STATE BANK OF PAKISTAN

Gauging Outreach of Housing Finance in Pakistan

Survey Results

Infrastructure & Housing Finance Department

By

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Contents

Executive Summary

Housing is one of the most basic human needs and has multiple facets in a society. Historically, it has not only been a personal need but in the face of rapid urbanization, is a social dilemma, has significant economic relevance and has repeatedly been part of political rhetoric. All components including construction materials, land supply, institutional framework, regulatory framework, infrastructure and amenities and finance, make housing a very complex subject matter. Each component is intricately connected to each other.

This study focuses and presents housing finance as one of the components of housing sector and aims to assess the outreach levels of housing finance in the country. 23 banks offering housing finance participated in this survey. The survey analyzes lending practices and popular tendencies among banks in lending to a specific demographic group and regions, hence gauging outreach.

Limit Amount of Housing Finance

Although it is understood that both commercial banks and HBFC/DFIs have their respective 'niche' market, this exercise revealed that for commercial banks 47% of its borrowers were extended house loans with an average loan size falling in the range of Rs 1M and Rs 5M. Almost 80% of HBFC/DFIs borrowers were extended loans falling in the range of Rs 0.1M to Rs 0.5M. The analysis also revealed that commercial banks and HBFC/DFIs also have a 'common market'. This common market is where the average house loan falls in the range of Rs 0.5M and Rs 1M; the second most populous range for both commercial banks and HBFC/DFIs. Approximately, 25% of commercial banks' borrowers and 11% of HBFC/DFIs' borrowers fall in this category.

Overall, HBFC is requiring lower incomes to sanction the same amount of loan. It is also offering longer tenures compared to commercial banks making a house loan relatively affordable.

Income Profile of Housing Finance Borrowers

The study shows that 40% of commercial banks' borrowers have a disposable income greater than Rs 0.1M/month, whereas, HBFC has 56% of its borrowers with disposable incomes less than Rs 15,000/month. Commercial banks too, cater to borrowers with disposable incomes less than Rs 15,000 but these constitute only 10% of its total borrowers. Clearly, commercial banks are more geared towards catering to high income borrowers.

Although it is already known that commercial banks cater to high income groups, however, this survey reveals where HBFC/DFIs and commercial banks borrowers lie on the income spectrum and that both lie on the extreme ends.

Structure and Efficiency of Housing Finance Market

Overtime the housing finance market has transformed from a highly concentrated market to a relatively less concentrated one. Indicators of competition (M-Concentration ratio, Coefficient of Variation and Herfindhal Hirchman Index) show that there is moderate level of competition among financial institutions and that it can be now characterized as a 'un-concentrated' market.

Geographic Dispersion of Housing Finance Market

Geographic dispersion reveals that with the exception of HBFC, the housing finance market is concentrated in urban centers of Pakistan. Therefore, it can be concluded that while competition indicators indicate competition, geographic dispersion reveals that there is limited outreach of housing finance in Pakistan.

Analyzing Credit Policies of Banks

A comparison is made between actual data and credit policies against parameters like disposable incomes, LTV, financing limits and loan tenure. The purpose is to study if there is any variation between policy and practice and also observe any instances of 'lending beyond the fringes'. A majority of the banks have lent below their minimum levels of disposable income as per their credit policies. An extremely limited number of borrowers have been extended loans greater than 20 year's tenure. The average financing limits are hovering in the range of Rs 0.4M and Rs 0.7M. Banks on an average have an LTV of 65%.

Efficiency of Foreclosure Law

The process of foreclosing a mortgaged property in Pakistan is currently acting as a bottleneck and an obstacle in the growth of housing finance market. A majority (1,041 cases out of 1,174) of foreclosed cases of the commercial banks are currently pending. 827 cases out of 1,041 pending cases of the commercial banks are pending in the courts (the remaining being settled without recourse to the Banking Court). It is important to see that these cases are facing a very narrow funnel; with only 8 cases that have been successfully foreclosed through the Banking Court. Financial institutions have the power under Section 15 of the Recovery Ordinance 2001 to foreclose a property without recourse to the Banking Court. However, despite having this power, the system is riddled with problems.

I. Objective of the Survey

The housing and construction sector has been recognized as priority sectors by the Government of Pakistan. This is because it has both backward and forward linkages with almost 40 allied industries of Pakistan. In the face of increasing urbanization, housing is now proving to be at the core of eminent challenge that the country's infrastructure framework faces, and its potential for the economy remains to be realized.

With 31 financial institutions[1] offering housing finance to approximately 110,000 borrowers across the country, the formal housing finance sector in Pakistan is small but nonetheless an emerging one. Housing finance constitutes 22% share in total consumer finance of the banking sector. This is the 3rd highest share in total consumer finance, after personal loans and auto loans. However, of all the components of consumer finance, housing finance is the only component that has witnessed an increasing share since June 2006, while that of others has either declined or remained constant[2].

This is because housing finance differs from other consumer finance products; the difference affecting both the supply and demand side of housing. On the demand side, housing is characterized as a commodity that is used for both consumption and investment purposes. Moreover, it is a basic need that makes demand for housing inelastic and has proven so especially for the high income and low-income groups in Pakistan[3].

On the supply side, the ability of the financial institutions to respond to the rising demand is of critical importance. This response is measured by the financing terms under which banks are offering housing loans. Using the economic scenario as a backdrop, financing terms in turn, are influenced by the characteristics of a potential borrower i.e. if the borrower meets a bank's criteria, house finance will be successfully granted. These characteristics are explicitly recognized by each bank in the form of its housing finance credit policy which sets parameters for qualification of a borrower. These parameters include demographic characteristics, income profile and geographic location of the borrower's property. Furthermore, the existing legal framework which supports a bank in seeking recovery in case of a default, acts as a very important element that also knits well into the overall supply structure of housing finance.

The objective of this study titled 'Gauging Outreach of Housing Finance' is to gauge the characteristics of the existing housing finance extended by banks and DFIs. Motivation for this study is derived from seeking quantifiable answers for fundamental questions like '*Who typically qualifies for a housing loan?*', 'To *what extent are banks inclined towards high income groups?*', '*Are banks competing for housing finance borrowers?*', '*What is the geographic dispersion of the housing finance market?*', '*Are there instances of credit rationing?*' and '*How efficient is our Foreclosure Law?*'. This study not only quantifies some of the obvious notions, but also brings to surface facts that could potentially have policy implications.

The objective of this study has been achieved by collecting information and data from within SBP (eCIB) and from financial institutions. Consumer data was utilized (eCIB) for analyzing the

1 As on September 30, 2009

2 Credit/Loans Classified By BorroweRs State Bank of Pakistan, 17 Apr. 2010. Web.

3 Rahooja, Sabbah. "Determinants of Housing Demand Across Income Groups in Pakistan." Thesis. Lahore University of Management Sciences, 2007.

demographic, income and geographic features of borrowers in Pakistan that have been extended housing finance by the banking sector. Where information was missing, banks were asked by was of a survey to provide complete data. Additionally, surveys were sent to banks and DFIs to assess the efficiency of the foreclosure law. The following section titled Methodology gives detail on how data and information was collected. Chapter 1 covers the demographic features of the most popular credit facility ranges that banks and DFIs are catering to. Chapter 2 attempts to conduct an income profiling of the borrowers. Chapter 3 presents an analysis on the levels of competition among banks/DFIs in housing finance. Chapter 4 discusses the geographic dispersion of the housing finance market. Chapter 5 analyses and compares housing credit policies with the borrower-wise data to identify any gaps between policy and practice. Lastly, chapter 6 results of the survey on efficiency of foreclosure laws in Pakistan.

II. Survey Methodology

The study involved collection of data and information from all banks and DFIs that extend housing finance. This collection of data was split into three surveys; the *Borrower Profile Survey, Foreclosure Law Survey part I and II.*

Borrower-Profile Survey Design

As a first step, the Consumer Protection Department (CPD), SBP was requested for borrower-wise data against code no 29 (all banks and DFI's housing loans are reported to eCIB under code no. 29). The data received consisted of borrowers with housing loans outstanding as on September 30, 2009. The dataset received consisted borrower-wise information on the following parameters;

	Parameter		Parameter
1	CNIC of Borrower	**9**	Marital Status*
2	Education*	**10**	Nationality
3	Number of Dependents*	**11**	Residence Type*
4	Credit Relationship of the borrower with the	**12**	Occupation
5	Limit amount of credit facility (housing loan)	**13**	Loan Date
6	Collateral Value*	**14**	Maturity Date
7	Gender	**15**	Principal Amount Outstanding
8	Non-Performing Loans		

*These fields are built in the eCIB, however, due to their non-mandatory nature, are more than often left blank by banks/DFIs

Because submission of information against some of these variables is not mandatory for eCIB, as a second step, banks and DFIs were requested to provide information against each borrower's CNIC on parameters like *education, number of dependents, credit relationship of the borrower with the bank, collateral value, marital status* and *residence type*. For each bank, a list of missing variables was identified and a customized survey titled 'Borrower-wise Survey' was sent to banks.

