



State Bank of Pakistan

Quarterly Housing Finance Review

For the Quarter ended September 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 for September, 2015 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 banks, House Building Finance Company Limited (HBFCL) and one microfinance bank are catering to the housing finance needs.

During current quarter, overall housing finance portfolio stood at Rs. 58.02 Billion as of September 30, 2015; an increase of 3.38 percent over the quarter. HBFCL remained the largest shareholder, in terms of gross outstanding, with the share of 24 percent. However, based on category, Islamic Banks remained the largest players with 33 percent share in gross outstanding. Fresh disbursement for the quarter accounted for Rs. 4.7 billion with 1022 borrowers. Furthermore, NPLs increased to the level of Rs 14.12 billion compared to previous quarter's Rs 13.51 billion; an increase of 4.52 percent during the quarter. However, on year on year basis, NPLs decreased by Rs 1.81 Billion (11.36 percent). HBFCL, being the largest player in the housing finance market, accounted for 53.62 percent of new borrowers and contributed 17.37 percent of the new disbursements equivalent to Rs. 831 million. Islamic banks disbursed Rs. 2.76 billion. The major portion of total outstanding remained directed towards "Outright Purchase" category as 62.56 percent of gross outstanding was used to finance this category of housing loans. It was followed by "Construction" and "Renovation" products with 25.89 and 11.55 percent respectively.

During the quarter ending September 30, 2015, Islamic banks and private banks remained active in extending housing finance. This rise in disbursements is reflection of efforts to create enabling environment for housing finance in Pakistan. This will be instrumental in increasing economic growth through positive changes in 40 industries allied to housing sector. Keeping in view overall trends, it shows that Housing finance in Pakistan is gradually growing and NPLs are declining.

Contents

Major Trends	5
Gross Outstanding	5
Share of Banks	7
Non-Performing Loans (NPLs).....	8
Number of Borrowers	10
Disbursements	11
Products Category-Wise Share.....	12
Analysis of Financing Variables adopted by Banks/DFIs and HBFCL	13
Weighted average Markup rate	13
Average maturity periods.....	13
Loan to Value ratio (LTV)	13
Average loan size	14
Housing Finance Business of Microfinance Banks:.....	14
Gross Outstanding.....	14
Number of Borrowers	14
Non-Performing Loans.....	14
Mortgage to GDP Ratio:	14
Acronyms.....	15

Major Trends

Gross Outstanding

The gross outstanding finance as on September 30, 2015 of all banks and DFIs stood at Rs. 58.02 billion (Figure 1), compared to Rs. 56.1 billion in previous quarter, showing an increase of Rs. 1.9 billion (3.39 percent) over the quarter. Over the year, housing finance portfolio showed an impressive growth of 9.6 percent.

Banking sector-wise gross outstanding on quarters ending September 2014 and 2015 are shown in Figure 2. Private Banks reported Rs. 18.39 billion followed by Islamic banks at Rs. 19.16 billion, public sector banks at Rs. 6.09 billion and others (Foreign Banks and other DFIs excluding HBFCL) with Rs. 0.42 billion. The outstanding loans of HBFCL were Rs. 13.97 billion; up by 11.76 percent over last year. The data confirms that primary housing finance market in Pakistan is gradually growing.

Islamic and Private Banks remained major contributors in gross outstanding of housing finance during the year. Islamic Banks showed an increase of 6.63 percent from previous quarter and reached to Rs. 19.16 billion by the end of September 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. 22.32 billion as on September 30, 2015. Compared to quarter ended June 2015, gross outstanding of Islamic Banking Industry increased by 5.83 percent as shown in Figure 3. Islamic Banking Industry has maintained the increasing trend throughout the year.

