



External Relations Department

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SBP mandates Banks to use estimation models for assessing informal income to extend low cost housing finance

In order to facilitate low cost housing finance applicants with informal income, the State Bank of Pakistan (SBP) has asked banks to develop and deploy income estimation model for extension of low cost housing finance to such applicants. This measure is expected to ease difficulties being faced by general public in availing housing finance under Government's Markup Subsidy Scheme (G-MSS), commonly known as Mera Pakistan Mera Ghar.

Recently, the Pakistan Banks' Association (PBA), through a consultative process, has developed and circulated among banks a baseline income estimation model. The purpose of this model is to assess income and repayment capacity on the basis of routine expenditures like house rents, utility bills and educational expenses etc. of a potential borrower who earns from informal sources.

SBP has advised banks to use PBA's baseline model, customize the same, or develop their own income estimation model. Banks are required to confirm within 4 weeks that they have made their informal income proxy models operational. The availability of these models is expected to greatly enhance prospects of informal income applicants to secure housing finance from the banks. With this move, it is expected that financially excluded segment will be able to avail financing under G-MSS. On the other hand, this tool will enable banks to expand their outreach and cater to the financing needs of people having informal sources of income. For details, please see the circular at:

<https://www.sbp.org.pk/smefd/circulars/2021/C7.htm>

It is worth mentioning here that the SBP, with the support of banking industry, is working to reduce the hurdles being faced by the general public to availing housing finance under G-MSS. A number of steps have already been taken to make this facility available to general public, especially low cost housing finance applicants. These steps include relaxation of debt burden ratio, extension of housing finance against personal guarantee, development of online complaint resolution portal and establishment of banks' joint call center to address queries. Further, standardization and simplification of i) loan application form ii) facility offer letter and iii) documentary requirements for approval and disbursement are also proving beneficial for the applicants under G-MSS. As of June 15, 2021, banks have received applications of around Rs. 90 billion against which an amount of around Rs. 30 billion has already been approved whereas banks are processing rest of the applications.