In addition to these, banks were also requested to provide data on *disposable income* of the borrowers and the *location (city)* of the property for which financing was being extended. Information on these additional parameters was requested from banks and was incorporated into the 'Borrower-wise Survey'. A copy of the survey is enclosed as **Annexure A.**

Foreclosure Law Survey (I & II)

A *Foreclosure Law Survey,* attached as Annexure B was also sent to banks and DFIs. This survey sought information on the number of cases that were successfully foreclosed with and without recourse to the Banking Court as on December 31, 2009. Banks/DFIs were asked to identify the number of steps they had to follow, the cost they incurred and the time it took them to successfully foreclose a case through both the channels- through the Banking Court or through the non-judicial process i.e., by exercising their (bank's) power to foreclose a property under Section 15 of the Recovery Ordinance 2001.

The part I survey was divided into three sections; section I requiring the total number of cases foreclosed, section II capturing details of cases that were settled without recourse to the Banking Court and section III requiring information on cases settled with recourse to the Banking Court.

Components of section III were adopted from the 'World Bank Doing Business Report (2008)'[4]. During the designing stage of this survey, legal officers of respective banks were consulted and asked for a feedback on the questions/components of the survey.

Subsequent to receiving responses on the *Foreclosure Law Survey (Part I)*, a second survey was designed (*Foreclosure Law Survey Part II*) to seek information on pending cases. This included the number of pending cases that were seeking recovery with and without recourse to the Banking Court, the time taken and common reasons for delay. A copy of this survey is attached as **Annexure C.**

Credit Policies on Housing Finance

In order to assess housing finance policies of all banks and DFIs, Housing Finance Policies were also obtained by banks.

Competition

Competition among banks and DFIs that are extending housing finance was assessed in-house using the Housing Finance Quarterly data; a dataset currently being maintained with the department. Common measures to assess competition were used, namely the *M-Concentration Ratio*, *Coefficient of Variation* and the *Herfindhal Hirchman Index*.

Data Management

For the purpose of this study, STATA SE 10, statistical /data analysis software was used.

[4] The World Bank report has identified indicators to gauge the efficiency with which commercial contracts are enforced by the judicial system.

Borrower-wise Data

For the purpose of this analysis, information on a total of 47,327 housing finance borrowers with 23 banks has been studied. Table 1.A presents the average values of each parameter. The study shows that there is at least 1 person (on an average) as a dependent. The collateral value of mortgaged property is Rs 4.5 million on average. Similarly, the average disposable income is Rs 95,000 and the average credit extended is estimated to be Rs 1.37 million. Loans are extended for an average period of 15 yeaRs Loan age in this analysis refers to how old the loan is as on September 30, 2009. An average loan age of 3 years shows that most loans are relatively recent. Banks on an average are financing up to 65% of the value of the property.

Table I.A Description of Data	
Total Observations	47,327
Total Banks DFIs	23
Average No. of Dependents	1
Average Collateral Value (Rs millions)	4.5
Average Disposable Income (Rs)	95,000
Average Limit Amount of Credit Facility (Rs millions)	1.37
Average Loan Tenure (Years)	15
Average Age of Loans (Years)	3
Average Loan -to-Value Ratio	65

Steps taken to ensure that the data analyzed is representative and realistic, by far was the most time consuming aspect of this study and merits a detailed explanation of how this was achieved.

Steps Involved in Data Collection

Step1. As described in the preceding section, data on individual housing finance borrowers was first extracted against 15 parameters, from the eCIB. These were a total of 105,852 observations against 26 banks. As a first step, parameters that were under-reported (less than 105,852 number of observations) were identified. Some of the parameters had missing values against borrowers because not all parameters are mandatory for reporting to eCIB. Thus, banks were asked to provide data on the missing parameteRs Table 1.B shows that of the 15 parameters, 6 were under-reported and identifies the source of information. For example information on the educational information from eCIB was available only for 35% of the borroweRs The remaining 65% were collected from the banks. 5 of the under-reported parameters which capture demographics of the borrowers included education, number of dependents, credit relationship with the bank, marital status and residence type. Collateral value was missing for almost all borroweRs Apart from variables available on eCIB, disposable income and location of the property being financed were 2 additional parameters that were added to the survey.

Step 2. A total of 100,555 observations were updated (out of a total of 105,852) after receiving data from banks; a shortfall of 5,300 observations. This is because three banks did not respond[5]. Secondly, in some of the cases, the loss in data was also due to the mismatch of CNICs of borrowers between the eCIB dataset and banks' own internal system. Lastly, some banks had a decentralized

[5] These included Dawood Islamic Bank, Citibank and Bank of Punjab.

MIS and found it difficult to manually extract information on each of their borroweRs Therefore, only those borrowers were retained against whom a complete set of information was available.

Table I.B Data Sources		
Parameter	Source (% available with either eCIB or Banks)	
	eCIB	Banks
Education	35	65
Number of Dependents	11	89
Credit Relationship with the Bank	0	100
Limit Amount of Credit Facility	100	0
Principal Outstanding	98	2
Collateral Value	1	99
Gender	100	0
Marital Status	48	52
Nationality	100	0
Residence Type	39	61
Occupation	100	0
Loan Date	100	0
Maturity Date	100	0
Disposable Income	0	100
Location of Property being Financed	0	100

Step 3. Once the eCIB data and that received from banks were merged, a data cleaning exercise was undertaken. An initial set of results brought forth discrepancies in the data. The nature of these discrepancies included LTVs greater than 85, unrealistically low disposable incomes, credit facility and collateral values. These discrepancies were observed in almost all banks. This step also witnessed a fall in number of observations almost all in the account of HBFC. A total of 51,900 observations were dropped as this data was on HBFC's old scheme (since 1952). This was done due to two reasons; comparison and convenience of correct data. Since all commercial banks had started housing finance in 2002, it only felt apt to include borrowers' data on HBFC's new scheme[6] for a realistic comparison. Secondly, inclusion of data on HBFC's old scheme meant that their staff had to manually reconcile some of the discrepancies identified by IHFD for data that was dispersed all across its branches.

Although insignificant number of observations was lost while reconciling the data with banks/DFIs, it was observed that banks/DFIs had reported incorrect collateral values during collection of data as part of step 2. Step 3 ended up being a re-run of step 2 which could have been avoided had banks reported correct collateral values the first time. Moreover, at end of this step, it also became apparent that banks often wrongly report borrower's details to eCIB and that there are cases where banks are financing more than 85% of the collateral value[7].

Table 1. C below lists, for each bank, the number of observations that were lost at each step in an attempt to make the data more consistent, representative and true for analysis.

[6] New scheme includes flexi-scheme, ghar-assaan scheme.
[7] Discussed in greater detail in section 6.

Table I. C Number of Observations (Obs)					
Bank	Step 1	Step 2		Step 3	
	Data from eCIB	Response of Banks		Reconciliation of Bank's response	
	Original Obs	Revised Obs	Loss in Obs	Revised Obs	Loss in Obs
Albaraka	17	16	1	15	1
Alfalah	2,317	2,317	0	2317	0
Alhabib	1,767	33	1,734	33	0
Askari	2,140	977	1,163	977	0
Bank Islami	185	174	11	174	0
Barclays	76	76	0	76	0
BOK	468	742	-274	742	0
BOP	218	No response	218		0
Citibank	549	No response	549		0
Dawood	22	No response	22		0
DIBPAK	663	663	0	663	0
Faysal	954	952	2	952	0
HBFC	82,961	82,961	0	29,794	53,167
HBL	1,391	1,392	-1	1,355	37
HMB	6	5	1	5	0
KASB	433	426	7	426	0
MCB	802	802	0	802	0
Meezan	1,199	1,215	-16	1,207	8
NBP	3,862	3,420	442	3,418	2
NIB	2,454	1,085	1,369	1,085	0
Pak Libya	150	147	3	147	0
RBS	988	987	1	975	12
SAMBA	8	8	0	8	0
SCB	1,031	1,038	-7	1,037	1
Soneri	244	230	14	230	0
UBL	947	889	58	889	0
Total	105,852	100,555	5,297	47,327	53,228

1. Housing Finance Facility

This chapter analyses the credit facility bands that are most catered to by both the commercial banks and HBFC and other DFIs. An analysis is also made to profile the characteristics of these borrowers

Housing Finance Facility

Inclination of banks to cater to a certain size of loan can be assessed by observing the data for the variable limit amount of credit facility which is the sanctioned amount for a housing loan. The dataset shows that the mean amount of credit facility granted to the borrowers is Rs 1.37 million (Table 1.A). The minimum credit extended is reported to be Rs6,777 whereas the maximum is Rs 65 million. The mean amount of credit facility extended by commercial banks is Rs 3 million and that of HBFC and other DFIs is Rs 0.45 million.

