Quarterly Housing Finance Review

The Infrastructure, Housing & SME Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ending June 30, 2013. This review contains data on housing finance, collated on a periodic basis from public sector banks, private banks, foreign banks, DFIs and House Building Finance Company Limited (HBFCL). It portrays trend of different parameters like disbursements, outstanding and recoveries. Some news pertaining to housing & housing finance have also been presented in it.

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State of Housing Finance

Rapid urbanization in Pakistan has resulted in increasing the deficit of housing units. As per World Bank[1] studies in year 2009, there was a backlog of 7.5 million housing units in Pakistan which is accumulating by 0.35 million per year. Studies indicate that most of the housing finance is arranged through personal sources. The formal financial sector caters to only one to two percent of all housing transactions in the country, whereas informal lending caters to 10-12 percent of such transactions.

Although Pakistan has laws for land registration and transfer, the process is cumbersome at times, because of number of institutions involved. The reforms in the property titling and land administrative procedures including improvements of the legal provisions, standardization of processes, and computerization of all relevant revenue records will help enhance financing from the formal sector. Though the *Financial Institution Recovery Ordinance, 2001* empowers the financial institutions in case of default to foreclose a mortgage property without recourse to the court of law, its effectiveness lies in strict implementation.

Land records are manually maintained leading to errors and omissions especially in rural and some urban areas. Resultantly, they have modest commercial value for the mortgagee financial institutions. The lack of efficient and reliable system of ascertaining the bona-fide of property titles has forced banks to limit the access of housing finance to a certain number of urban localities within the urban centers.

Majority of builders and developers are working as sole proprietorships or in partnerships with limited capital and informal corporate governance structures, which gives rise to illegal construction, unreliable building permits, and legally unprotected advance purchase of units. The unstructured and unsupervised nature of business of real estate brokers/agencies, which could serve as natural arrangers for provision of financial services, is also a significant constraint to the provision of housing and housing finance. Consequently, it is difficult for financial institutions to verify the character, capital, and capacity of potential clients. Risk assessment and portfolio valuation is also fragile, which is another factor for the lenders' caution. As a result, financial institutions are reluctant to enter this market, which in turn causes scarcity of finance and constraints in the supply of housing.

At present, commercial banks, House Building Finance Company Limited (HBFCL) and two microfinance banks are catering to the housing finance needs. HBFCL is the only specialized housing bank in the country providing housing finance since 1952, while commercial banks entered the mortgage business in 2003. Although HBFCL's share in the total housing finance has reduced in absolute terms, it is still the only institution that continues to cater to the lower-middle and low-income groups and enjoys the largest customer base.

After registering a promising growth trend till 2008, the housing finance sector has been showing declining trend afterwards. The gross outstanding reported by banks and DFIs (including HBFCL) as of June 30, 2013 was Rs. 52.24 billion. It was Rs. 57.1 billion as of June 30, 2012 showing a decline of Rs. 4.8 billion (8.5 percent) over the year and Rs. 52.6 billion at the end of March 31, 2013. The total number of outstanding borrowers also decreased from 87,059 to 79,478 over a year; showing a fall of 8.7 percent and 3.5 percent decline when compared to last quarter. Non-performing loans decreased from Rs. 19.1 billion (June 30, 2012) to Rs. 17.6 billion (June 30, 2013); a 7.6 percent decrease over the year. The stock of NPLs as on March 31, 2013 was Rs. 18.36 billion.

[1] See "Expanding Housing Finance to the Underserved in South Asia Market Review & Forward Agenda" by Tatiana Nenova, World Bank

Around 722 new borrowers were extended house finance during the quarter (Apr-Jun, 2013), accounting for Rs. 3.03 billion of new disbursements. HBFCL accounted for 35 percent of these new borrowers and contributed 12 percent of the new disbursements equivalent to Rs. 354 million.