Figure 1 (Amount in Rs. Billion)

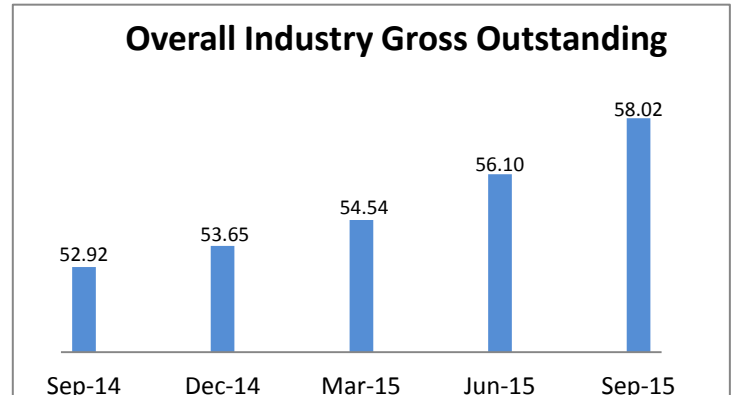
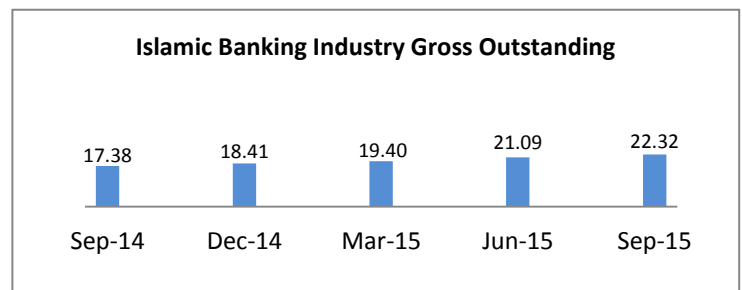
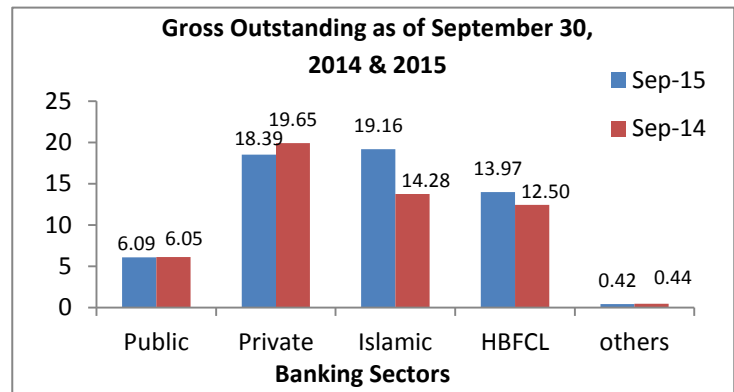


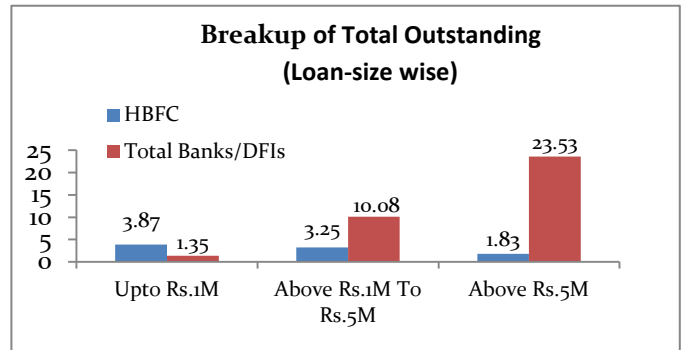
Figure 2 (Amount in Rs. Billion)



Of the gross outstanding in Islamic housing finance, Islamic banks accounted for Rs. 19.16 billion; an increase of 6.63 percent over the quarter. IBDs of conventional banks posted Rs. 3.16 billion.

Figure 4 shows the breakup of total outstanding in terms of loan size. As of September 30, 2015, HBFCL and All Banks & DFIs reported outstanding loans net of NPLs in the category ‘Up to Rs. 1 million’ as Rs. 3.87 billion and Rs. 1.35 billion respectively. In second category ‘Above Rs. 1 Million to Rs. 5 Million’, HBFCL reported Rs. 3.25 billion and all Bank & DFIs reported Rs. 10.08 billion outstanding. In the third category ‘Above Rs. 5 Million’, HBFCL reported Rs. 1.83 billion and All Banks & DFIs reported Rs. 23.53 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).