A detailed spread of the limit amounts can be studied by observing the ranges in which these limit amounts popularly lie. For this purpose, 10 such ranges were created between Rs10,000 and Rs20 million and above. However, since HBFC has had an over-riding effect on other banks, the concentration patterns across these credit limit ranges will be observed separately, for both the 'commercial banks' and 'HBFC and other DFIs'.

Table 1.A . Limit Amount of Credit Facility	
Statistics	
Mean (Rs)	1,373,237
Min (Rs)	6,777
Max (Rs)	65,000,000

Table 1.B presents the concentration range/band.

Table 1.B			
Concentration	Parameter	Concentration Bands/Ranges	
		Commercial Banks	HBFC & Other DFIs
Highest	Range	Rs 1M to 5M	Rs 0.1M to 0.5M
	No. of Borrowers	7,843	23,665
	Mean Credit Limit of the range	Rs 2.40 M	Rs 0.31M
2^{nd} Highest	Range	Rs 0.5M to 1M	Rs 0.5M to 1 M
	No. of Borrowers	3,996	3,322
	Mean Credit Limit of the range	Rs778,994	Rs764,818

The table summarizes the two most popular bands where the limits of credit facility amounts are concentrated. The overall highest band is of Rs 0.1M to 0.5M, i.e. the highest number of borrowers is concentrated in this band having a mean credit facility of Rs 0.31M. Since HBFC has an over-riding effect, a separate analysis reveals that for commercial banks, the greatest number of borrowers lie in the Rs 1M to 5M range of credit facility with an average of Rs 2.40M. The table also shows that the figures on HBFC are similar to the overall total concentration bands, reinforcing the fact that HBFC has a great influence on the overall statistics of housing finance.

The second most popular band presents a differing view. Overall the second highest band of credit facility is between Rs1 M to Rs 5 M. However, the second most populous band for both commercial banks and HBFC/DFIs is of Rs0.5M to Rs 1M. Average amount of credit facility extended in this range by commercial banks and HBFC/DFIs is around Rs 0.77 M. This suggests that while commercial banks and HBFC may have their separate niche markets/target borrowers, they may in fact be competing in the range of Rs 0.5M and Rs 1M. The numbers of borrowers that fall in this range are also very similar; between 3,000 to 4,000 borrowers. Figure 1.A and 1.B show these patterns of concentration, from where it can be seen that both commercial banks and HBFC have marked their niche markets; where commercial banks only begin to offer loans, HBFC shows considerable presence and dominance.

Figure 1.A

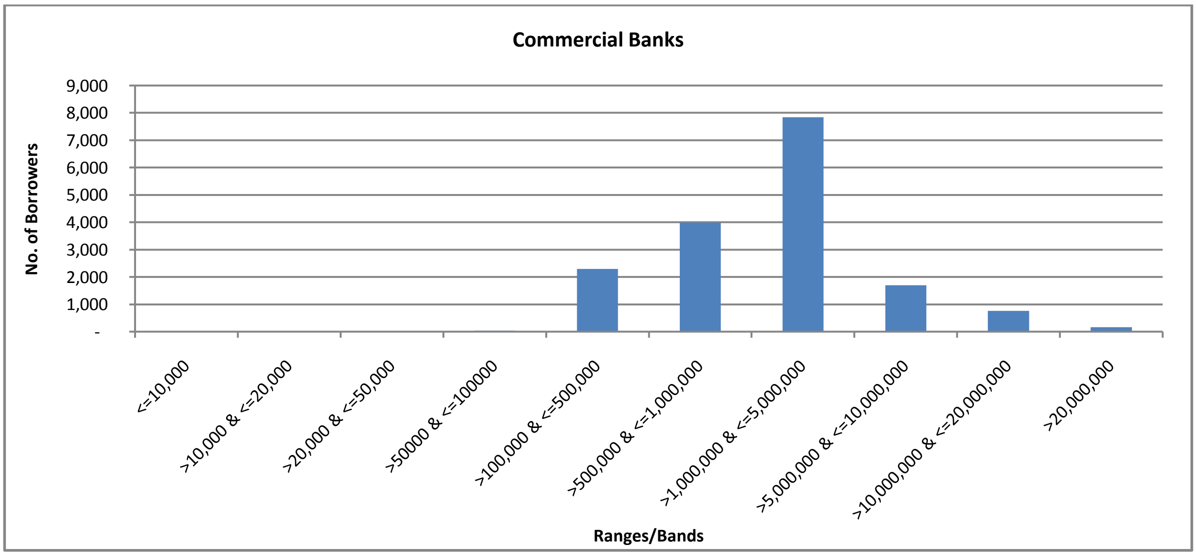
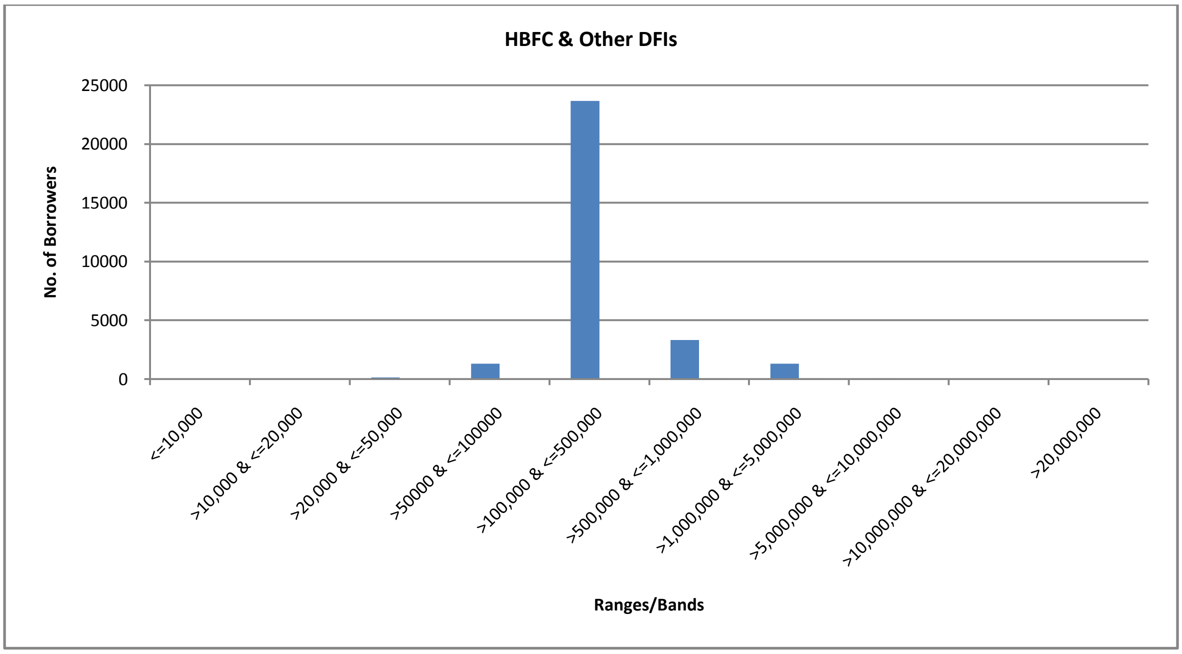


Figure 1.B



Highest Limit Amount of Credit Band – Its Features

The most popular credit band for commercial banks is the loan amounts ranging between Rs 1M and Rs 5M, with more than 45% of their borrowers in this range. Similarly, the most popular band for HBFC/DFIs ranges from Rs 100,000 and Rs500,000, with almost 80% of their borrowers lying this range. Having established the most popular credit bands for both commercial banks and HBFC, this section presents the various features and characteristics of the borrowers that fall in this range. These characteristics will be based on the disposable income of such borrowers, financing terms and demographics.

