



State Bank of Pakistan

Quarterly Housing Finance Review

For the Quarter ended March 31, 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 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). Overall housing finance portfolio stood at Rs. 54.5 Billion as of March 31, 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 34 percent share in gross outstanding. Fresh disbursement for the quarter accounted for Rs. 3.3 billion with 934 borrowers. NPLs, however, declined at the level of Rs 14.16 billion compared to previous quarter's Rs 15.51 billion; a significant decrease of 8.7 percent during the quarter. HBFCL, being the largest player in the housing finance market, accounted for 59 percent of new borrowers and contributed 22.73 percent of the new disbursements equivalent to Rs. 748 million. Islamic banks disbursed Rs. 1.82 billion. Furthermore, major chunk of total outstanding remained directed towards "Outright Purchase" category as 63.97 percent of total outstanding was used to finance this category of housing loans. It was followed by "Construction" and "Renovation" products with 24.77 and 11.24 percent respectively.

During the quarter ending March 31, 2015, 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 including difficulties related to foreclosure law & clear title issues. 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, absence of secondary mortgage market, high transaction costs, unorganized real estate sector, inadequate property development framework and unavailability of long term funding arrangements are also the major constraints.

Keeping in view growth pattern in housing finance during the last few quarters and number of other economic factors, housing finance will grow further in Pakistan. All this will be instrumental in increasing economic growth through positive changes in 40 industries allied to housing sector.

Contents

Major Trends	1
Gross Outstanding	1
Share of Banks	3
Non-Performing Loans (NPLs).....	4
Number of Borrowers	6
Disbursements	7
Products Category-Wise Share.....	8
Analysis of Financing Variables adopted by Banks/DFIs and HBFCL	9
Weighted average Markup rate.....	9
Average maturity periods.....	9
Loan to Value ratio (LTV)	9
Average loan size	10
Housing Finance Business of Microfinance Banks:.....	10
Gross Outstanding.....	10
Number of Borrowers	10
Non-Performing Loans.....	10
Mortgage to GDP Ratio:	10
Special Section	11
Acronyms.....	12

Major Trends

Gross Outstanding

The gross outstanding finance as on March 31, 2015 of all banks and DFIs stood at Rs. 54.5 billion (Figure 1), compared to Rs. 53.7 billion in previous quarter, showing an increase of Rs. 0.8 billion (1.49 percent) over the quarter. Overall, housing finance portfolio showed an impressive growth of 5.6% over the year.

Banking sector-wise gross outstanding on quarters ending March 2014 and 2015 are shown in Figure 2. Private banks reported Rs. 18.7 billion followed by Islamic banks at Rs. 16.3 billion, public sector banks at Rs. 6.1 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 13.1 billion; up by 6.5 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.

Islamic Banks and HBFCL remained major contributors in gross outstanding of housing finance during the year. Islamic Banks showed an increase of 6.5 percent from previous quarter and reached to Rs. 16.3 billion by the end of March 2015. HBFCL showed an increase of 3.15 percent over the previous quarter.

The gross outstanding housing finance as on March 31, 2015 of Islamic Banking Industry (Five Islamic Banks (IBs) & 14 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 19.40 billion. Compared to quarter ended December 2014, gross outstanding of Islamic Banking Industry increased by 5.38 percent as shown in Figure 3. Islamic Banking Industry has maintained the increasing trend throughout the year.

Figure 1 (Amount in Rs. Billion)

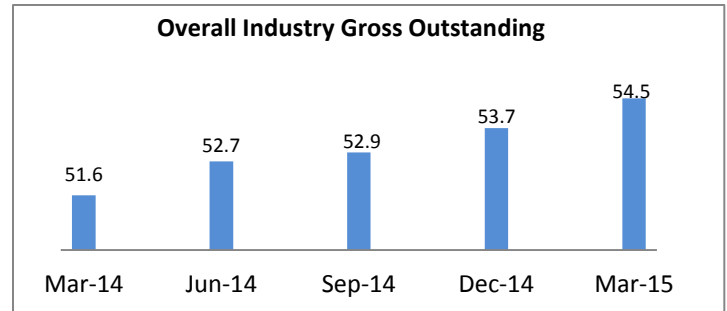


Figure 2 (Amount in Rs. Billion)

