



Annexure I of IH&SMEFD Circular No. 6 of 2019

Islamic Financing Facility for Low Cost Housing for Special Segments

In order to make available SBP's "Financing Facility for Low Cost Housing for special Segments" to Islamic Banking Institutions (IBIs) and Islamic DFIs (collectively referred as Participating Islamic Financial Institutions – PIFIs), a Mudarabah based "Islamic Financing Facility for Low Cost Housing for Special Segments" is also being launched. Under this facility, SBP acting as Rab-ul-Maal shall make Mudarabah investments in general pool of PIFIs. Mudarabah investment shall be available for up to 100% of the amount financed to eligible customers. The exposure of SBP shall be on all assets of the PIFI's general pool to the extent of SBP's investment, and therefore shall not be limited to the assets financed under the scheme.

This document comprises of the following two main sections:

- 1. The Facility**, containing details of the scheme pertaining to scope of the scheme, eligibility criteria, participating IFIs, assigning financing limits for PIFIs, tenor and size of financing, period of investment and payments, grant of financing and disclosure requirements.

This section also covers the Shariah structure of the facility which discusses the disbursement of funds from SBP to PIFI under Mudarabah, investments being part of the general pool of assets of PIFI, expected return on financing and investment, distribution of profit/loss and Islamic Housing Finance Scheme Reserve Fund.

- 2. Regulatory instructions** which contain instructions of the State Bank of Pakistan for PIFIs to follow under this scheme such as risk assessment, penalties and general terms and conditions.

1. The Facility:

1.1. Scope of the Scheme:

House Finance under this scheme will be available to individuals under following categories only:

- Widows,
- Children of martyrs (Shaheed) of law & enforcement agencies and armed forces and civilians martyred in terrorist attacks,
- Disabled persons holding CNIC with disability logo/ symbol,
- Transgender and
- Persons who desire to construct (including plot purchase) housing units in the Mohmand, Bajaur, Orakzai, Kurram, Khyber, North Waziristan and South Waziristan districts of Khyber Pakhtunkhwa.

1.2. Eligibility Criteria:

Individuals in the above categories will be eligible to avail financing subject to following conditions:

- The customer must not own any housing unit/flat/apartment.
- The customer must not have availed housing finance previously from any bank/DFI.



- c. The financing shall be available only for construction (including plot purchase) of new housing units.
- d. Maximum value of the housing units, being financed under this scheme, shall be PKR 3 million (including plot value).
- e. Sale or renting out of housing unit, financed under this scheme, shall not be allowed until full adjustment of outstanding finance or 5 years after the date of first disbursement, whichever is earlier. The terms for sale or renting out of housing unit, after 5 years of first disbursement will be governed under Shariah rules as prescribed under facility agreements and PIFI's product.

1.3. Participating Islamic Financial Institutions (PIFIs):

- a. All Islamic Banking Institutions (IBIs) including full-fledged Islamic banks, Islamic banking subsidiaries and Islamic banking branches of conventional banks and all DFIs having authorized Islamic financing operations (IDFIs) under permission of SBP may participate in the facility, collectively referred to as PIFIs for the purpose of this facility.
- b. Islamic banking branches of conventional banks / DFIs may also participate in the scheme by applying to SBP for allocation of sub-limit, subject to a maximum of 30% of the parent bank's limit under the Financing Facility for Low Cost Housing for Special Segments, for utilization by Islamic banking branches under this scheme. SBP may consider request for enhancement of the ceiling of 30% on case-to-case basis depending upon the merit of each request and keeping in view size and operations of the Islamic banking business of the PIFI.
- c. The financings under the facility shall be allowed, subject to eligibility criteria given above, for the housing finance product (s) designed by the PIFI on the basis of permissible Islamic modes of financing (specified under Section E of Annexure I. of IBD Circular No.02 of 2008, as amended from time to time), and approved by the Shariah Board of concerned PIFI.