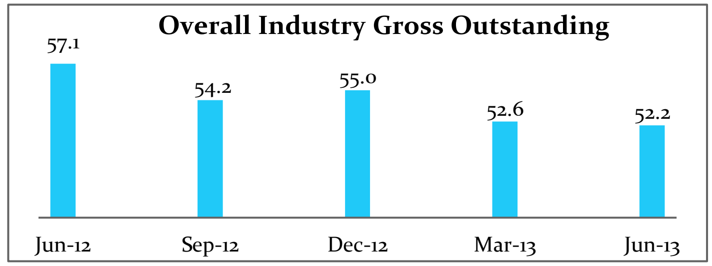
Major Trends

Gross Outstanding

The Gross outstanding reached to Rs. 52.2 billion, decreased by one percent (Rs. 400 Million) over last quarter

The gross outstanding finance as on June 30, 2013 of all banks and DFIs stood at Rs. 52.2 billion (Figure 1), compared to Rs. 57.1 billion as on June 30, 2012, showing a decrease of Rs. 4.8 billion (8.5 percent).

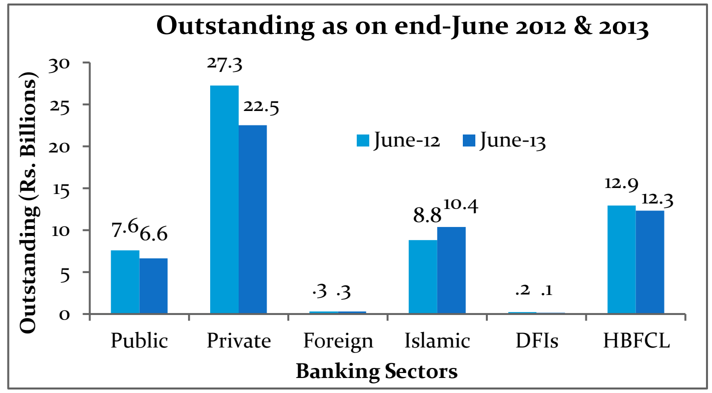
Figure 1 (Amount in Rs. Billion)



The Gross outstanding of the banking sectors decreased over the year except for Islamic Banks which showed an increase of 17.7 percent and reached to Rs. 10.4 billion by the end of June 2013.

Banking sector-wise total outstanding on quarters ending June 2012 and 2013 are shown in Figure 2. Of the total outstanding as of June 30, 2013, commercial banks accounted for Rs. 39.8 billion; a 17.7 percent decline since quarter ending June 30, 2012. Private banks reported Rs. 22.5 billion followed by Islamic banks at Rs. 10.4 billion, public sector banks at Rs. 6.6 billion and foreign banks with Rs. 0.3 billion. The outstanding loans of HBFCL were Rs. 12.3 billion; down by 4.7 percent over the last year. Other DFIs had a meager share of Rs. 0.2 billion in outstanding loans.

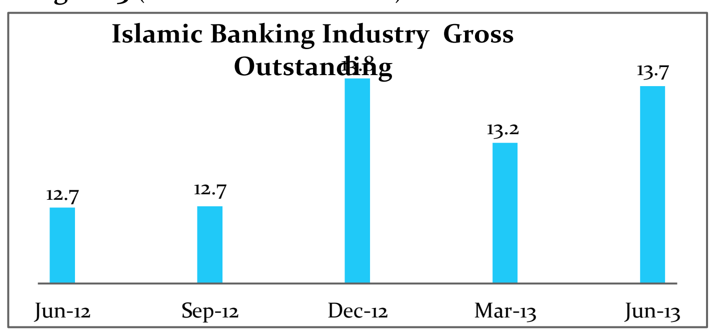
Figure 2



The gross outstanding of Islamic Banking industry showed an increase of Rs. 492 million (four percent) over the quarter.

The gross outstanding housing finance as on June 30, 2013 of Islamic Banking Industry (Five Islamic Banks (IBs) & 12 Islamic Banking Divisions (IBDs) of Conventional Banks) stood at Rs. 13.7 billion. Compared to quarter ending June 30, 2012, gross outstanding of Islamic banking Industry increased by eight percent (Rs. 1.1 billion) as shown in Figure 3.

Figure 3 (Amount in Rs. Billion)



The Gross outstanding of IBs increased by four percent and of IBDs decreased by seven percent over the quarter.

Of the gross outstanding Islamic housing finance, Islamic banks accounted for Rs. 10.4 billion (17.7 percent increase over the year). IBDs of conventional banks posted Rs. 2.83 billion (13 percent decline since quarter ending June 30, 2012).

