



External Relations Department

ERD/M&PRD/PR/01/2021-95

September 02, 2021

State Bank issues guidelines to promote housing finance in under construction projects

To facilitate buyers of under construction housing units in obtaining housing finance, State Bank of Pakistan has issued guidelines for banks and DFIs that allow them to extend loans for under construction projects. Currently banks are reluctant to provide such financing which limits the options of home buyers that need financing to completed units. SBP's new guidelines provide a complete framework with necessary risk mitigation elements for the banking industry to support this area of housing financing. Essentially, the financing risk of banks will be secured through mortgage of project land based on specific arrangements with builders. The payments to builders will be routed through a specially created account (known as an escrow account) with no direct access to the seller until completion of construction milestones as agreed between financing banks and builders.

The purchasers of housing units availing housing finance will be able to enjoy a number of benefits. First, the purchasers will get the housing units in under construction projects which are relatively low cost compared to fully constructed units. Second, the strong monitoring and oversight by the banks will facilitate timely completion and transfer of possession to the purchasers. Third, housing units are new; the purchasers may bear lower maintenance and renovation costs for the initial few years. These benefits are expected to create incentives for buying under construction houses thereby creating demand for the construction industry.

Banks are reluctant to offer finance for purchase of housing units in under construction projects, as compared to completed projects. The prevalent market practices is that builders allow the purchasers of housing units to make periodic payments when construction begins against allotment letters which is a convenient process in enabling home ownership. However, banks do not provide housing finance against allotment letters. As a result, buyers are deprived of the opportunity of availing housing finance from banks and hence owning affordable housing units in the under construction phase of projects.

In addition, builders also complain that non-availability of housing finance from banks for the under construction projects reduces demand and slows development of new projects. With an increase in financing after issuance of these guidelines, such concerns will be addressed.

The SBP guidelines are a major step forward and are in line with State Bank's ongoing efforts to spur economic development through promotion of activity in housing and construction sectors. It is expected that housing finance of banks will see a significant growth in the near future. Apart from providing an opportunity to the borrowers to avail housing finance under 'Mera Pakistan Mera Ghar' in under construction projects, this will also help builders to enhance stock of new apartments/flats across the country.

For details please visit the following link:

<https://www.sbp.org.pk/smefd/circulars/2021/C10.htm>