1.4. Assigning Financing Limits for PIFIs:

- a. Yearly limits shall be allocated / assigned to individual PIFI under the Scheme.
- b. The limits shall be allocated for each fiscal year from 1st July to 30th June.
- c. Applications for sanction of limits for each fiscal year (July-June basis) shall be sent by the interested PIFI to the Director, Infrastructure, Housing & SME Finance Department, latest by 15th May each year to facilitate sanction of annual limits, well in time. For the current year the request for sanction of limits may be submitted within 30 days from the date of issuance of this circular.
- d. After sanction of limits for each fiscal year, the PIFI shall submit a duly executed agreement for availing the facility as per prescribed format (IHFS: 1 - Master Mudarabah Agreement) along with the names of offices of SBP BSC from where it intends to avail the facility.
- e. SBP shall review the utilization of limits by the PIFIs periodically and may cancel the unutilized limit for reallocation to other PIFIs. No PIFI shall sanction financing with a view to merely utilize the limit under the scheme.



1.5. Tenor and size of Financing:

- a. The Mudarabah investment in the general pool under this facility shall be available for up to 100% of the amount financed to eligible customers under the scheme.
- b. Maximum financing of a PIFI to a single customer shall not exceed PKR 2.7 million.
- c. The financing for plot, to be purchased for the purpose of constructing house shall be allowed up to PKR 1 million.
- d. Financing shall be available for a maximum period of 12½ years, including maximum grace period of six months.

1.6. Period of Investment and Payments:

- a. The Mudarabah investment made with the PIFIs shall mature on the due date agreed with SBP. Mudarabah investment redemption schedule shall be prepared based on the retirement of financial obligation/redemption by each customer under the facility.
- b. SBP is authorized to deduct such amount from outstanding Mudarabah investment balance in the general pool, determinable as per “Instructions for Profit & Loss Distribution and Pool Management for Islamic Banking Institutions” issued vide IBD Circular No. 3 dated November 19, 2012, as amended from time to time. SBP shall recover such amount from the accounts of PIFI maintained with the respective offices of the SBP BSC.
- c. In case a customer pays the financing amount or its installment, in part or in full, before the due date(s), SBP’s share in the general pool will be redeemed equal to the payments so received from customer. PIFIs shall adjust the financing amount received from the customer by purchasing the SBP’s proportionate share in the general pool immediately, but not later than fifteen (15) working days, from the concerned office of SBP BSC, failing which the SBP shall also be given the profit, as per the actual profit of the general pool, for the number of days this proportionate share is not purchased by the PIFI. However, no penalty shall be charged either from PIFI or its customer in case of payment of financing amount or installment, in part or in full, before due date.

1.7. Grant of financing:

- a. SBP shall make Mudarabah investments in PIFIs on the basis of Section 17 (6B) of the SBP Act 1956.
- b. Investment shall be made in the PIFIs by the concerned office(s) of SBP BSC on submission of documents as may be required by State Bank. The documents initially required; as listed below, are attached herewith.

1.8. Disclosure in Annual Audited Accounts:

- a. The external auditors of the PIFI shall, during the course of annual audit, verify compliance of the PIFI with the terms and conditions of the scheme, specially relating to SBP’s share in Mudarabah investment, profit calculations and payments made on SBP’s Mudarabah investment. A ‘Certificate of Compliance’ shall be issued to the PIFI and a copy thereof should be sent by PIFI to the SBP (concerned department).



- b. These facts shall be disclosed separately under appropriate heads, in the annual audited financial statements of the PIFI, the aggregate amount of Mudarabah investment made by SBP in such PIFI, as may be outstanding and payable by it, on the date of the preparation of its financial statements.

1.9. Shariah Structure of the Facility:

1.9.1. Disbursement of Funds from SBP to the PIFI under Mudarabah

- a. After making disbursement(s) under this scheme the PIFI shall approach concerned office of SBP BSC for obtaining Mudarabah investment for up to 100% of the amount disbursed/financed to the customer on case to case basis for each financing.
- b. The PIFI shall also submit repayment / payment schedule of each financing. The repayment / payment schedule shall contain segregation of amounts accounted towards principle redemption and income / profit in each instalment, as per PIFI's Islamic accounting policy for relevant mode / product.
- c. Investment shall be made in the PIFIs by the concerned office(s) of SBP BSC on submission of following initial documents, as attached herewith the scheme:
 - i. **IHFS: 1** - Master Mudarabah Agreement [to be submitted only at the time of approval of annual limits]
 - ii. **IHFS: 2** - Mudarabah Investment Request Form
 - iii. **IHFS: 3** - Debit Authority [to be submitted only once a year to the extent of total limit]
 - iv. **IHFS: 4** - Copy of undertaking to be submitted by the customer
 - v. Copy of financing documents / agreement executed between PIFI and customer (inclusive of repayment / payment schedule)
- d. The above prescribed documents for requesting Mudarabah investment from SBP BSC shall be duly signed by the authorized officials of the PIFI and verified by the internal audit department of the PIFI.
- e. SBP BSC office shall provide Mudarabah investment within three working days from the date of receipt of request and complete documents against the financing disbursed by the PIFI to the eligible customers under the scheme.