Disposable Income

Table 1.C shows that the mean disposable income of a borrower, who is extended a loan in the range of Rs 1M to 5M, is Rs 184,134. If HBFC were to serve this credit range, then the mean income is Rs94, 000. Similarly, a borrower with a mean income of Rs 15,189 would qualify for HBFC's most popular credit band the Rs 100,000 to 500,000. If a commercial bank were to serve this credit range, it would qualify a borrower with a mean income of Rs 55,593.

These observations reinforce HBFC's role in creating greater access to housing finance, as it is qualifying a borrower at half the disposable income when compared to commercial banks (the matrix presented in Table 1.C illustrates this observation). Annexure 1 & 2 give further details on mean disposable incomes across other ranges of limit amount of credit facility extended by both the commercial banks and HBFC.

Table 1.C Disposable Income Matrix		
Popular Credit Ranges	Commercial Banks	HBFC & DFIs
Rs 1M to 5M	184,134	94,291
Rs 100,000 to 500,000	55,593	15,189

Financing Terms

Financing terms include credit limits, collateral values, loan tenure, LTVs and questions whether borrowers had any credit relationships with the bank prior to sanctioning of a housing loan. These financing terms will be studied for the highest limit amount of credit bands.

Table 1.D summarizes the financing terms for the two most popular ranges of commercial banks and HBFC and other DFIs i.e. Rs 1M to 5M and Rs 100,000 to 500,000 respectively.

Table 1.D Financing Terms Matrix		
Popular Credit Ranges	Commercial Banks	HBFC & DFIs
Credit Limits (Rs Millions)		
Rs 1M to 5M	2.40M	1.96M
Rs 100,000 to 500,000	0.38M	0.31M
Collateral Values (Rs Millions)		
Rs 1M to 5M	7.05M	2.99M
Rs 100,000 to 500,000	2.4M	0.47M
Loan Tenure (Yrs)		
Rs 1M to 5M	14	17
Rs 100,000 to 500,000	12	16
LTV		
Rs 1M to 5M	53	67
Rs 100,000 to 500,000	35	74
New Clients (% of no. of borrowers)		
Rs 1M to 5M	51	100
Rs 100,000 to 500,000	10	100

Credit Limits

Mean credit limits sanctioned by commercial banks is Rs 2.40M for its most popular range. If HBFC were to serve this range, it is observed to sanction a smaller amount with mean limit amount of credit calculated at Rs 1.96M. This is probably because HBFC is catering to borrowers with a lower mean disposable income than that of borrowers who have borrowed from commercial banks. In the range where HBFC is mostly lending, it is sanctioning a mean limit amount of credit of Rs 0.26M. If commercial banks were to serve this range, they will be sanctioning a slightly higher mean limit amount of Rs 0.38M. Commercial banks are sanctioning higher than HBFC and are also requiring four times the disposable income (compared to HBFC) to qualify a borrower for financing in the range of Rs 100,000 to Rs 500,000 (Table 1.C).

Collateral Value

Commercial banks are mostly financing borrowers with a mean collateral value of Rs 7M for its range, while HBFC is requiring Rs 0.47M for its popular range of financing limits. For the range of Rs 1M to 5M, HBFC is requiring a mean collateral value of Rs 2.99M while commercial banks are requiring higher collateral values along with higher disposable income too when sanctioning a loan from the range of Rs 100,000 to 500,000.

Loan Tenure

It is observed that HBFC has extended loans to its borrowers for a longer period compared to commercial banks. The most popular range of commercial banks is being offered a mean tenure of 14 years, while HBFC is offering its loan for mean tenure of 16 years.

Loan-to-Value Ratio

LTVs also reiterate the observations made so far. HBFC is seen to be extending loans with greater level of financing compared to commercial banks. Commercial banks are seen to increase their financing portion to loan sizes greater than 5M while HBFC is above 65% across all credit limit ranges (Annexure 1 & 2).

Credit Relationship

While commercial banks are facilitating their existing cliental by extending them house loans, about half the housing finance clients/borrowers are new. Approximately 50% of the borrowers belonging to the limit range of Rs1M to 5M are new borrowers. At lower ranges, commercial banks have fewer new borrowers; 10% for the credit limit of Rs 0.1M to Rs 0.5M. HBFC, being a specialized bank, offers only housing finance; thus this particular analysis will not apply to it as all its borrowers are new borrowers

It can be concluded from the afore-mentioned observations that commercial banks are more conservative in extending housing finance. This conservatism is reflected in higher disposable income, greater collateral values, low LTVs, shorter maturities and tendencies to serve its existing clients.

Demographic Characteristics of the Borrowers

Demographic characteristics include a study of occupational groups, gender, marital status, education levels and residence type the borrower is currently residing in.

Occupational Groups

In the range of Rs1M to 5M, a majority of commercial banks' borrowers are salaried (44%) closely followed by businessmen/professionals (32%). Borrowers from other occupations account for the 23% of this credit limit band. HBFC for its credit range of Rs0.1M to 0.5M, has mostly salaried borrowers (53%) followed by borrowers having other occupations (30%) and businessmen/professionals (17%).

Box 1.A. Occupational Class of Housing Finance Borrowers across All Banks/DFIs

Figure A & B show that a limit amount sanctioned to almost 10,000 businessmen/professionals is on an average Rs 2.8 M. A salaried individual is sanctioned an average amount of Rs 0.92 M and currently more than 24,000 borrowers are being served in this occupational class. The unemployed, though very few in numbers, are seen to be extended an average credit facility of Rs 1.63 M. Those with agriculture as an occupation are extended on average an amount of Rs 1.64 M. The borrowers from this occupational class are also very low; 7 to be exact. Individuals whose occupational class has been recognized as 'Other Occupation' are the most served by banks and DFIs. Approximately 64,000 borrowers have been classified under this occupation and are served an average credit facility of Rs 0.24 M; the lowest in all categories.

Figure A

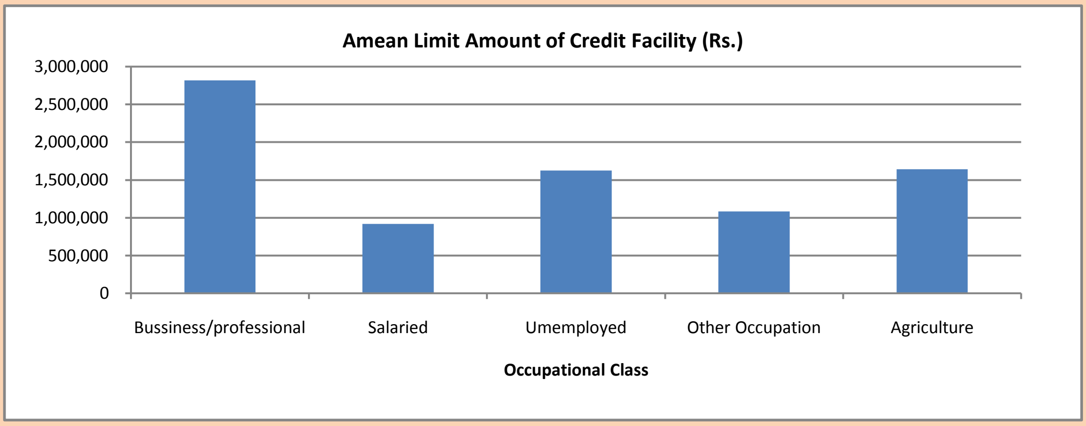
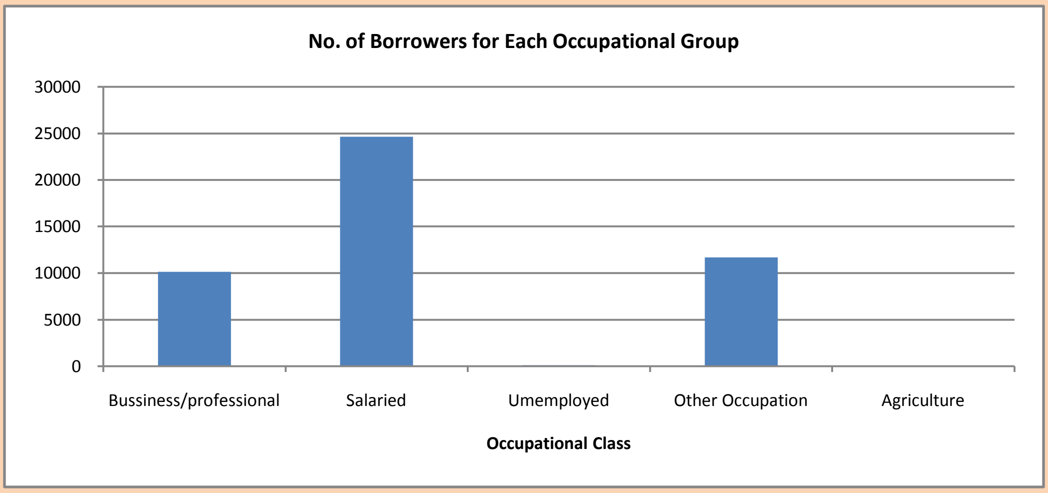


Figure B



Gender & Marital Status

94% of the borrowers of commercial banks are males (for range of Rs1M to 5M), while 73% of the borrowers of HBFC are males in the popular range (for range Rs0.1M to 0.5M). This is consistent with the findings of the overall housing finance sector where the majority of borrowers are males. Box 1.B describes the general gender distribution across all banks/DFIs.