Figure 4 (Amount in Rs. Billion)



Share of Banks

Share of all banking sectors remained unchanged over the quarter as shown in Figure 5.

The share of Conventional Banking, Islamic Banking Industry and HBFCL in the gross outstanding was 37 percent, 39 percent and 24 percent respectively as on September 30, 2015. IBDs (14 windows) and IBs (05 banks) have 14 percent and 86 percent share respectively in housing finance portfolio of Islamic Banking Industry (Figure 5.1). Compared to previous quarter, market share of Conventional Banking and Islamic Banking Industry, remained unchanged at 62 percent and 38 percent during current quarter (Figure 5.2).

Figure 5

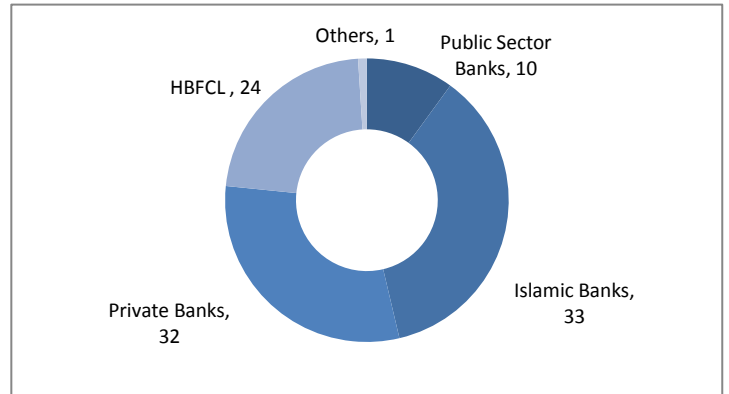


Figure 5.1

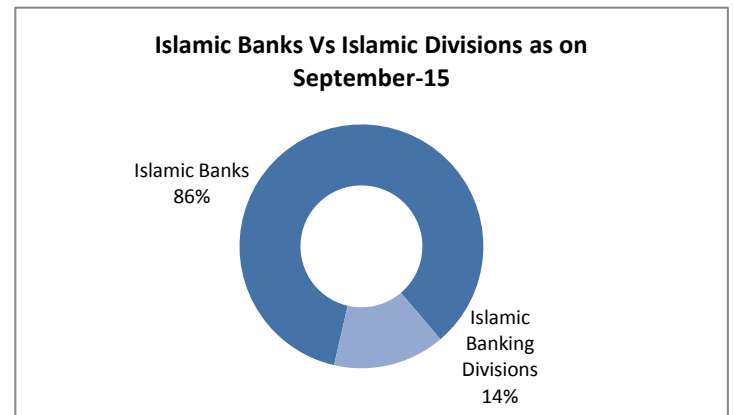
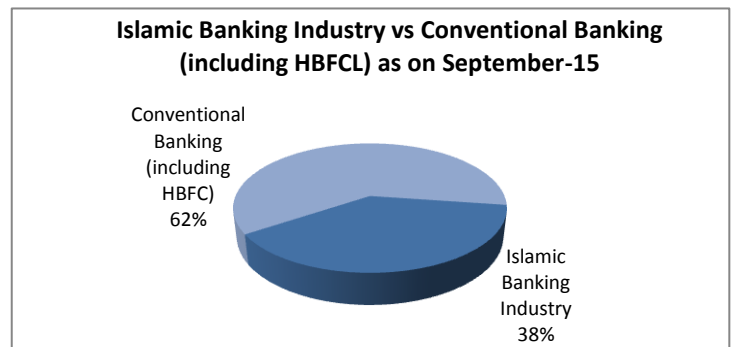


Figure 5.2



Non-Performing Loans (NPLs)

NPLs increased from Rs. 13.51 billion (June, 2015) to Rs. 14.12 billion (September, 2015); However, on year on year basis, NPLs declined by 11.36 percent as shown in Figure 6. NPLs as a percentage of outstanding portfolios at the end of quarters on September 30, 2014 and 2015 are given in Figure 7. While, a comparison of existing NPLs status of different banking sectors with last year is given in Figure 8.