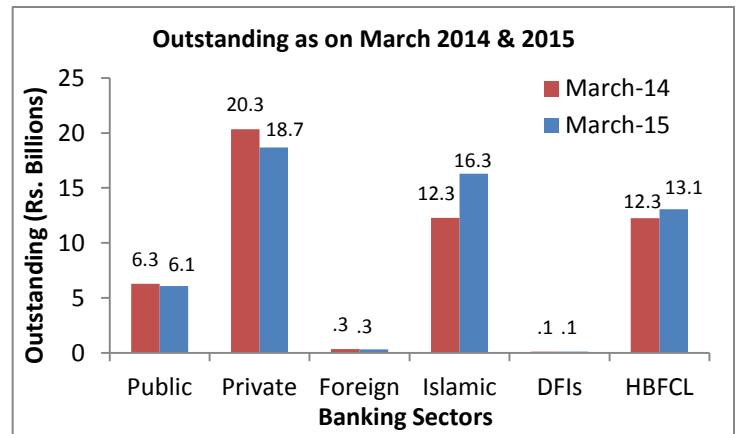
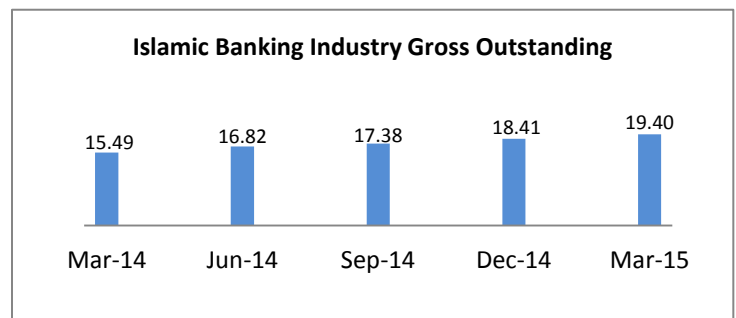


Figure 3 (Amount in Rs. Billion)

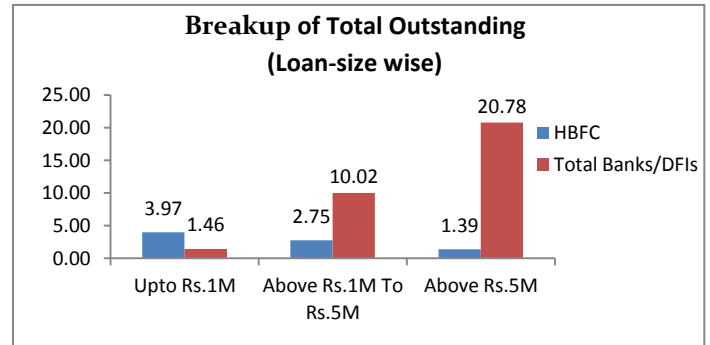


Of the gross outstanding in Islamic housing finance, Islamic banks accounted for Rs. 16.28 billion; an increase of 6.28 percent over the quarter. IBDs of conventional banks posted Rs. 3.1 billion. Islamic bank’s aggressive efforts for pursuing housing finance have yielded such a growth in their outstanding portfolio.

Figure 4 shows the breakup of total outstanding in terms of loan size. As of March 31, 2015, HBFCL and All Banks & DFIs reported outstanding loans net of NPLs in the category ‘Up to Rs. 1 million’ as Rs. 3.97 billion and Rs. 1.46 billion against 15,302 and 4,197 borrowers respectively. In second category ‘Above Rs. 1 Million to Rs. 5 Million’, HBFCL reported Rs. 2.75 billion and all Bank & DFIs reported Rs. 10.02 billion outstanding. In the third category ‘Above Rs. 5 Million’, HBFCL reported Rs. 1.39 billion and All Banks & DFIs reported Rs. 20.78 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.