Of these borrowers who lie in the range of Rs1M to 5M (for commercial banks) and in the range of Rs 0.1M to 0.5M (for HBFC and other DFIs), 88% and 90% are married, for commercial banks and HBFC, respectively.

Educational Groups

Commercial banks are extending loan in the range of Rs1M to 5M popularly to graduates (41% of the range), post graduates (29%) and above matric but below graduates (21%). Borrowers with educational qualifications above-matric but below graduates are most popular (40%) for HBFC in the credit range of Rs 0.1M to 0.5M. This is followed by graduates (24%). Box 1.C presents a general description of educational groups of all the borrowers in the housing finance industry.

Residence Type

The parameter residence type refers to the type of residence a borrower resides in at the time of sanctioning of a housing loan. There are 5 categories namely, rented, parent's, owned, others and company provided. The range of Rs 1M to 5M for commercial banks sees a greater number of borrowers that are currently residing in the 'others' category.

Box. 1.B Gender Distribution Across All Banks/DFIs

Over 80% of the housing finance borrowers are males with an average limit amount of Rs 0.67M. Female borrowers report an average limit amount of Rs 0.43M. Figure A & B show these findings. Off the 22 banks, 12 banks have extended more than 50% of their housing finance portfolio to females.

Figure A

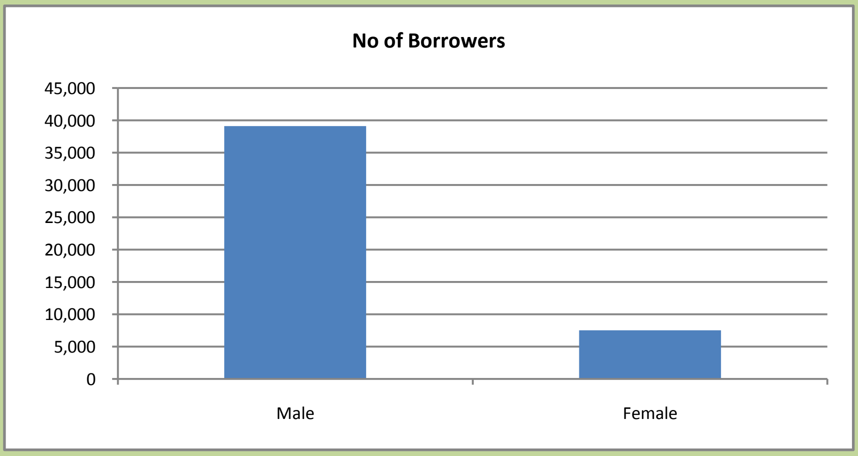
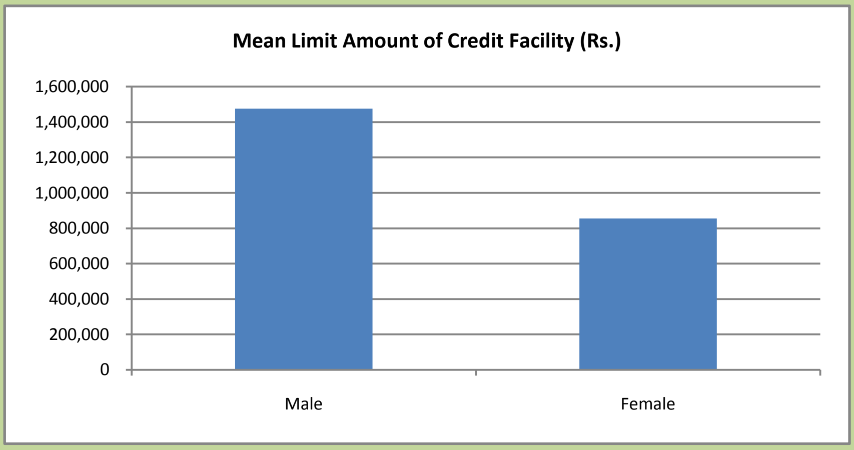


Figure B



Box. 1.C Educational Groups Across All Banks/DFIs

Figures A & B represent the distribution of the borrowers' educational groups and their respective mean limit amounts of credit facility. The highest limit amount is extended to borrowers who are post graduates; with a mean limit amount of Rs 2 M. The number of borrowers that are graduates is 9,000. This is followed by 12,000 graduates with a mean limit amount of Rs 1.98M.

Figure A

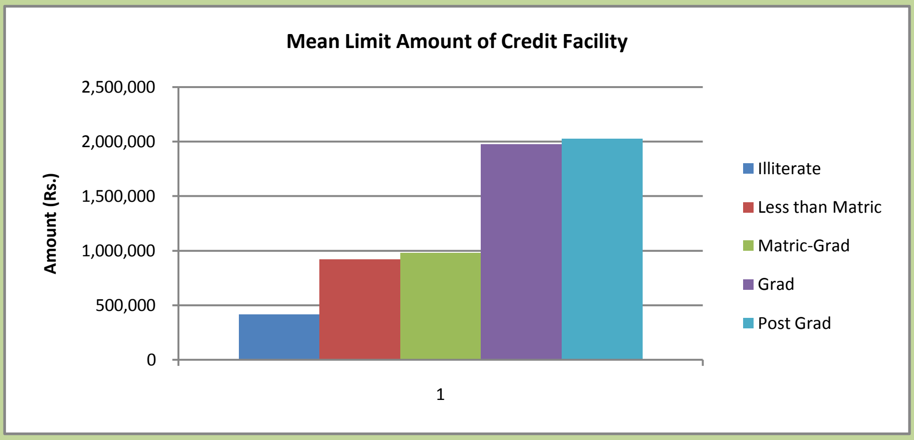
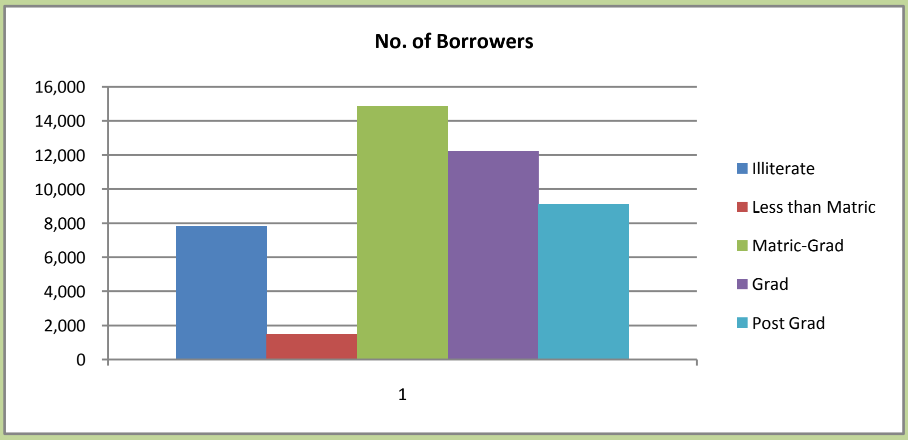


Figure B



Loan Tenure and Credit Limits

Loan tenure is an important variable as it indicates affordability of a particular loan i.e. longer the tenure, the smaller will be its monthly installment. For majority of the cases, commercial banks have lent for a period of 15 to 20 years (Figure 1.C & D). This strand of borrowers also happens to be sanctioned one of the highest amounts; mean limit of credit facility is Rs 3.35M.