HBFC's NPLs increased by Rs. 0.5 billion (11.1 percent) over the last quarter ending June, 2015. HBFC's percentage share of NPLs in its total outstanding has decreased significantly by 15.16 percent points over the year. At the end of current quarter, 35.98 percent of its total outstanding constitutes NPLs (Figure 7). HBFC's percentage share in total NPLs was 35.58 percent.

Excluding HBFC, NPLs of all banks and other DFIs increased by 1 percent over the quarter. The percentage share of NPLs of all banks and other DFIs (excluding HBFC) was 64.42 percent in total NPLs as on September 30, 2015.

Among banks, as shown in Figure 8, NPLs of Islamic banks decreased during the year from Rs. 1.47 billion to Rs. 1.45 billion. Their NPLs constitute 10.26 percent, as on September 30, 2015, of total industry NPLs. NPLs of the public sector banks increased by 27.17 percent from Rs. 1.73 billion to Rs. 2.20 billion, over the year, which remained 36 percent of their gross outstanding as of September, 2015. Private Banks' NPLs decreased by 15.21 percent, from Rs. 6.05 billion to Rs. 5.13 billion. NPLs of other Financial Institutions, remained unchanged over the year.

Figure 6: (Amount in Rs. Billion)

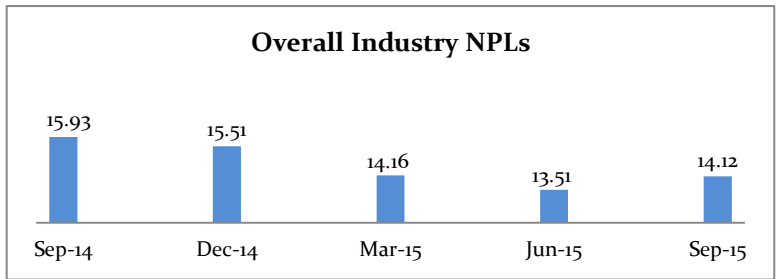


Figure 6.1: (Amount in Rs. Billion)

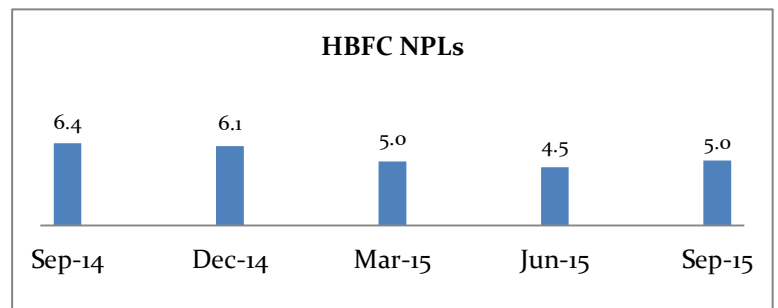
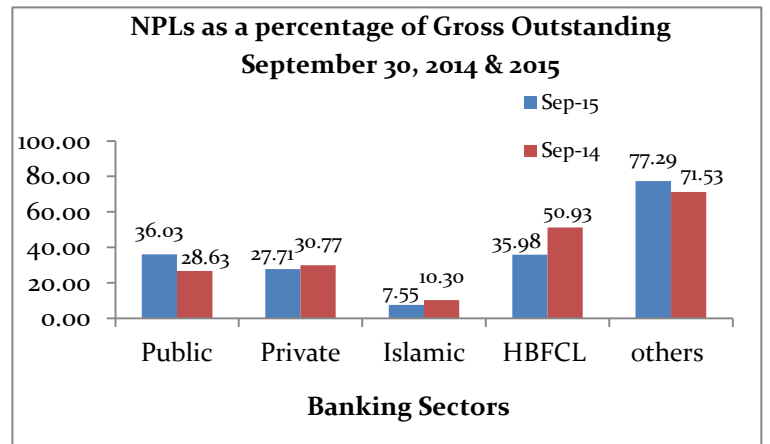


Figure 7 (Percentage)