The share of HBFCL and private banks decreased by one percent to 23 percent and 43 percent respectively over the quarter. The share of Islamic Banks increased to 20 percent from 18 percent over the quarter. Furthermore, the share of public sector banks, foreign banks remained same at 13 percent and one percent respectively

The market share of Conventional Banking (excluding HBFCL) decreased by one percent over the quarter. Furthermore, the share of Islamic Banking industry increased by one percent over the quarter.

Share of Banks

The overall market share (based on gross outstanding) of commercial banks (excluding DFIs) decreased marginally from 78 percent to 76 percent compared to the corresponding period last year. Within commercial banks, the share of Public Sector banks in the total outstanding remained unchanged at 13 percent and the share of HBFCL in the total outstanding increased from 22 percent to 24 percent over the year. The share of Private Sector banks decreased to 43 percent from 49 percent over the year. The share of Islamic banks increased to 20 percent from 15 percent and the share of Foreign Banks remained unchanged at one percent over the year as shown in Figure 4.

The share of Conventional Banking (excluding HBFCL), Islamic Banking Industry and HBFCL in the total outstanding was 50 percent, 24 percent and 26 percent respectively as on June 30, 2013 (Figure 4.1). IBDs (12 windows) and Islamic banks (05 banks) have 24 percent and 76 percent share respectively (IBDs share decreased to 24 percent from 30 percent over the year) in housing finance portfolio of Islamic Banking Industry (Figure 4.2).

Figure 4

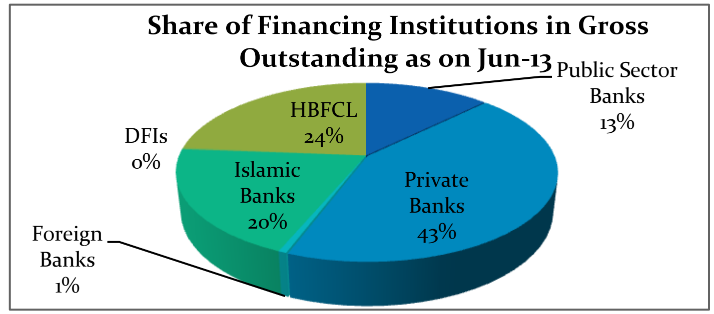


Figure 4.1:

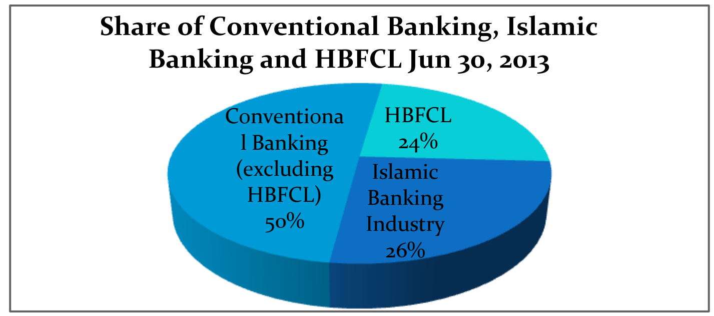
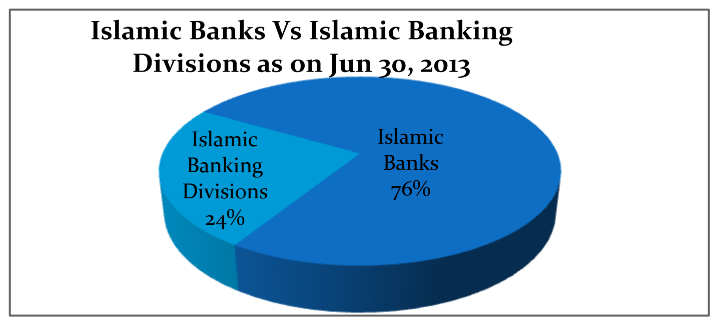


Figure 4.2:



Non-Performing Loans (NPLs)

The stock of NPLs as on June 30, 2013 was Rs. 17.61 billion, showing a four percent decrease over the yester quarter (Jan–Mar, 2013).

NPLs decreased from Rs. 19.1 billion (June 30, 2012) to Rs. 17.6 billion (June 30, 2013); a 7.6 percent (Rs. 1.5 billion) decrease during the year as shown in Figure 5. Figure 6 shows a comparison of existing NPLs status of different banking sectors with last year. Figure 7 compares NPLs as a percentage of outstanding portfolios at the end of quarters on June 30, 2013 and June 30, 2012. NPLs as a proportion of total outstanding have witnessed an increasing trend over the last twelve months. This overall rise in NPLs is primarily due to decreasing outstanding with low disbursements.