1.9.2. Investments being Part of the General Pool of Assets of PIFI:

- a. The funds obtained from SBP shall be part of the PIFI's general pool and thus shall be subject to the risks and rewards of the pool's assets like other depositors of the pool.

1.9.3. Expected Return on Financing and Mudarabah investment:

- a. The expected rate of return / profit / rentals on financing provided by the PIFIs to their customers may not exceed rates announced by SBP on similar refinance facilities from time to time.
- b. The expected rate of return on financing once fixed shall remain locked-in for the entire duration of the financing, provided that the financing continues to be regular as per the Housing Finance PRs. In case the customer(s) fails to make payment of the



amount of installment as per the original payment schedule, provisions of the late payments as stipulated in the underlying financing agreement with the customer shall apply for the overdue period besides taking other actions to recover the same as per its approved policies for recovery in similar cases.

- c. Further, SBP expects profit rate/return on its Mudarabah investments with PIFIs to be close to its return on such type of refinance facilities.

1.9.4. Distribution of Profit / Loss:

- a. SBP's investment in the general pool, under this scheme shall be assigned profit sharing ratio and weightage keeping in view SBP's expected rate of return as well as PIFI's policy and practice for such type of depositors in the general pool. This weightage shall be used to calculate profits on the SBP investments under the facility.
- b. At the end of every month, but not later than the 7th working day of the following month, after calculating the actual profit of the general pool by the PIFI, SBP's share of profit will be transferred to SBP on monthly basis, including during the grace period, if any.
- c. The determination of profit will be made in line with "Instructions for Profit & Loss Distribution and Pool Management for Islamic Banking Institutions (IBIs)" issued vide IBD Circular No.3 dated November 19, 2012, as amended from time to time.

1.9.5. Islamic Housing Finance Scheme Reserve Fund – (RF-IHFS):

- a. SBP shall create a Reserve Fund at SBP BSC (Bank) from its share in profits of the scheme. If in any month, SBP's share in profit is more than the expected return; such excess profit shall be transferred to the RF-IHRS. The PIFIs shall advise the SBP BSC offices accordingly, within 7 working days of close of month, by issuing separate advice for transfer of excess amount into 'IHFS Reserve Fund.'

1.9.6. Loss Sharing:

- a. If at any time the general pool of a PIFI suffers a loss, it shall be borne by all the depositors / fund providers of the general pool, including SBP, to the extent of their respective ratios of investments in the general pool.
- b. The PIFI will be responsible for any loss incurred to SBP under this facility, if the said loss is subsequently proven to have been caused on account of negligence/misstatement and/or misrepresentation, on the part of PIFI.

2. Regulatory Instructions:

2.1. Risk Assessment:

- a. Each PIFI shall be required to have robust internal controls to protect the interests of depositors/Rab-ul-Maal and PIFI and to fulfill all requirements / conditions of housing financing including collateral requirements to mitigate the risk of customers' failure to honor their commitments. The risk assessment policy should



provide well-defined methodologies for assessing the financial fitness of prospective customers.

- b. PIFIs shall undertake necessary due diligence process as per their financing policies, approved by the Shariah Board and Board of Directors, before sanctioning the financing facility under the scheme and ensure compliance with all applicable prudential regulations and SBP instructions.
- c. In addition, the PIFIs shall adhere to their internal credit risk rating policies developed in compliance with SBP's Guidelines on Internal Credit Risk Rating Systems issued vide BSD Circular No. 8 of 2007.