NPLs for Islamic Banking Industry (IBs & IBDs) shown in Figure 9 were reported as Rs. 1.75 billion on September 30, 2015, which were Rs. 1.91 billion at the end of September, 2014, showing decrease of 8.37 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 September 30, 2015, Rs. 4.36 billion of 36,347 borrowers were recorded as NPLs in the category of 'up to Rs. 1 Million' out of which Rs. 3.98 billion belonged to HBFCL and Rs. 0.38 billion was reported by All Banks & DFIs. In the second category 'Above Rs. 1 million to Rs. 5 million', total defaulters were 2,021 with an amount Rs. 3.86 billion, as on September 30, 2015, out of which Rs. 0.80 billion against 576 borrowers was reported by HBFCL and Rs. 3.06 billion against 1,445 borrowers were reported by All Banks & DFIs. In the third category 'Above 5 Million', total NPLs were Rs. 5.90 billion against 868 borrowers. Out of these, 108 defaulters with the amount of Rs. 0.24 billion were of HBFCL and Rs.5.66 against 760 borrowers belonged to All Banks & DFIs.

Figure 8 (Amount in Rs. Billion)

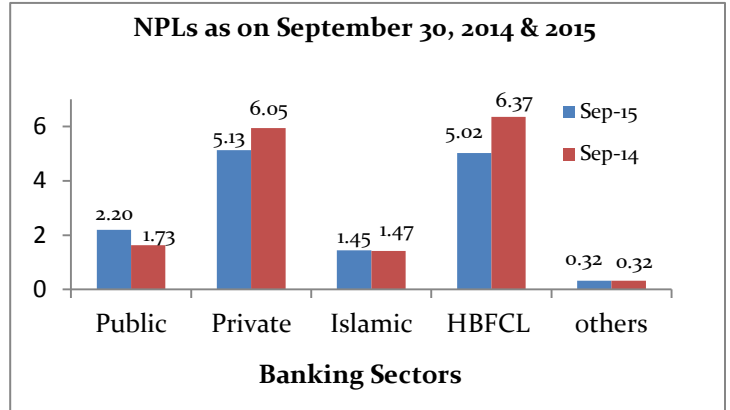


Figure 9 (Amount in Rs. Billion)

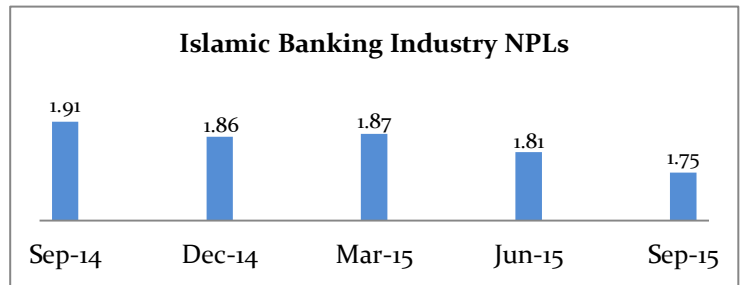
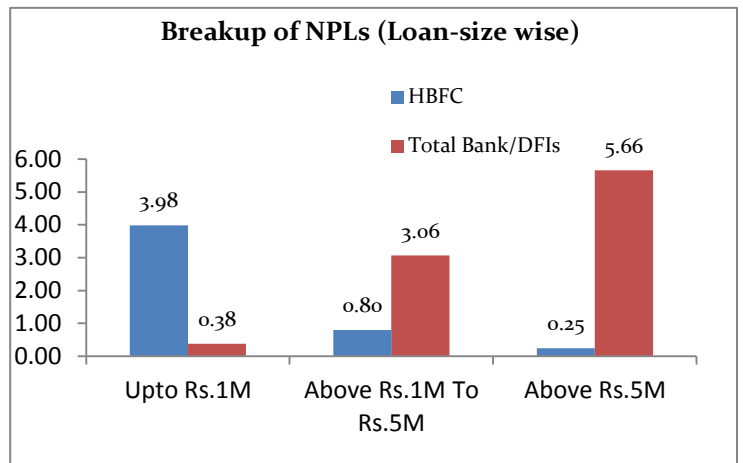


Figure 10 (Amount in Rs. Billion)



Number of Borrowers

Number of borrowers decreased from 74,465 to 69,695 since September 2014; a decline of 6.41 percent. As shown in Table 1, there was a decrease in number of borrowers in each category except in Islamic Banks and Public Sector Banks.