HBFCL's NPLS showed a decrease of Rs. 300 million (four percent) over the yester quarter ended March, 2013.

HBFCL's NPLs decreased from Rs. 7.7 billion to Rs. 7.1 billion during the year; a 7.8 percent decrease as shown in Figure 5.1. Although, HBFCL's NPLs decreased low in absolute terms when compared to some of the other banking sectors, its percentage share in its total outstanding, however, is the greatest after Foreign Banks' NPLs, as 58 percent of its total outstanding constitutes NPLs (Figure 7). HBFCL's percentage share in total NPLs is 40 percent.

Excluding HBFCL, the NPLs of housing finance industry decreased by 4.2 percent (Rs. 460 million over the

Excluding HBFCL, NPLs for all banks and other DFIs have decreased by seven percent over the year from Rs. 11.3 billion to Rs. 10.5 billion. The percentage share of NPLs of all banks and other DFIs (excluding HBFCL) was 60 percent in total NPLs as on June 30, 2013, compared to a 59 percent as of June 30, 2013.

Among banks, as shown in Figure 6, non-performing finances (NPFs) of Islamic banks witnessed an increase of 17 percent during the year, from Rs. 1.38 billion to Rs. 1.62 billion. Their NPFs constitute 9.2 percent, as on June 30, 2013, of total NPLs.

Figure 5: (amount in Rs.

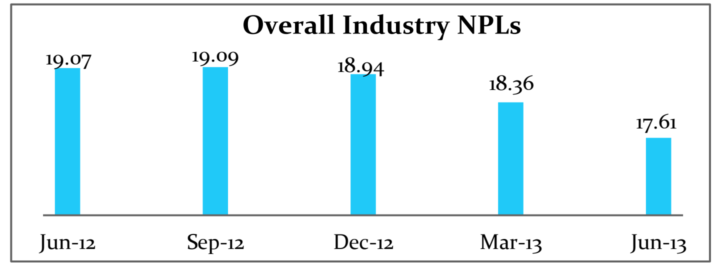


Figure 5.1: (amount in Rs.

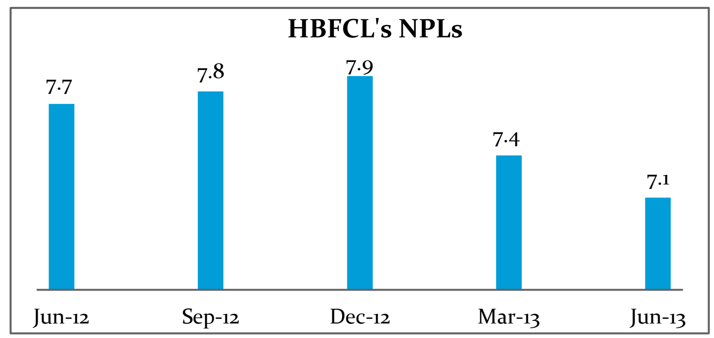
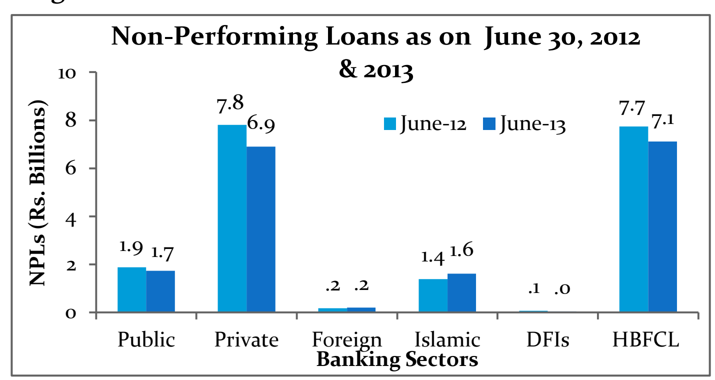
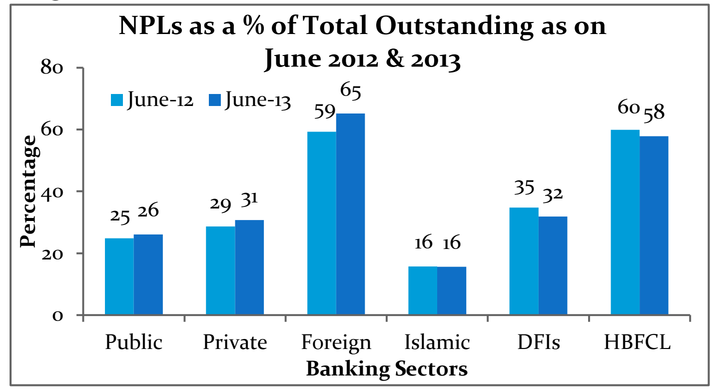