2.2. Penalties:

- a. SBP, in its capacity as the regulator, shall have the right to appoint an independent consultant to verify that the conditions of the scheme are properly fulfilled/ complied with by PIFI.
- b. In case the report of the consultant points out irregularities on the part of the PIFI or the customer, SBP reserves the right to redeem the amount of Mudarabah investment made with the PIFI along with penalty at the rate prescribed in sub clause 2.2 (f) below including the cost of such verification.
- c. It will be the responsibility of the PIFIs to secure their interest and the interest of depositors/investors in this regard, however, in no case fine imposed on PIFI due to its negligence shall be passed on to the customer. In case, any PIFI passes on the fine to the customer, the PIFI shall be under obligation to justify the same to ensure that the fine is not passed on to the customer merely on the strength of the action of SBP.
- d. Notwithstanding anything contained in clauses 2.2 (a, b & c) above, in case the customer(s) fails to repay / pay the amount of installment as per the original repayment / payment schedule, the delay would trigger collection of charity amount from the customer as per the undertaking given by the customer. Any charity amount collected by the PIFI from customers relating to the delay in payment of financings under the scheme will be given by the PIFI in charity as per SBP's instructions on the matter. However, in some modes of financing the PIFI has a right, under Shariah principles, to take additional amount in cases of delays and defaults, e.g. as rent on un-purchased share in underlying asset. The same shall be subject to prior approval of PIFI's Shariah Board.
- e. The customers shall continue to remain liable for payment of fines/penalties on account of their non-performance/non-compliance to the requirements of the scheme. Such fines/penalties as and when recovered, from the customers shall invariably be passed on to SBP by the concerned PIFI. The failure of the PIFIs on this account shall be construed as their non-compliance of the scheme, and would attract punitive measures as prescribed by SBP.
- f. In case of violation of the terms & conditions laid down in the Scheme, SBP shall reserve the right to recover the outstanding Mudarabah investment with the PIFI, or part thereof along with fine at the rate of Paisa 60 per day per Rs 1000/- and the cost of verification as stated in sub clauses 2.2 (a & b) above.



2.3. General Terms & Conditions:

- a. The PIFIs shall submit their operational/process manual of the scheme to the IH&SMEFD of SBP for information and review before launching the scheme/seeking limits and shall reasonably address the observations if any raised by the department.
- b. PIFIs shall ensure that financing proceeds are used exclusively for the purpose it is approved. They shall also ensure that customer has fulfilled pre-disbursement formalities, through due diligence as per their own internal arrangements to avoid malpractices and misutilization of funds under the Scheme.
- c. PIFIs shall provide financing facilities to the prospective customers as per their financing policies duly approved by their Board of Directors and Shariah Board. Further, financing shall be subject to compliance with all rules, regulations and instructions, including Shariah compliance related instructions etc. as prescribed by the State Bank, from time to time. PIFIs shall also ensure compliance, in all their financings, to the Shariah principles, process flows and product structure etc. as approved by their respective Shariah Board, in line with SBP's instructions and guidelines, issued from time to time.
- d. In no case the liability of PIFI to pay to SBP BSC, its net outstanding Mudarabah investment amount or profit thereon shall be dependent upon the recovery from the customers under this scheme, nor shall such liability be affected by any default on the part of the customers. However, all such liabilities will be subject to fulfilment of conditions / mechanism defined in Sections 1.9.4 above.
- e. The PIFIs shall not take more than two weeks in evaluating an application for financing under the scheme after receiving complete required documents. Where the request is declined, the PIFI shall explicitly apprise the prospective customer, in writing, the reasons for rejecting the application.
- f. Financings under the Scheme shall be reviewed by SBP's Banking Inspection Department (BID) during inspection of the PIFI to ensure that the same has been allowed as per the terms and conditions of the Scheme.
- g. Where a PIFI considers the requests of their customers for rescheduling of financings granted under the Scheme, the principal amount of refinance shall only be rescheduled in a way that total maturity of SBP's Mudarabah investment under the Scheme does not exceed maximum period of 12½ years from the date of 1st disbursement made by the PIFI. Further, the customer shall be liable to make payment of profit / rental etc as the case may be at the rate applicable for similar refinancing facilities on the date of such rescheduling, or the original rate whichever is higher.
- h. In case of early repayment / payment of principal / installments or rescheduling of financing, the concerned PIFI shall be required to submit revised repayment schedule of that financing.
- i. The Mudarabah investment under the Scheme shall be available for financings sanctioned from the date of issuance of this circular and up-to December 31, 2023.
- j. PIFIs should ensure adequate training arrangements for the staff/officials handling cases under the scheme with a view to ensure compliance with internal rules/regulations/procedures and those prescribed by SBP.
- k. The Scheme can be amended as per the instructions issued by SBP from time to time.