Figure 11 (Number of Borrowers)

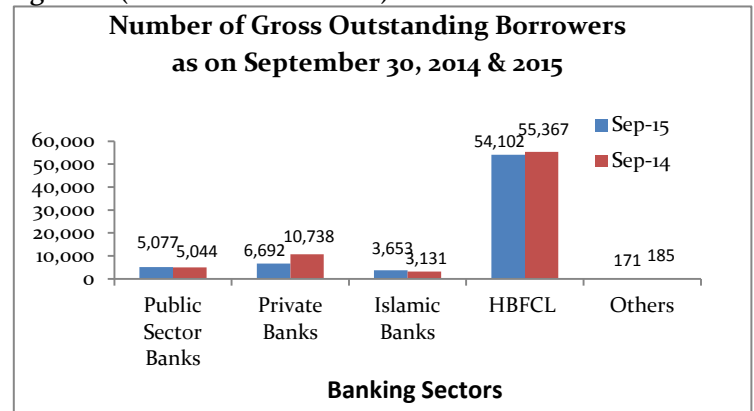


Table 1

Banks/DFIs	September - 15				September - 14				Increase/Decrease in O/S borrowers YoY
	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	O/s		
Public Sector	3,946	1,131	5,077	4,405	639	5,044	33		
Private Banks	5,100	1,592	6,692	8,908	1,830	10,738	(4,046)		
Islamic Banks	3,391	262	3,653	2,852	279	3,131	522		
HBFCL	17,982	36,120	54,102	14,084	41,283	55,367	(12,65)		
Others	40	131	171	61	124	185	(14)		
Total	30,459	39,236	69,695	30,310	44,155	74,465	(4,770)		

Disbursements

Fresh disbursements of Rs. 4.7 billion (Figure 12) were made to 1,022 borrowers during the quarter ending September 30, 2015 (Table 2). Over the year, total disbursement made by banks & DFIs amounted to Rs. 18.4 billion. Islamic banks extended new disbursements with Rs. 2.76 billion followed by Private Bank's fresh disbursements amounting to Rs. 1.09 billion. HBFCL and Public Sector Banks reported fresh disbursement of Rs. 833 million (Figure 13) and Rs. 46 million respectively.

Among commercial banks, the number of new borrowers totaled 473, with Islamic banks serving 299 new borrowers, private banks serving 162 and Public Sector Banks 12 new customers. HBFCL extended loans to 547 new borrowers during the quarter under review.

Fresh disbursement for Islamic Banking Industry was Rs. 2.99 billion to 329 new borrowers during the quarter ending September 30, 2015. This includes new disbursements of Rs. 231.57 million to 30 customers by IBDs of conventional banks.

Figure 14 shows the disbursement break-up in terms of loan size. Commercial Banks/DFIs disbursed Rs. 3.13 billion (190 borrowers) in terms of loans above Rs. 5 million and Rs. 0.06 billion (59 borrowers) against the category up to Rs. 1 million.

Figure 12: (Amount in Rs. Billion)

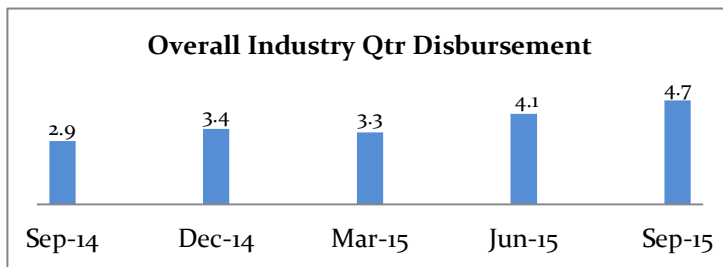


Figure 13: (Amount in Rs. Billion)