Figure 6



NPLs of the public sector banks decreased by 5.5 percent from Rs. 1.8 billion to Rs. 1.7 billion, over the year, which were 26 percent of their total outstanding as of June 30, 2013. Private Banks' NPLs decreased by 11.5 percent, from Rs. 7.8 billion to Rs. 6.9 billion which were 31 percent of their total outstanding. NPLs of foreign banks as a percentage of their outstanding portfolio increased from 59 percent (at the quarter end June, 2012) to 65 percent as of June 30, 2013. NPLs of DFIs (excluding HBFCL) decreased from Rs. 70 million to Rs. 42 million; a 40 percent decrease over the year with 32 percent of its total outstanding classified as NPLs as on June 30, 2013.

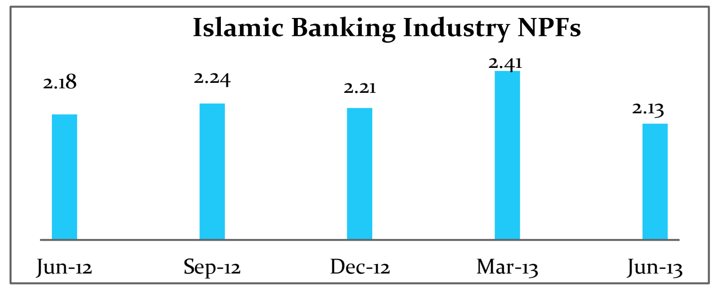
Figure 7



The NPFs of Islamic Banking industry decreased by 11.6 percent (Rs. 280 million) over the quarter.

Non-Performing Finances (NPFs) for Islamic Banking Industry (IBs & IBDs) were reported as Rs. 2.13 billion on June 30, 2013, which were Rs. 2.18 billion at the end of June 30, 2012 showing a modest decrease of 2.3 percent (Rs. 50 million).

Figure 8



Number of Borrowers

Number of borrowers decreased from 87,059 to 79,478 since June 30, 2012 over the year; a decline of 8.7 percent. As shown in Table 1, there is a decrease in number of borrowers in each category except in Foreign Banks and Islamic Banks.

In terms of percentage, approximately 60.4 percent of total borrowers of housing finance have been classified as non-performing. However, this is primarily due to HBFCL's number (45,085) of non-active borrowers, classified as non-performing, which accounts for 76 percent of its borrowers. Thus, by excluding HBFCL, 15 percent of total borrowers of housing loans have been classified as non-performing.

Table 1

Banks/ DFIs	June – 13			June – 12		
	No. Active Borrowers	No. of Borrowers classified as NPLs	Total O/s Borrowers	No. Active Borrowers	No. of Borrowers classified as NPLs	Total O/s Borrowers
Public Sector	4,811	633	5,444	5,095	897	5,992
Private Banks	10,002	2,039	12,041	10,731	2,156	12,887
Foreign Banks	32	46	78	34	42	76
Islamic Banks	2,370	247	2,617	2,286	259	2,545
DFIs	63	8	71	73	9	82
HBFCL	14,143	45,084	59,227	15,829	49,648	65,477
Total	**31,421**	**48,057**	**79,478**	**34,048**	**53,011**	**87,059**

Disbursements

During the quarter ended June 30, 2013, total disbursements made were reported as Rs. 3 billion which were Rs. 700 million higher than the disbursements made during the quarter ended March 31, 2013.

Fresh disbursements of Rs. 3 billion (Figure 9) were made to 720 borrowers during the quarter ending June 30, 2013 (Table 2). Islamic Banks extended new disbursements with Rs. 1.4 billion followed by Private Banks with Rs. 1.2 billion, Public Sector banks with Rs. 70 million and foreign banks with Rs. 1 million. HBFCL's fresh disbursements for the quarter were reported to be Rs. 354 million. Among commercial banks, the number of new borrowers totaled 469, with private banks serving 216 borrowers and Islamic banks 227 customers. HBFCL extended loans to 251 new borrowers during the reporting quarter.