Figure 4 (Amount in Rs. Billion)



Share of Banks

The share of private banks decreased by two percent to 34 percent and that of Islamic Banks increased to 30 percent over the quarter. However, share of foreign banks, public sector banks and HBFCL remained unchanged over the quarter. 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 40.48 percent, 35.56 percent and 23.96 percent respectively as on March 31, 2015. IBDs (14 windows) and IBs (05 banks) have 16 percent and 84 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 1.52 percent. The share of Islamic banking industry, however, increased by 2 percent over the previous quarter.

Figure 5

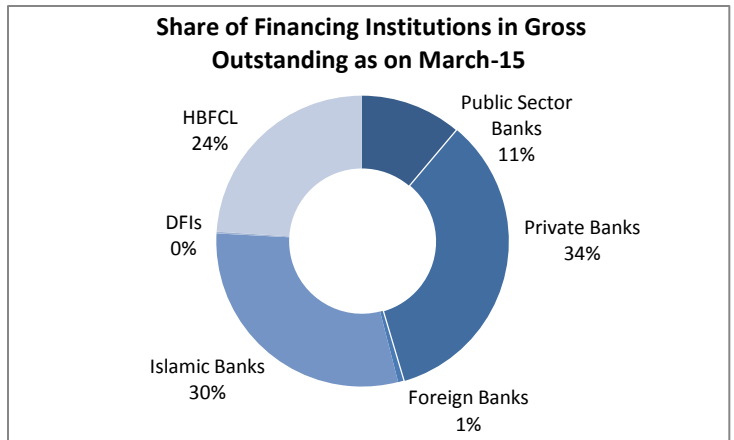
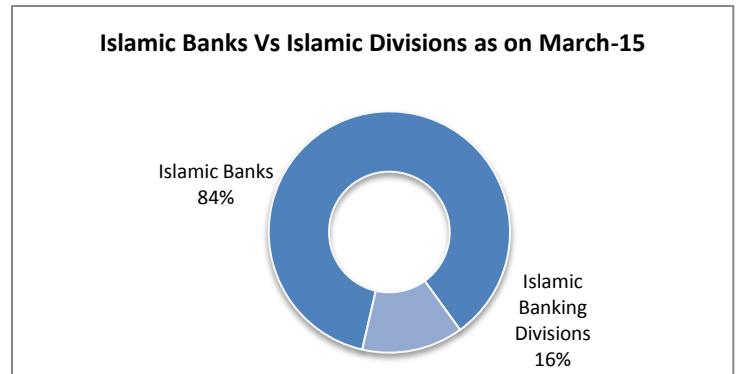


Figure 5.1:



Non-Performing Loans (NPLs)

NPLs decreased significantly from Rs. 15.51 billion (December 31, 2014) to Rs. 14.16 billion (March, 2015); 8.7 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 March 31, 2015 and 2014. 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. 1.1 billion (18 percent) over the yester quarter ending December, 2014. However, HBFC's percentage share of NPLs in its total outstanding is still on higher side. At the end of current quarter, 38 percent of its total outstanding constitutes NPLs (Figure 7). HBFC's percentage share in total NPLs is 35 percent.

Excluding HBFC, NPLs for all banks and other DFIs decreased by 1.71 percent over the quarter. The percentage share of NPLs of all banks and other DFIs (excluding HBFC) was 65 percent in total NPLs as on March 31, 2015.

Among banks, as shown in Figure 8, non-performing finances (NPFs) of Islamic banks remained unchanged during the year, at Rs. 1.5 billion. Their NPFs constitute 10.67 percent, as on March 31, 2015, of total industry NPLs. NPLs of the public sector banks increased by 17.64 percent from Rs. 1.7 billion to Rs. 2 billion, over the year, which remained 33 percent of their gross outstanding as of March 31, 2015. Private Banks' NPLs decreased by 12.9 percent, from Rs. 6.2 billion to Rs. 5.4 billion. NPLs of foreign banks, as a percentage of their outstanding portfolio, marginally increased by 1 percent over the year.