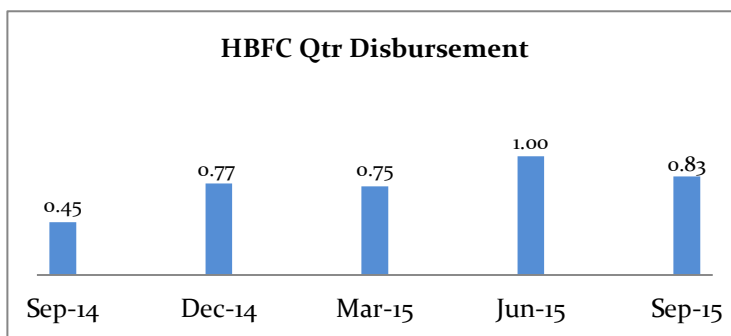


Figure 14 (Amount in Rs. Billion)

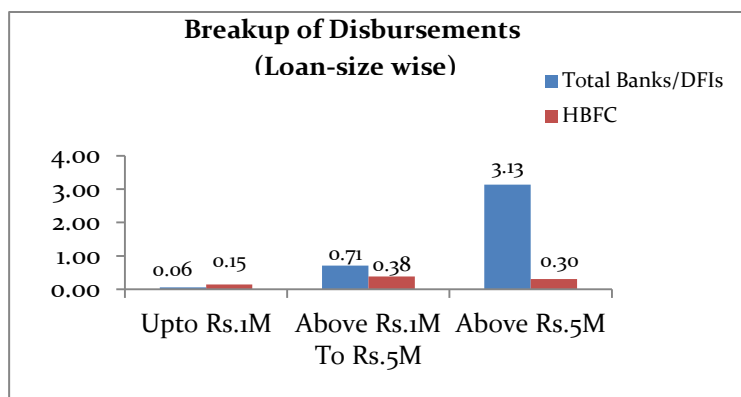


Table 2

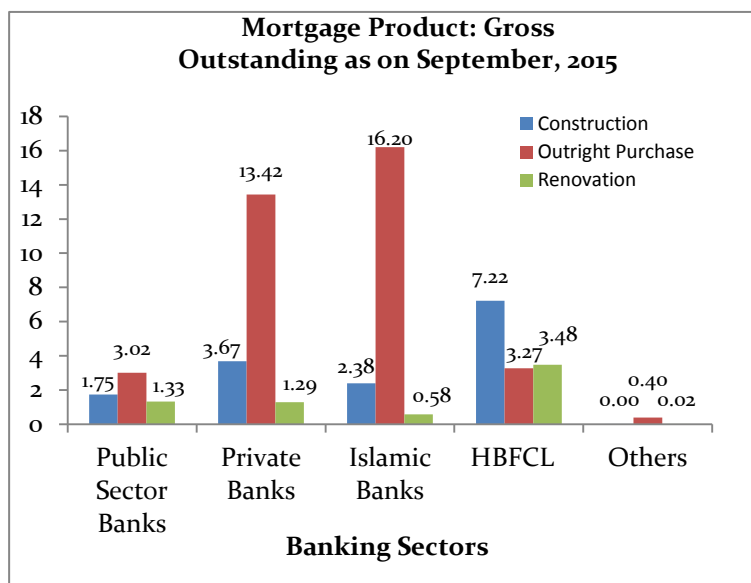
New Disbursements during the quarter ending September 30, 2015		
	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	46	12
Private Banks	1,096	162
Islamic Banks	2,755	299
HBFC	831	547
Total	4,728	1020
Islamic Industry	2,987	329

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. 36.31 billion as on September 30, 2015; a 62.56 percent share in gross outstanding of Rs. 58 billion. This is followed by the 'construction' category where gross outstanding reported at quarter-end stood at Rs. 15.02 billion and that of 'renovation' stood at Rs. 6.70 billion. Active portfolio shows that Islamic Banks took a lead in financing for outright purchase at 44.62 percent followed by Private Banks that have the share of 37 percent in outright purchase financing. HBFCL has taken lead in financing two sectors i.e. construction category 48.05 percent and renovation category 51.96 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 10.7 percent at the end of the current quarter as shown in Table 3. Highest weighted average profit rate was reported as 18 percent by other Financial Institutions. Islamic Bank's rate stood at 11.6 percent and Private Sector banks at 9.4 percent.