Fresh disbursement for Islamic Banking Industry was Rs. 1.47 billion to 253 new borrowers during the quarter ending June 30, 2013. This includes new disbursements of Rs. 85 million to 26 customers by IBDs of conventional banks.

Figure 9: (Amount in Rs. Billion)

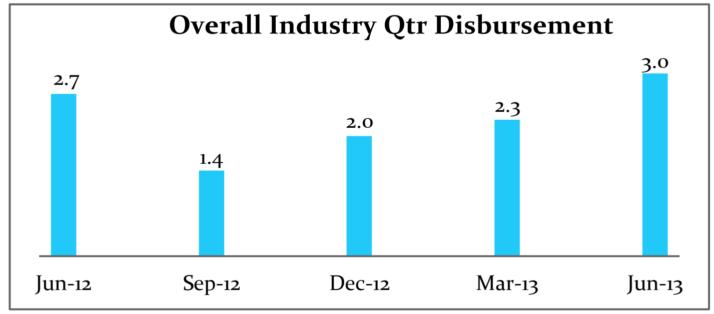


Figure 10: (Amount in Rs.

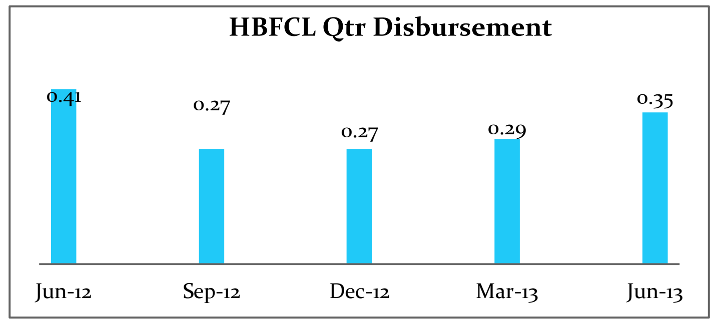


Table 2

New Disbursements during the quarter ending June 30, 2013

	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	70	25
Private Banks	1,221	216
Foreign Banks	1	1
Islamic Banks	1,391	227
All Banks	**2,683**	**469**
DFIs	-	-
HBFCL	354.0	251.0
Total	**3,037**	**720**
Islamic Industry	**1,476**	**253**

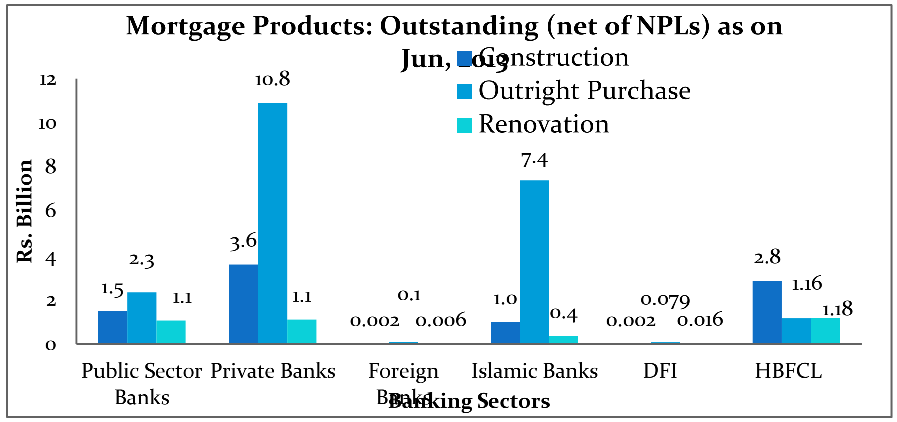
Products Category-Wise Share

The biggest share of housing finance continued to be attracted towards outright purchase (Figure 11).

The highest amount of financing being outstanding remained in outright purchase.

