	3.0	3.0	6.5
Private Banks	9.0	5.8	5.8	5.8	8.6
Islamic Banks	5.8	5.1	5.1	5.1	6.0
All Banks	6.4	5.1	5.1	5.1	7.5
Others	5.0	5.0	5.0	5.0	5.0
All Banks & DFIs	6.1	5.1	5.1	5.1	7.5
HBFCL	3.1	2.5	2.5	2.5	2.6
Total Average	5.5	3.8	3.8	3.8	5.0

Average loan size

Average loan size for disbursements made during the quarter ending September 30, 2015 (Table 6) was Rs. 5.5 million. The average loan size for HBFCL was Rs. 3.1 million. Private Banks reported an average financing size of Rs. 9 million, Other Financial Institutions 5 million and Islamic Banks reported an average financing size Rs. 5.8 million. Public sector bank's average loan size stood at Rs. 4.5 million.

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The outstanding housing finance of Microfinance Banks (MFBs) remained Rs. 208 million as on June 30, 2015 which was Rs. 215 million at the end of previous quarter. It registered a decrease of 3.26 percent, over the last quarter.

Number of Borrowers

The number of outstanding borrowers decreased from 2,085 to 1996 over the quarter; a decrease of 4.27 percent.

Non-Performing Loans

NPLs for MFBs were reported "nil" for the current quarter.

Mortgage to GDP Ratio:

Mortgage to GDP ratio in Pakistan stood at 0.48% as of June 30, 2015.

Acronyms

DFI	Development Finance Institution
GDP	Gross Domestic Product
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
NPL	Non Performing Loan