Figure 1.C

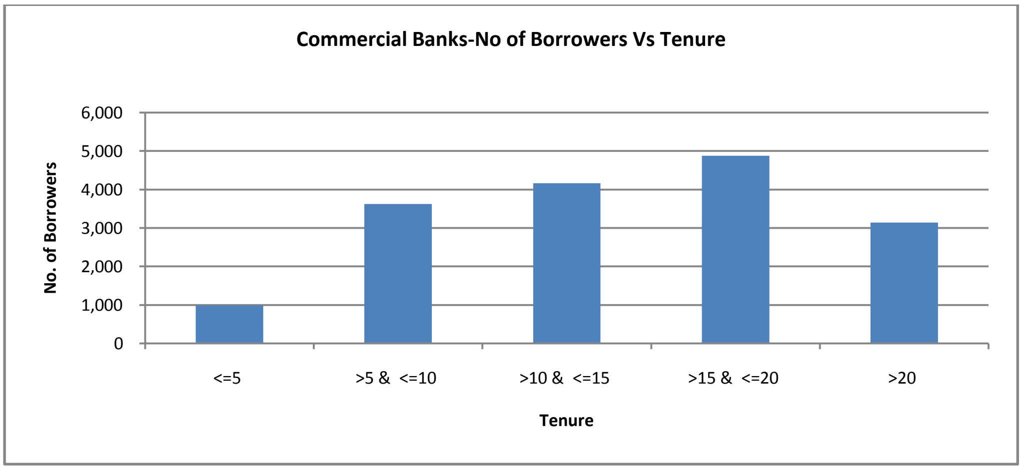
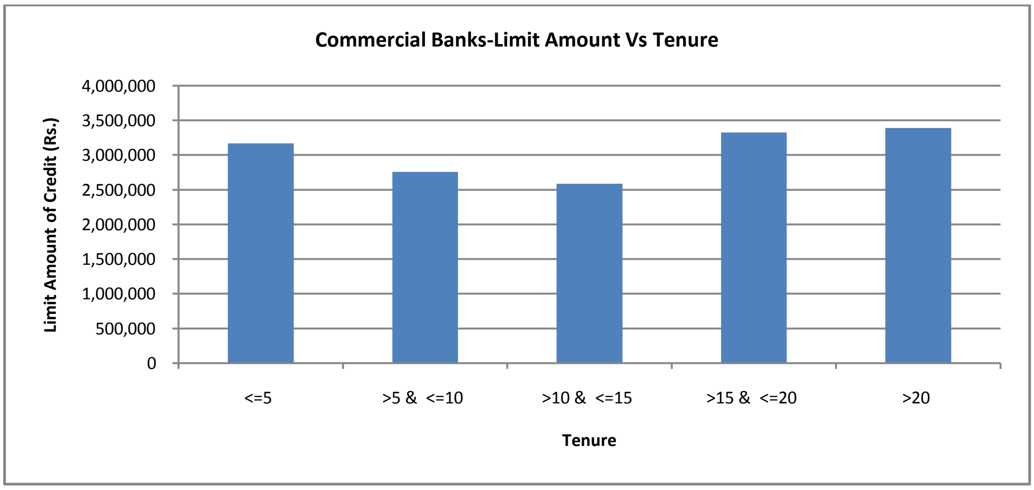


Figure 1.D



HBFC and other DFIs on the other hand have mostly offered house loans for either 10 to 15 years or above 20 years. Although it may be offering longer tenures, but it only seems to be doing so for smaller loans. This may be its risk mitigating strategy as obvious by the fact that it is extending the largest loans for a period of 5 years (Figure 1.E & 1.F)

Figure 1.E

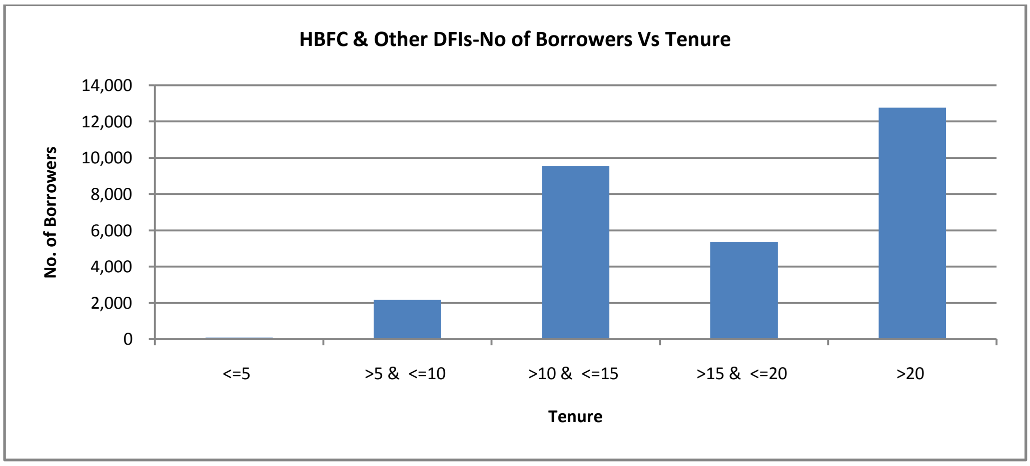
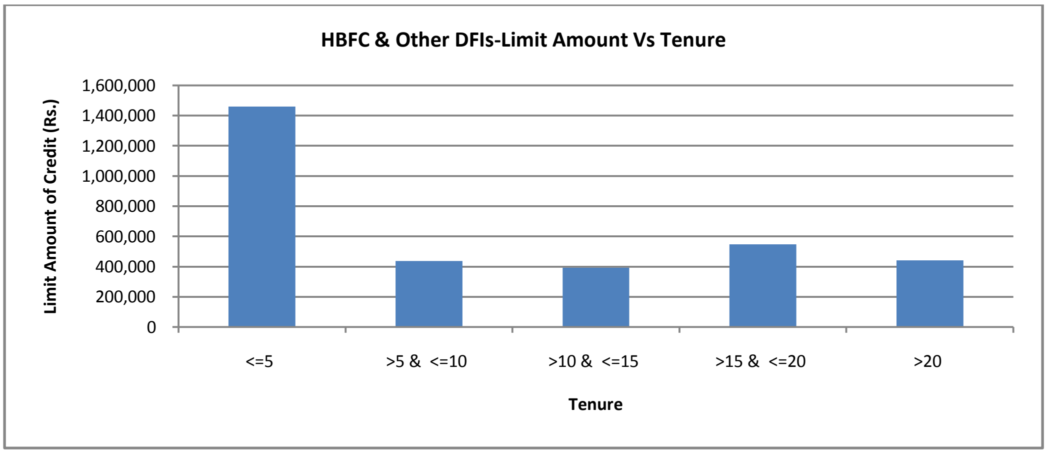


Figure 1.F



Commercial banks, unlike HBFC have their financing almost equally spread over the ranges of loan tenure. This shows a clear contrast between the lending behavior of commercial banks and HBFC & other DFIs. However, it can be argued in favor of HBFC that it encourages and makes affordable even smaller loans to lower income groups by increasing the tenure on their loan.

2. Income Profile of Housing Finance Borrowers

This chapter analyses the disposable income profiles of borrowers

Disposable Income of Borrowers

According to State Bank's Prudential Regulations, the debt burden ratio of a borrower should not exceed 50% of his/her disposable income. This section collates data from the survey to investigate the income profiles of borrowers whose monthly installment that does not exceed 50% of their disposable income, qualify for a house loan. This is an important question to study and observe because it asks 'how affordable are house loans from the banking sector for a borrower?'

It is expected a priori, that borrowers with less income will qualify for a smaller house loan. Moreover, it is also believed that HBFC is likely to be catering to borrowers with relatively lower income. For this purpose, we divide income into five bands and conduct a separate analysis for commercial banks and HBFC/DFIs[8]. Table 2.A presents the observations made on monthly disposable incomes. The most populated income band for commercial banks is those borrowers with an income greater than Rs 100,000. The mean disposable income of this range is Rs 478,000; representing high income group. The average credit facility extended to this group is a little over Rs 5 million which is the highest amount of credit across all income bands.