The outstanding for 'outright purchase' stood at Rs. 31.1 billion as on June 30, 2013; a 60 percent share in total outstanding of Rs. 52.24 billion. This is followed by the 'construction' category where outstanding reported at quarter-end stood at Rs. 15.2 billion and that of 'renovation' stood at Rs. 5.8 billion. Active portfolio shows that private banks took a lead in financing for outright purchase at 52 percent and renovation at 31 percent but HBFCL has taken lead in financing two sectors i.e. construction category 51 percent and renovation category 36 percent.

Figure 11



Analysis of Loan Variables adopted by Banks/DFIs and HBFCL

Tables 3 to 6 summarize loan variables across all banking sectors including weighted average interest rate, average maturity period, Loan-to-Value ratio (% financing by banks) and average loan size.

Table 3

	Weighted Average Interest Rate (%)				
	Jun-13	Mar-13	Dec-12	Sep-12	Jun-12
Public Sector Banks	12.8	13.2	13.7	14.5	15.6
Private Banks	14.3	14.0	14.7	15.0	15.1
Foreign Banks	14.7	14.3	14.3	16.0	16.7
Islamic Banks	13.0	14.0	14.9	15.5	15.9
All Banks	**13.7**	**13.9**	**14.6**	**15.1**	**15.4**
DFIs	-	-	-	-	-
All Banks & DFIs	**13.7**	**13.9**	**14.6**	**15.1**	**15.4**

Weighted average Markup rate

The overall weighted average Markup rate was 13.4 percent at the end of the current quarter as shown in Table 3. Highest weighted average profit rate was reported by Foreign Banks 14.7 percent, followed by Private Banks 14.3 percent, Islamic Banks 13 percent and Public Sector banks 12.8 percent, while HBFCL average came to 13 percent.

HBFCL	13.0	13.1	13.9	15.2	16.0
Total Average	**13.4**	**13.5**	**14.2**	**15.2**	**15.7**

Average maturity periods

Average maturity period of outstanding loans as on June 30, 2013 was 11.7 years. HBFCL's average maturity period was 12.7 years, while that of Public Sector Banks is 12.5 years. Table 4 shows that among commercial banks, Private Banks extended housing finance loans for average tenure of 11.6 years followed by Foreign Banks with 10.8 years and Islamic Banks with 9.9 years.

Table 4

	Average Maturity Period (Years)				
	Mar-13	**Dec-12**	**Sep-12**	**Jun-12**	**Mar-12**
Public Sector Banks	12.5	13.4	12.5	8.6	10.4
Private Banks	11.6	12.8	11.6	10.6	11.7
Foreign Banks	10.8	10.7	10.7	10.3	10.7
Islamic Banks	9.9	10.3	9.9	9.7	9.2
All Banks	10.8	11.8	10.5	10.1	10.8
DFIs	-	-	-	-	-
All Banks & DFIs	10.8	11.8	10.5	10.1	10.8
HBFCL	12.7	14.2	13.5	13.3	11.6
Total Average	11.7	12.3	12.0	11.7	11.2

Loan to Value ratio (LTV)

The percentage of financing (Loan to Value ratio) extended by banks and DFIs increased during the year (Table 5) from 41.8 percent to 43.2 percent. Average LTVs of commercial banks increased from 31.3 percent to 40.2 percent over the year. The average LTV for HBFCL increased from 41.8 percent to 42.8 percent over the year.

Table 5

	Loan to Value Ratio				
	Mar-13	**Dec-12**	**Sep-12**	**Jun-12**	**Mar-12**
Public Sector Banks	46.7	46.7	46.7	46.7	46.7
Private Banks	40.2	49.0	42.4	30.3	31.3
Foreign Banks	44.0	44.0	44.7	47.0	46.7
Islamic Banks	43.5	40.0	37.3	41.7	42.3
All Banks	43.6	44.9	42.8	41.4	41.8
DFIs	-	-	-	-	-
All Banks & DFIs	43.6	44.9	42.8	41.4	41.8
HBFCL	42.8	42.9	45.9	46.9	41.8
Total Average	43.2	43.9	44.3	44.2	41.8

Average loan size

Average loan size for disbursements made during the quarter ending June 30, 2013 (Table 6) was Rs. 5.3 million for all banks, except HBFCL. The average loan size for HBFCL was Rs. 2.2 million. Private Banks reported an average financing size of Rs. 5.3 million, Foreign Banks and Islamic Banks reported an average financing size Rs. 5 million and Rs. 5.5 million respectively, and Public sector banks 4.6 million.