Figure 6: (Amount in Rs. Billion)

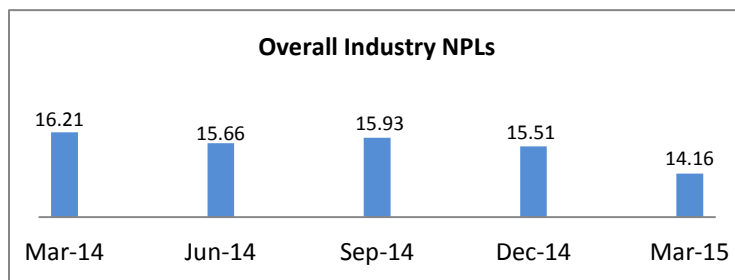


Figure 6.1: (Amount in Rs. Billion)

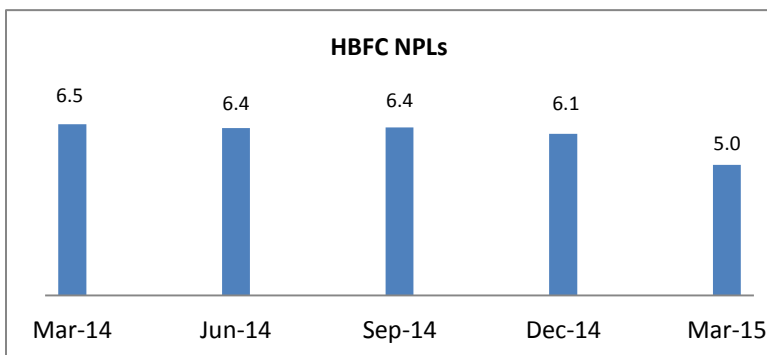
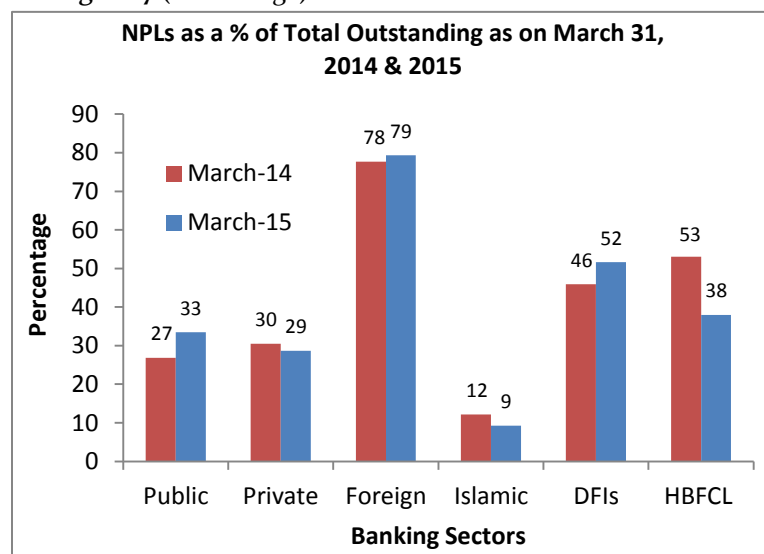


Figure 7 (Percentage)



NPFs for Islamic Banking Industry (IBs & IBDs) shown in Figure 9 were reported as Rs. 1.87 billion on March 31, 2015, which were Rs. 1.99 billion at the end of March, 2014, showing decrease of 6.03 percent over the year.

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 March 31, 2015, Rs. 4.44 billion of 36,902 borrowers were recorded as NPLs in the category of 'up to Rs. 1 Million' out of which Rs. 4.09 billion belonged to HBFCL and Rs. 0.35 billion was reported by All Banks & DFIs. In the second category 'Above Rs. 1 million to Rs. 5 million', total defaulters were 1,865 with an amount Rs. 3.87 billion, as on March 31, 2015, out of which Rs. 0.69 against 455 borrowers were reported by HBFCL and Rs. 3.18 billion against 1,410 borrowers were reported by All Banks & DFIs. In the third category 'Above 5 Million', total NPLs were Rs. 5.86 billion against 815 borrowers. Out of these, 65 defaulters with the amount of Rs. 0.18 billion were of HBFCL and Rs.5.68 against 750 borrowers belonged to All Banks & DFIs.

