

Government Markup Subsidy Scheme (G-MSS) for Housing Finance Markup Subsidy Payment Mechanism (MSPM)

Government of Pakistan has Markup Subsidy Scheme to provide concessional housing finance thereby promoting home ownership. State Bank of Pakistan has issued necessary instructions to all commercial banks, microfinance banks and HBFCL (Executing Agencies (EAs)) through IH&SMEFD Circular No. 03 dated March 25, 2021 and revised instructions thereof issued from time to time. All loans disbursed under the subject scheme shall be reported to SBP under housing finance.

Under the Scheme, loans are segregated into four tiers:

- i. Tier 0 (T0) - (a) House up to 125 sq yds (5 Marla) and (b) flat/apartment with maximum covered area of 1,250 sq ft.
- ii. Tier 1 (T1) - (a) House up to 125 sq yds (5 Marla) with maximum covered area of 850 sq ft and (b) Flat/apartment with maximum covered area of 850 sq ft.
- iii. Tier 2 (T2) - (a) House up to 125 sq yds (5 Marla) and (b) flat/apartment with maximum covered area of 1,250 sq ft.
- iv. Tier 3 (T3) - (a) House up to 250 sq yds (10 Marla) and (b) flat/apartment with maximum covered area of 2,000 sq ft.

Pricing for Housing Loans

Loan Tiers	Customer Pricing	Bank Pricing
Tier 0	5% for first 5 years & 7% for next 5 years	1 Year KIBOR + 700 BPS
Tier 1	3% for first 5 years & 5% for next 5 years	1 Year KIBOR + 250 BPS
Tier 2	5% for first 5 years & 7% for next 5 years	1 Year KIBOR + 400 BPS (Spread may vary)
Tier 3	7% for first 5 years & 9% for next 5 years	
For loan tenors exceeding 10 years, market rate i.e. bank pricing will be applicable for the period exceeding 10 years.		

Procedure for loans disbursements and availing markup subsidy:

EAs shall evaluate financing applications of customers as per parameters of Markup Subsidy Scheme for Housing Finance approved by the Federal Cabinet and circulated by the State Bank of Pakistan to all banks/DFIs vide IH&SMEFD Circular No. 03 dated March 25, 2021 and revised from time to time. The financing facility for a borrower shall be sanctioned and disbursed by the EA after completion of documentation formalities. These financing shall be entitled for markup subsidy as prescribed above. No further evaluation on eligibility of borrowers would be conducted by the State Bank of Pakistan.

Calculation of Equally Monthly Installment (EMI) for Borrower

1. For first five years EMI, amortization schedule would be prepared for full tenor of financing at markup rate i.e. 3%, 5% or 7% depending upon the financing tier.

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2. EMI for next five years i.e. 6th year to 10th year would be on the basis of amortization schedule prepared at the applicable subsidized markup rate (i.e. 5%, 7% or 9% depending upon the financing tier) on outstanding principal for remaining financing tenor.
3. After 10th year of financing, EMI would be calculated on the basis of amortization schedule at applicable markup rate.

Calculation of Markup Subsidy for Banks

1. After calculating the EMI for end user, the EAs will calculate the difference to be paid by Government of Pakistan by applying the difference between 1-Year KIBOR + spread and end user markup rate on the outstanding principal.
2. The banks will calculate the subsidy for the period of markup subsidy i.e. 10 years.

Example of calculations is attached as *Annexure A*.

Mechanism for Payment of Markup Subsidies: Payment of subsidy to EAs will be made through SBP's operational arm viz. Development Finance Support Department (DFSD), SBP BSC, Head Office, Karachi.

EAs shall prepare and submit claims on quarterly basis to DFSD for receiving government markup subsidy on outstanding principal amount of their performing housing finance portfolio up to expiry of each individual loan. In case of a loan becoming non-performing, no markup subsidy will be paid after being classified as 'Loss' as per SBP PRs for Housing Finance. The EAs claims shall contain particulars of each individual loan along with calculations of subsidy based on relevant 1-year KIBOR used. For the sake of simplicity, EAs shall assign unique number to each loan i.e. "Bank Name—Loan Number" (ABC-12345678). The markup subsidy claim should be duly vetted by internal audit department of the EA. The audited claim along with a certificate from EA relating to eligibility of borrowers for the subject scheme and correctness of the subsidy amount shall be submitted to DFSD within 15 working days after the end of respective quarter for payment of subsidy. The claims shall be submitted to DFSD as per the format attached as *Annexure B (Annexure B-1 for Banks/DFIs and Annexure B-2 for MFBS)*.

DFSD, SBP BSC shall scrutinize subsidy claim of EAs within 15 working days after receipt of complete information from EAs. DFSD shall ascertain that calculations of EAs subsidy claim are correct and applicable KIBOR has been used by the EAs. Thereafter, DFSD shall submit scrutinized claims to Accounts Department, SBP BSC for release of funds, through Karachi Office, to respective EA account maintained with SBP BSC, Karachi from Government account 'Non-Food Account 1'.

Banking Inspection Department of State Bank during regular inspection of the EAs shall conduct inspection of their housing finance portfolio on sampling basis using its own sampling techniques. SBP inspectors shall randomly select credit files and review them from the perspective of eligibility of borrowers under the Program, status of loan (regular or NPL) and GOP subsidy claim. The BID inspection report section on 'Markup Subsidy on Housing Finance' shall be used as an important input for reviewing the Scheme and assessing its effectiveness in fulfilling the Government objective of promoting home ownership in the country.