Average maturity periods

Average maturity period of outstanding loans as on September 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 14.3 years followed by other Financial Institutions with 11.7 years and Islamic Banks with 10 years.

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs remained 44.6 percent during the quarter (Table 5). Average LTVs of commercial banks remained 47.7 percent over the quarter. The average LTV for HBFCL was reported at 41.6 percent at the end of quarter July-September, 2015. This low LTV ratio is also an impediment to attract new borrows.

Table 3

		Weighted Average Interest Rate (%)				
		Sep-15	Jun-15	Mar-15	Dec-14	Sep-14
Public	Sector	9.2	11.2	13.7	13.7	14.0
	Banks					
	Private Banks	9.4	9.7	10.8	10.8	13.2
	Islamic Banks	11.6	12.2	13.4	13.4	13.1
	All Banks	10.4	11.0	12.2	12.2	13.3
	Others	18.0	19.3	14.0	14.0	14.0
	All Banks & DFIs	10.4	13.1	12.2	12.2	13.3
	HBFCCL	11.0	11.0	14.0	14.0	14.0
	Total Average	10.7	12.6	13.1	13.1	13.7

Table 4

		Average Maturity Period (Years)				
		Sep-15	Jun-15	Mar-15	Dec-14	Sep-14
Public	Sector	12.3	12.3	10.0	10.0	10.0
	Banks					
	Private Banks	14.3	11.2	13.6	13.6	13.6
	Islamic Banks	10.0	10.3	11.2	11.2	11.2
	All Banks	11.4	11.2	12.2	12.2	12.2
	Others	11.7	12.5	12.5	12.5	12.5
	All Banks & DFIs	11.4	11.5	12.2	12.2	12.2
	HBFCCL	11.7	11.7	12.8	12.8	12.8
	Total Average	11.6	11.6	12.8	12.8	12.8

Table 5

		Loan to Value Ratio (%)				
		Sep-15	Jun-15	Mar-15	Dec-14	Sep-14
Public	Sector	46.7	46.7	46.7	46.7	46.7
	Banks					
	Private Banks	27.1	40.4	33.2	33.2	33.2
	Islamic Banks	45.7	42.0	38.9	38.9	38.9
	All Banks	47.7	43.0	41.0	41.0	41.0
	Others	71.3	65.3	45.3	45.3	45.3
	All Banks & DFIs	47.7	48.6	41.0	41.0	41.0
	HBFCCL	41.6	32.0	33.4	33.4	33.4
	Total Average	44.6	45.3	37.2	37.2	37.2

Table 6

	Average Loan Size (Rs. Millions)				
	Sep-15	Jun-15	Mar-15	Dec-14	Sep-14
Public Sector Banks	2.8	4.5	3.0	3.0	3.0
Private Banks	7.8	9.0	5.8	5.8	5.8
Islamic Banks	5.9	5.8	5.1	5.1	5.1
All Banks	6.5	6.4	5.1	5.1	5.1
Others	0.2	5.0	5.0	5.0	5.0
All Banks & DFIs	6.5	6.1	5.1	5.1	5.1
HBFCL	2.8	3.1	2.5	2.5	2.5
Total Average	4.6	5.5	3.8	3.8	3.8

Average loan size

Average loan size for disbursements made during the quarter ending September 30, 2015 (Table 6) was Rs. 4.6 million. The average loan size for HBFCL was Rs. 2.8 million. Private Banks reported an average financing size of Rs. 7.8 million, Other Financial Institutions 0.2 million and Islamic Banks reported an average financing size Rs. 5.9 million. Public sector bank's average loan size stood at Rs. 2.8 million.

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The outstanding housing finance of Microfinance Bank (MFB) remained Rs. 203 million as on September 30, 2015 which was Rs. 208 million at the end of previous quarter. It registered a decrease of 2.17 percent, over the last quarter.

Number of Borrowers

The number of outstanding borrowers decreased from 1,996 to 1,938 over the quarter; a decrease of 2.91 percent.

Non-Performing Loans

NPLs for MFBs were reported 0.15 million for the current quarter.

Mortgage to GDP Ratio:

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

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