Figure 8 (Amount in Rs. Billion)

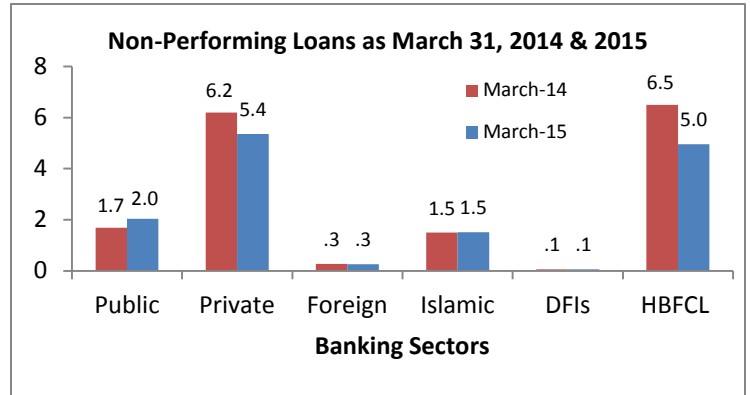


Figure 9 (Amount in Rs. Billion)

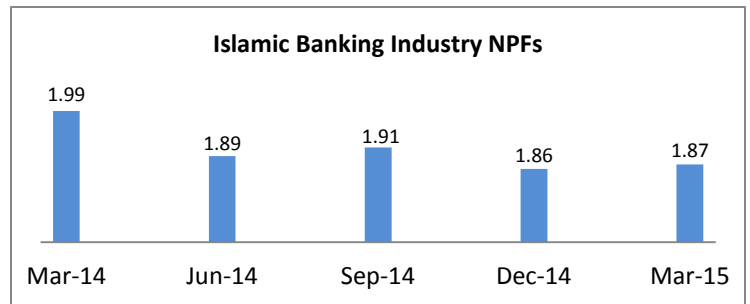
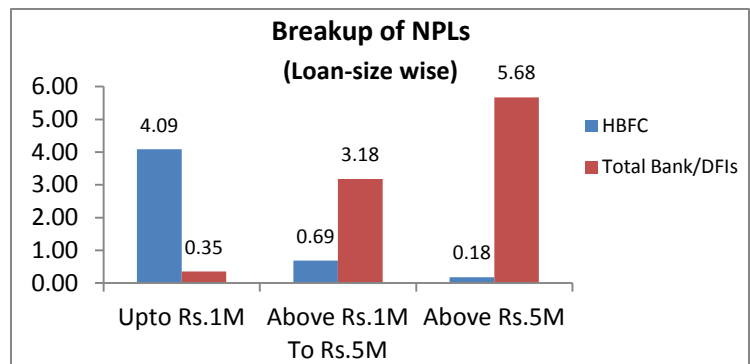


Figure 10 (Amount in Rs. Billion)



Number of Borrowers

Number of borrowers decreased from 75,627 to 70,368 since March 2014; a decline of 6.95 percent. As shown in Table 1, there was a decrease in number of borrowers in each category except in Islamic Banks.

Compared to previous quarter, number of borrowers decreased by 5.09 percent. Furthermore, excluding HBFCL, 19.22 percent of total borrowers of housing loans have been classified as non-performing.

Figure 11 (Number of Borrowers)

