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## Federal Govt. agrees to take 20% stake in proposed Mortgage Refinance Company: Salim Raza

Syed Salim Raza, Governor State Bank of Pakistan disclosed today that the Federal Government has agreed to take 20 percent stake in the proposed Mortgage Refinance Company (MRC) – a joint initiative of the State Bank and the International Finance Corporation of the World Bank Group.

Delivering a keynote address at a seminar on housing sector organized by the Association of Builders and Developers of Pakistan (ABAD) at a local hotel in Karachi, Mr. Raza said that discussions are underway with the World Bank Group for seeking financial support both in the form of equity as well as credit line for MRC.

“We are also in the process of seeking equity commitments from commercial banks, being the primary mortgage lenders,” he said and added that MRC, apart from acting as a liquidity company for primary mortgage lenders, will also facilitate development of private debt market and open-up investment opportunities for long term institutional investors, such as pension and provident funds, and insurance companies, which are looking for diversification of their investment portfolios.

SBP Governor said that the refinance facility will assist in improving liquidity of the financial system and enable banks and housing finance companies to prudently match maturity profile of their assets and liabilities. ‘It will also pave the way for primary mortgage lenders to diversify their product base by exploring fixed rate or hybrid models of mortgages’, he added.

He said the central bank has embarked upon a number of key initiatives to strengthen the market-based housing finance mechanism for the development of housing sector in the country. The State Bank is fully cognizant of all issues and constraints surrounding the housing sector and it is taking a vanguard position for providing institutional arrangements and reforms for promotion of housing finance, he added

Mr. Raza said that to address issues of non-availability of complete and reliable information on housing and housing finance to consumers, the housing industry and other stakeholders for investments or financing decisions, SBP and the World Bank have planned to collectively work towards the establishment of a housing observatory. Similar institutions are acting as the hub of housing information in developed countries, he said and added that the Ministry of Finance has already issued a formal expression of interest to the World Bank in this regard.

“Considering the significance of market intelligence, we have stressed upon the commercial banks to enrich the housing finance sections of their websites to ensure that potential customers are well informed about their products and policies,” he said and added that the setting up of housing and housing finance information portal at industry level is also under consideration with features like relevant laws and regulations,

market/business trends, housing demand and supply position and mortgage locator. "This will enhance the general awareness level to assist in making well informed decisions and can serve as an efficient and effective tool," he added.

SBP Governor pointed out that the large-scale developer finance is another area which needs to flourish, if the country wants to see real and tangible growth in housing and housing finance sector. He said the large-scale developers can also be instrumental in promoting affordable housing through their economies of scale.

He said the State Bank is encouraging banks to establish business relationship with developers on the basis of their past performance and the commercial and financial viability of the real estate projects. He said the State Bank has provided the Association of Builders and Developers (ABAD) and the financial institutions with a common platform to iron out issues that lead to lack of appropriate financing for the developers from the formal financial system. "This is aimed at developing a sustainable and acceptable financing model for large-scale developers," he added.

Mr. Raza also talked about the capacity building initiative of SBP, which was initiated under the Cooperation Agreement signed between the SBP and IFC with a view to developing human capital that will play a critical role in ensuring sustainability of housing finance.

He reiterated that the State Bank will continue to give the housing and construction sector the desired impetus for it to attain its full potential. "We will continue to facilitate this sector and see the Mortgage to GDP ratio grows towards the desired and acceptable level, the SBP Governor added.

Pakistan, like other developing countries, faces a critical shortage of housing units. According to conservative estimates, there is already a backlog of around 8 million housing units, which is growing approximately by about 300,000 units every year. This backlog, together with inadequate housing facilities, has been seriously affecting the quality of life of the general public, especially the urban working class in Pakistan, Mr. Raza added.

He observed that after the emergence of commercial banks in mortgage business, the housing finance portfolio grew considerably from Rs 37 billion in 2004 to Rs.84 billion at the end of 2008. The just concluded year of 2009 was not very promising, as housing finance portfolio experienced a dip of 11% and now stands at Rs.74 billion, SBP Governor added.

Mr. Raza pointed out that the housing and construction sector of Pakistan has huge potential to make significant contribution in the overall economic development. "Through its higher multiplier effect, with a host of beneficial forward and backward linkages with more than 40 allied industries, Pakistan's housing and construction sector provides substantial employment opportunities, and can act as one of the key drivers of the economy, as has been the case in many developed and developing countries," he added.

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