Table 2.A

Concentration	Parameter	Concentration Bands/Ranges	
		Commercial Banks	HBFC & Other DFIs
Most populated income band & its mean limit amount of credit facility	Income Band (Rs)	>100,000	<=15,000
	No. of Borrowers (Mean)	6,747	15,467
	Mean Disposable Income (Rs)	477,939	9,567
	Mean Credit Limit of the range (Rs)	5,308,627	251,309
Niche Market	Credit Band (Rs)	1 M to 5M	0.1M to 0.5M
	Average Disposable Income Band	30,000 to 100,000	15,000 to 30,000
Common Market for Commercial Banks & DFIs	Credit Band (Rs)	0.5 M to 1 M	0.5 M to 1M
	Average Disposable Income Band	15,000 to 30,000	30,000 to 50,000

HBFC's most populous income band is the other extreme of the spectrum; a majority of its borrowers report an average income of Rs15,000. This group has qualified for an average credit facility of Rs 250,000. The figures 2 A & 2 B further presents the spread of income groups. Highest credit limits are extended to those having a disposable income of more than Rs50,000 with an estimated average credit limit of greater than Rs1million.

[8] These bands are <=15,000, >15,000 and <=30,000, >30,000 and <=50,000, >50,000 and <=100,000 and >100,000.

Figure 2.A

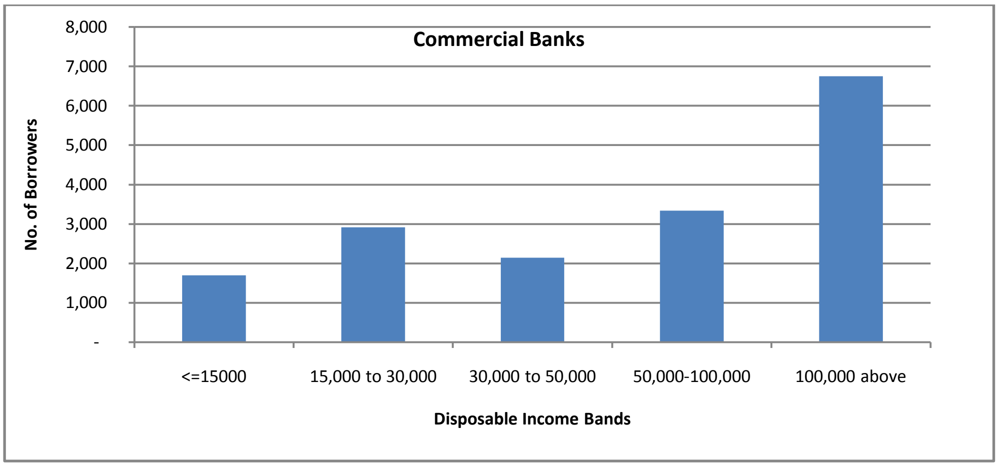
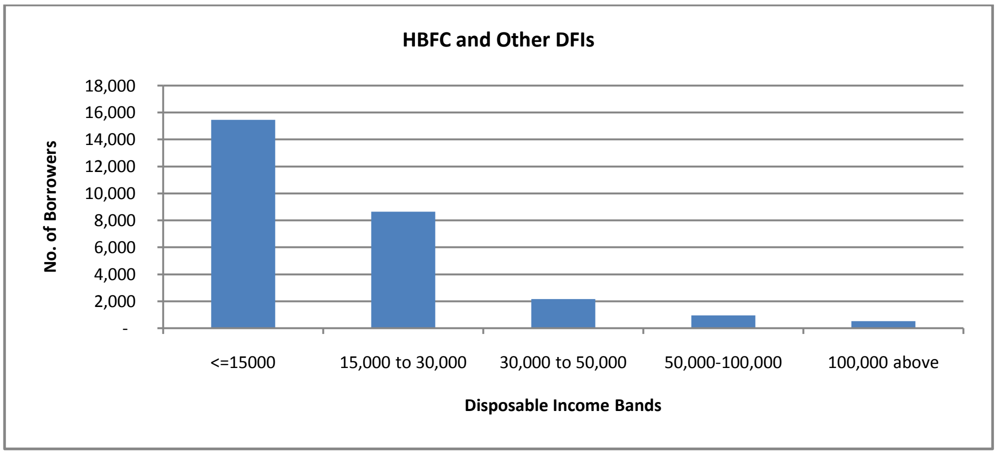


Figure 2. B



As discussed in the last section, it was observed that both commercial banks and HBFC/DFIs have a niche market; commercial banks are mostly geared towards catering the credit needs of borrowers that range from Rs 1M to 5M. HBFC is catering mostly to credit range of Rs100,000 to Rs500,000. For this niche market the table above presents the average disposable incomes of borrowers who fall in the 'niche market'. For commercial banks, niche market borrowers who have disposable income between Rs 30,000 to Rs 100,000. For HBF, borrowers have disposable income between Rs 15,000 to 30,000. It becomes clearer that not only do they have distinct markets, they (commercial banks & HBFC/DFIs) also have a different target income group altogether, albeit, not far apart. Similarly, studying their common market where the credit ranges from Rs 0.5M to Rs1M[9], the income profile of borrowers observed presents a differing argument. Commercial banks are offering house loans to borrowers whose disposable incomes range between Rs 15,000 to Rs 30,000. HBFC/DFIs on the other hand are catering to borrowers with disposable incomes falling in the range of Rs 30,000 to Rs 50,000; a higher range when compared to commercial banks.

[9] Discussed in last section. The band where credit facilities range between Rs 0.5 M to 1 M are the second most populous bands (in terms of borrowers) for both commercial banks and HBFC/DFIs. This observation might suggest that both HBFC and commercial banks may in fact be competing in this segment.

3. Structure and Efficiency of Housing Finance Market

This chapter measures the competition in the formal housing finance sector.

Background

Prior to 1990, the banking sector in Pakistan was characterized as being concentrated with the top five banks dominating the sector; their share in overall assets of the banking system was 84% by the end of 1990. The initiation of broad based financial sector reforms after 1990 set the stage for the evolution of the country's banking system. Number of banks increased marginally from 31 in 1990 to 45 in 1995, reducing the share of the top 5 banks. New banks, but being small-sized, were unable to give significant competition to the top five[10]. Thus the period between 1990 and 1995 also witnessed the new smaller banks finding it hard to sustain. In response to these developments, SBP took steps in the form of the issuance of new commercial banking license, implementation of risk-based regulatory capital requirement (1997) and subsequent increases in the minimum paid-up capital requirement. This triggered a wave of mergers and acquisitions in the financial sector. At one end medium sized banks were joining hands to stay in the banking business and on the other Islamic banks were emerging (because they were exempt from the implicit moratorium). The period between 2000 and 2006 witnessed number of Islamic banks growing from only one to six (by the end of 2006). They were established through issuance of Islamic Banking licenses (exempt from the implicit moratorium). Overall the banking sector in Pakistan experienced a gradual shift in its composition since 1990 and from 1999 onwards, the banking system started to show signs of an un-concentrated market.

Housing finance got its first impetus when in 2002 prudential regulations of SBP explicitly covered housing finance as part of consumer finance. This came at a time when the banking system was already geared towards behaving moderately competitive. It is since 2003, that commercial banks have been seen actively participating in the housing finance market. Using the developments in the overall banking system, how the landscape of housing finance changed over time will be presented using traditional measures of concentrations, namely M-Concentration Ratio, Coefficient of Variation and the Herfindhal Hirchman Index.

Number of Market Players

At the end of 2002, there were 10 financial institutions in the housing finance sector, including HBFC. Table 3. A below shows that by the end of 2003 the number of institutions offering housing finance grew to 21. Therefore out of a total of 40 financial institutions in the country half of them started offering housing finance products. By the end of 2009, 31 banks now offer housing finance. During the period 2003 and 2009, the number of banks involved in the housing finance has grown by almost 48%. Meezan Bank emerged as the first Islamic bank that offered housing finance in 2003, followed by other 2 Islamic banks that joined in by early 2007. By end of 2009, 5 Islamic banks are now actively participating in the housing finance market. While all banks have shown active participation, the presence of foreign banks remained limited. The composition of private banks, domestic banks and foreign banks have changed due to mergers and acquisition and emergence of Islamic Banks, however, the overall participation has shown a growing trend.

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[10] Khan, Mahmood Ul Hasan. "An Analysis of Degree of Competition in Banking Sector of Pakistan through a Direct Measure of Market Contestability." SBP Research Bulletin 5.2 (2009). Web.