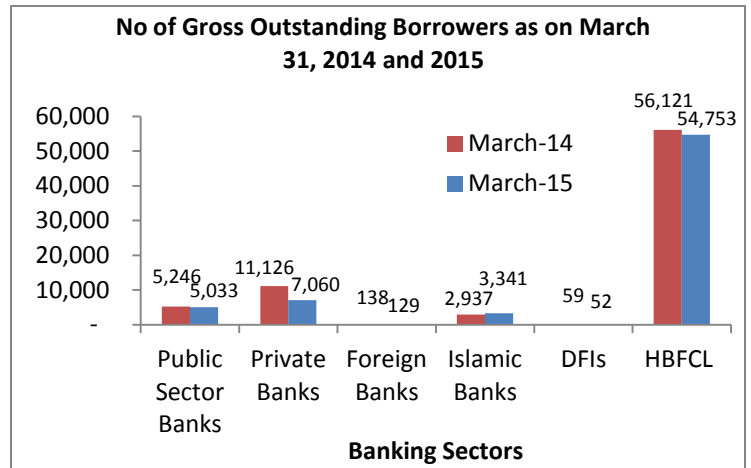


Table 1

Banks/ DFIs	March - 15				March - 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		
Public Sector	4,091	942	5,033	4,594	652	5,246		
Private Banks	5,392	1,668	7,060	9,272	1,854	11,126		
Foreign Banks	19	110	129	25	113	138		
Islamic Banks	3,071	270	3,341	2,640	297	2,937		
DFIs	40	12	52	47	12	59		
HBFCL	18,173	36,580	54,753	14,219	41,902	56,121		
Total	30,786	39,582	70,368	30,797	44,830	75,627		

Disbursements

Fresh disbursements of Rs. 3.3 billion (Figure 12) were made to 933 borrowers during the quarter ending March 31, 2015 (Table 2). Over the year, total disbursement made by banks & DFIs amounted to Rs. 15.4 billion. Islamic banks extended new disbursements with Rs. 1.82 billion followed by private banks with Rs. 590.36 million and public sector banks with Rs. 113.45 million. HBFCL's fresh disbursements (Figure 13) for the quarter were reported Rs. 748 million. Among commercial banks, the number of new borrowers totaled 390, with private banks serving 117 new borrowers and Islamic banks 223 customers. HBFCL extended loans to 543 new borrowers during the quarter under review.

Fresh disbursement for Islamic Banking Industry was Rs. 1.96 billion to 246 new borrowers during the quarter ending March 31, 2015. This includes new disbursements of Rs. 138.42 million to 23 customers by IBDs of conventional banks.

Figure 14 shows the disbursement break-up in terms of loan size. Commercial Banks/DFIs disbursed Rs. 1.69 billion (142 borrowers) in terms of loans above Rs. 5 million and Rs. 0.06 billion (49 borrowers) against the category up to Rs. 1 million.

Table 2

New Disbursements during the quarter ending March 31, 2015		
	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	113	50
Private Banks	590	117
Foreign Banks	-	-
Islamic Banks	1,820	223
All Banks	2,524	390
DFIs	-	-
HBFC	748	543
Total	3,272	933
Islamic Industry	1,958	246

Figure 12: (Amount in Rs. Billion)

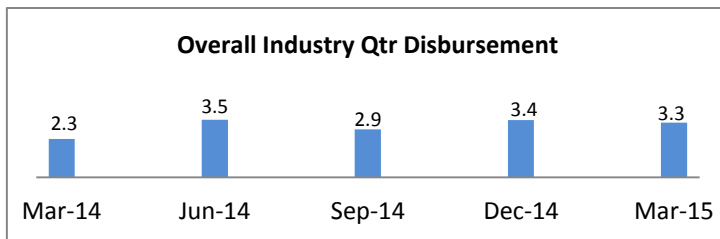


Figure 13: (Amount in Rs. Billion)

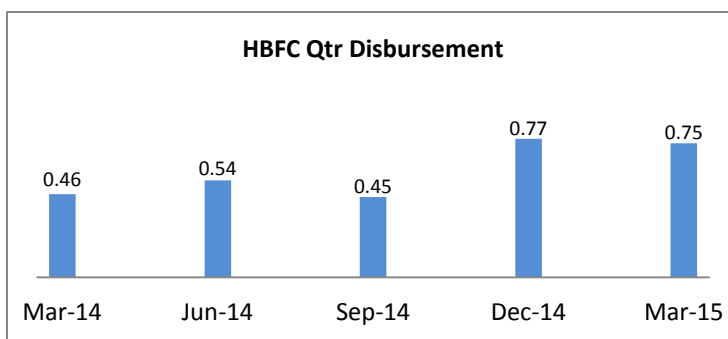
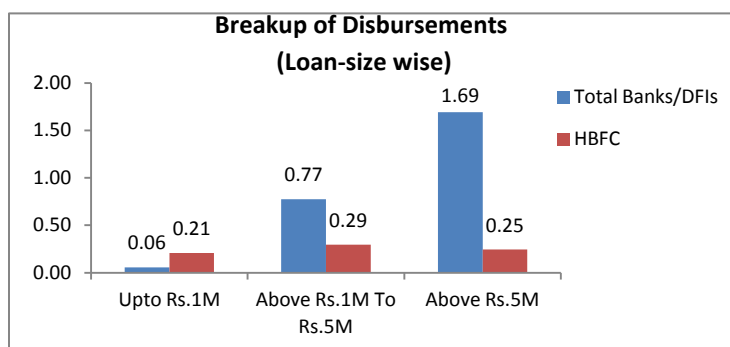