Table 6

	Average Loan Size (Rs. Millions)				
	Mar-13	**Dec-12**	**Sep-12**	**Jun-12**	**Mar-12**
Public Sector Banks	4.6	2.9	2.5	2.2	2.1
Private Banks	5.3	5.6	7.3	5.1	4.2
Foreign Banks	5.0	3.7	4.0	4.3	4.0
Islamic Banks	5.5	3.3	3.6	2.9	3.7
All Banks	5.3	4.5	7.0	4.1	3.8
DFIs	-	-	-	-	-
All Banks & DFIs	5.3	4.5	7.0	4.1	3.8
HBFCL	2.2	2.8	2.3	1.3	2.1
Total Average	3.8	3.6	4.6	2.7	3.0

Housing Finance Business of Microfinance Banks:

Gross Outstanding

The outstanding housing finance of Microfinance Banks (MFBs) was Rs. 169.3 millions as on June 30, 2013 which was Rs. 160.5 millions at the end of March 31, 2013. It registered an increase of 5 percent, over the last quarter.

Number of Borrowers

The number of outstanding borrowers decreased from 2,331 to 2,314 over the quarter; a decrease of 0.7 percent.

Non-Performing Loans

NPLs for MFBs decreased from Rs. 0.35 million (March 31, 2013) to Rs. 0.27 million (June 30, 2013); showing a decrease of 23 percent over the last quarter. NPLs of MFBs arising out of housing finance business are around 0.2 percent of their outstanding housing finance portfolio.

Mortgage to GDP Ratio:

While calculating mortgage to Grand Domestic Product (GDP Nominal), following figures were taken in to account.

- Outstanding finances of Commercial Banks, DFIs and Microfinance banks were equal to Rs. 52.6 Billion as of June 30, 2013.
- Amount of finance availed by employees of the banks and DFIs was Rs. 76.38 Billion as of June 30, 2013.
- Nominal GDP for FY 2011-12 was Rs. 19,436.83[2] billion

Mortgage to GDP Ratio = Total Mortgages/GDP

Mortgage to GDP ratio in Pakistan remained below 1% and to be exact it was 0.66% as of June 30, 2013.

2 http://www.pbs.gov.pk/sites/default/files/national_accounts/tables/newtable2.pdf

Initiatives and Achievements

Recognizing the importance of housing sector in boosting the domestic economy, following initiatives have been taken by SBP to further develop market based mechanisms and enhance the flow of credit to this priority sector.

First meeting of Housing Finance Consultative Group

State Bank of Pakistan constituted the Housing Finance Consultative Group which includes members from Provincial Governments, Financial Institutions and other key stakeholders. The objective of the group is to identify the impediments in the way of housing finance and their resolution. The first meeting of the group was held in April, 2013.

News on Housing Finance

National Housing Policy in the works

Much optimism was stirred by the budget speech which announced that development of three-marla housing schemes for the homeless and the construction of at least, 1,000 clusters of 500 houses each for low-income families through public-private partnership were planned for the year.
And now there is news that a five-year National Housing Policy is in the final stages of being drafted. When reached for comment, the Media Advisor to CM Punjab confirmed that the provincial chapter of the policy was indeed in the final leg of preparation and will be released to the public within the next 10 days.

[Published in Business Recorder dated January 29, 2013] For full text: http://www.brecorder.com/br-research/44:miscellaneous/3502:national-housing-policy-in-the-works/

Conclusion

The quarter ending June 30, 2013 depicted a decline in gross outstanding of housing of Rs. 4.8 billion (8.5 percent) over the year and a meager decline of one percent (Rs. 400 million) over the quarter. Despite growth in quarterly disbursements since last three quarters, outstanding amount still decreased, which shows a larger number of settlements. The increase in quarterly disbursement was majorly contributed by Islamic banks which disbursed Rs. 1.4 billion during the quarter. Though in absolute terms, NPLs of the housing finance portfolio have decreased over a period of year but in terms of their ratio to outstanding they display a rising trend over the years and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers due to inflated prices of property/houses, labor and construction material. Another reason hindering the growth of housing finance in Pakistan is reluctance of banks for lending outside few big cities. However, the lack of effective institutional framework and secondary mortgage market and relatively high mark-up rates are still the major constraints towards the growth of housing and housing finance which is one of the potential key drivers of the economy.

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Team Members

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