Figure 14 (Amount in Rs. Billion)

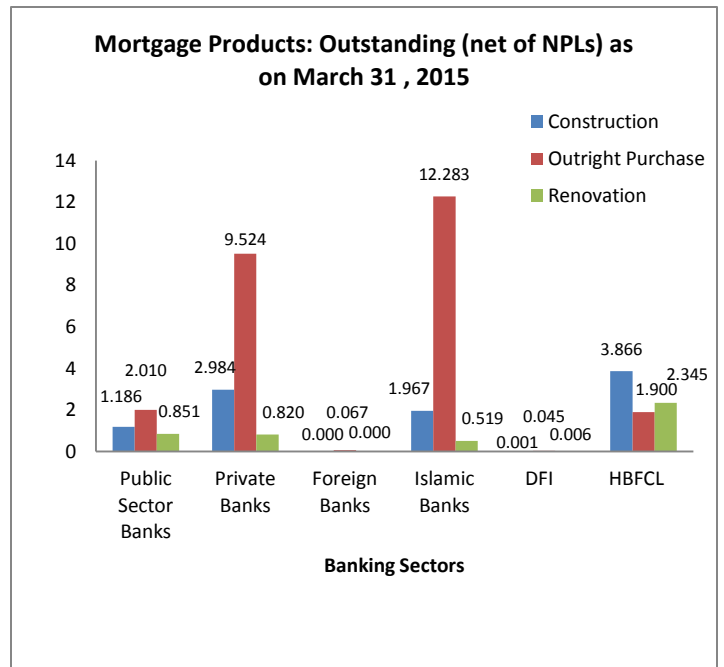


Products Category-Wise Share

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

The gross outstanding for 'outright purchase' stood at Rs. 25.83 billion as on March 31, 2015; a 63.97 percent share in total outstanding of Rs. 40.37 billion. This is followed by the 'construction' category where gross outstanding reported at quarter-end stood at Rs. 10 billion and that of 'renovation' stood at Rs. 4.54 billion. Active portfolio shows that Islamic banks took a lead in financing for outright purchase at 47.5 percent followed by Private Banks that have the share of 36.87 percent in outright purchase financing. HBFCL has taken lead in financing two sectors i.e. construction category 38.64 percent and renovation category 51.64 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 (%)				
		Mar-15	Dec-14	Sep-14	Jun-14	Mar-14
Public Sector Banks		13.7	13.7	14.0	14.0	13.7
Private Banks		10.8	10.8	13.2	11.7	10.8
Foreign Banks		14.0	14.0	14.0	14.0	14.0
Islamic Banks		13.4	13.4	13.1	13.2	13.4
All Banks		12.2	12.2	13.3	12.4	12.2
DFIs		-	-	-	-	-
All Banks & DFIs		12.2	12.2	13.3	12.4	12.2
HBFCCL		14.0	14.0	14.0	14.0	14.0
Total Average		13.1	13.1	13.7	13.2	13.1

Average maturity periods

Average maturity period of outstanding loans as on March 31, 2015 was 12.8 years. HBFCCL'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)				
		Mar-15	Dec-14	Sep-14	Jun-14	Mar-14
Public Sector Banks		10.0	10.0	10.0	12.0	6.3
Private Banks		13.6	13.6	13.6	13.7	11.5
Foreign Banks		12.5	12.5	12.5	12.5	12.5
Islamic Banks		11.2	11.2	11.2	11.2	9.9
All Banks		12.2	12.2	12.2	12.7	10.5
DFIs		-	-	-	-	-
All Banks & DFIs		12.2	12.2	12.2	12.7	10.5
HBFCCL		12.8	12.8	12.8	12.5	11.5
Total Average		12.8	12.8	12.8	12.5	11.5

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 HBFCCL was reported at 33.4 percent at the end of quarter Jan-March, 2015.

Table 5

		Loan to Value Ratio (%)				
		Mar-15	Dec-14	Sep-14	Jun-14	Mar-14
Public Sector Banks		46.7	46.7	46.7	46.7	46.7
Private Banks		33.2	33.2	33.2	30.4	28.7
Foreign Banks		45.3	45.3	45.3	45.3	45.3
Islamic Banks		38.9	38.9	38.9	42.1	39.0
All Banks		41.0	41.0	41.0	41.1	39.9
DFIs		-	-	-	-	-
All Banks & DFIs		41.0	41.0	41.0	41.1	39.9
HBFCCL		33.4	33.4	33.4	40.3	44.2
Total Average		37.2	37.2	37.2	40.7	42.1

Average loan size

Average loan size for disbursements made during the quarter ending March 31, 2015 (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)				
	Mar-15	Dec-14	Sep-14	Jun-14	Mar-14
Public Sector Banks	3.0	3.0	3.0	6.5	2.2
Private Banks	5.8	5.8	5.8	8.6	8.9
Foreign Banks	5.0	5.0	5.0	5.0	5.0
Islamic Banks	5.1	5.1	5.1	6.0	4.6
All Banks	5.1	5.1	5.1	7.5	6.9
DFIs	-	-	-	-	-
All Banks & DFIs	5.1	5.1	5.1	7.5	6.9
HBFCCL	2.5	2.5	2.5	2.6	2.2
Total Average	3.8	3.8	3.8	5.0	4.5

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The outstanding housing finance of Microfinance Banks (MFBs) remained Rs. 215 million as on March 31, 2015 which was Rs. 216.07 million at the end of previous quarter. It registered a decrease of 0.5 percent, over the last quarter.

Number of Borrowers

The number of outstanding borrowers decreased from 2,154 to 2,085 over the quarter; a decrease of 3.2 percent.

Non-Performing Loans

NPLs for MFBs were reported "nil" 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. 54.5 billion as of March 31, 2015.
- Amount of finance availed by employees of SBP, Banks and DFIs was Rs. 63.83 billion as of March 31, 2015.
- 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 March 31, 2015.

Special Section

Deputy Governor, SBP, elected as Chairman of Asia Pacific Union of Housing Finance (APUHF)

Mr. Saeed Ahmad, Deputy Governor, SBP has been honored with the position of Chairman, APUHF. APUHF is a platform to act as a knowledge sharing and networking medium. The forum intends to promote coalition and coordination among the South Asian Countries in determining their housing and housing finance solutions. APUHF members represent housing markets of Asia-Pacific region, which includes Indonesia, Malaysia, Philippines, Thailand, Japan, Afghanistan, Bangladesh, India, Srilanka and Mongolia.

APUHF also tracks the events and happenings in the housing markets globally. The forum focuses on initiatives taken by the different member countries in their own regional contexts. The users of the platform include member country institutions engaged in housing and housing finance such as housing finance institutions, construction agencies such as builders, co-operatives, Government agencies, policy and regulatory bodies, Central Banks, International Finance Institutions, etc.

The election of Deputy Governor, SBP on this worthy position signifies the recognition of regional community for the initiatives taken by SBP to promote Housing Finance in Pakistan.

In his message to APUHF members, Honorable Chairman has vowed to make Pakistan a leading contributor towards the cause of affordable housing in the region. He further assured to steer this forum towards accomplishing the goal of “Housing for All” in the region and ensured his full support and commitment to further strengthen the role of APUHF in Asia-Pacific region.

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