Table 3 A. Number of Banks

End-December

		2003	2004	2005	2006	2007	2008	2009
PSCBs	All	5	4	4	4	4	4	4
	IOHF	4	4	4	4	4	4	4
DPBs	All	18	20	20	24	26	25	25
	IOHF	14	18	20	18	19	22	21
FBs	All	14	11	11	7	6	7	7
	IOHF	2	2	2	3	3	3	4
SBs	All	3	3	4	4	4	4	4
	IOHF	1	1	3	3	3	2	2
Total	All	40	38	39	39	40	40	40
	IOHF	21	25	29	28	29	31	31

PCBs: Public Sector Commercial Banks; DPBs: Domestic Private Banks(including Islamic Banks); FBs: Foreign Banks; SBs: Specialized Banks; IOHF: Institutions Offering Housing Finance

Prior to 2002, HBFC considerably dominated the market and enjoyed 90% share of the housing finance market. During 2003, HBFC, Citibank and ABN AMRO Bank (now RBS) constituted the top 3 banks that collectively enjoyed 97% of the share with a total portfolio of Rs 19.4 billion. Excluding HBFC, the top 3 banks that dominated the housing finance market also included Askari Bank. These three banks collectively had a total portfolio of Rs 1.72 million in the beginning of 2003. Over the course of 6 years, top 3 positions (among commercial banks) were shared by Bank Alfalah, NBP, Standard Chartered and UBL.

M-Concentration Ratio

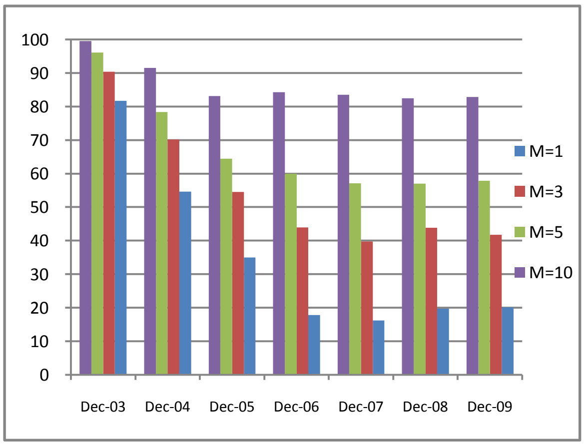
The M concentration ratio indicates the market share of M big firms. Using the conventional market share of top 1(M=1), 3 (M=3), 5 (M=5) and 10 (M=10) banks, the concentration levels of these banks are shown in figures in box 3.A. It can be seen that HBFC (M=1) being a specialized housing finance institution, not only dominated the housing finance market during 2003 by accounting for more than 80% market share but also dominated the share of housing finance borrowers; 99%. As new financial institutions entered the housing finance market, the concentration of HBFC reduced to 20% by the end of December 2009. The figures show that with or without including HBFC, the housing finance market started to become relatively un-concentrated between 2003 and 2004, with the shares of top 3, 5 and 10 reducing. This was due to entry of more banks into the housing finance business. 2005 onwards, the top 10 continued to enjoy a little over 80% share, while the share of the top 5 ranged between 60% and 50%. The share of top 3 hovered around 40%.

Overall, the behavior of the housing finance market is quite consistent with the overall concentration patterns of the banking sector. The M concentration ratios of the advances in the banking sector transcended the level of concentration in the housing finance sector too. During the period 2003 and 2007, advances of top1 enjoyed a share of 16% to 15%. The share of top 3 hovered between 39% and 36%, while that of top 5 ranged between 52% and 50%. From 2004 onwards, the share of top 10 increased from 72% to 75%.

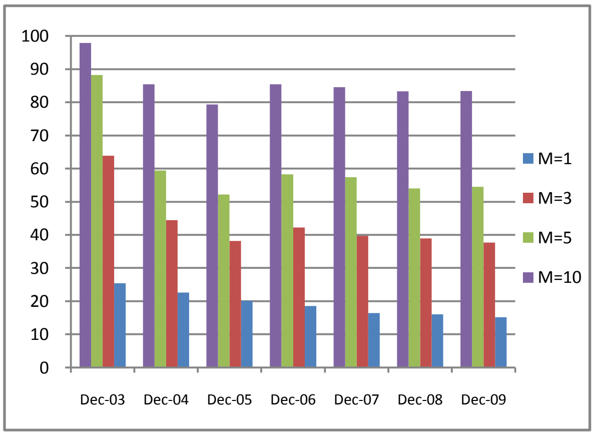
In terms of the number of borrowers, HBFC still accounts for more than 70% market share and continues to be the major market player. Excluding HBFC, the top 10 (M=10) financial institutions enjoy 80% of the borrowers in the housing finance market.

Box 3.A M-Concentration Ratio (percent)

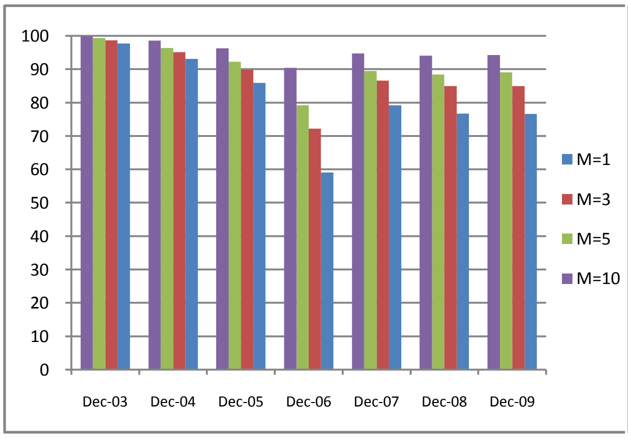
Housing Finance Outstanding Portfolio Including HBFC



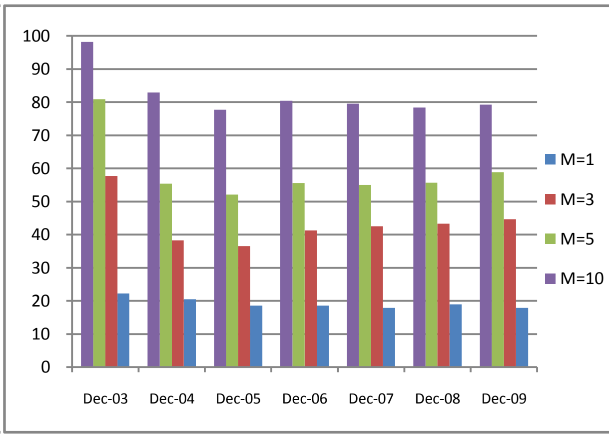
Housing Finance Outstanding Portfolio Excluding HBFC



Housing Finance Borrowers including HBFC



Housing Finance Borrowers excluding HBFC



Coefficient of Variation

While the M-concentration ratio is useful in presenting the skewed nature of distribution, it explains little about the dispersion in a market. To overcome this, the coefficient of variation is used popularly. It measures the market's dispersion around the mean. The table below compares both the coefficient of variations of the overall advances in Pakistan's banking system and the housing finance portfolio.

Table 3.B

Year	Overall Advances of the banking sector	Housing Finance (Including HBFC)	Housing Finance (Excluding HBFC)
2003	1.47	3.71	1.39
2004	1.40	2.70	1.41
2005	1.44	1.94	1.26
2006	1.40	1.32	1.27
2007	1.38	1.27	1.29
2008	1.42	1.40	1.37
2009	1.45	1.56	1.86

The results reiterate earlier observations. With a greater coefficient of variation by the end of year 2003, the housing finance sector was considerably concentrated, with HBFC as a lead player. However, over time it can be seen that with more and more banks entering and extending housing loans, HBFC concentration became weaker. The banking sector excluding HBFC shows that the level of concentration was relatively less among commercial banks. It is due to the presence of HBFC that the housing finance markets mimicked the characteristics of a concentrated market until 2004.

Herfindhal Hirchman Index

The Herfindhal Hirchman Index (HHI) measures the size of each firm in relation to the industry and measures the degree of competition among the market players. According to the HHI, the housing finance sector was highly concentrated up until 2004. This was mostly due to the dominant position of HBFC, without which the sector with commercial banks and other DFIs was moderately concentrated up until 2004.

Table 3.C

Year	Overall Advances of the banking sector	Housing Finance (Including HBFC)[11]	Housing Finance (Excluding HBFC)
2003	777	6730	1730
2004	764	3200	1040
2005	772	1590	970
2006	746	960	1020
2007	732	880	940
2008	743	940	860
2009	761	930	840

The index suggests that there was little competition among the financial institutions offering housing finance. HBFC enjoyed this dominant position because of its wide branch network and a greater number of borrowers. While HBFC still continues to be an institution with the most borrowers, the share of its portfolio in the overall housing finance sector weakened on the onset of 2005. With more banks entering the arena and the existing ones increasing their share, the housing finance sector shifted from a highly concentrated sector to a moderately concentrated sector. From 2006 onwards, even in the presence of HBFC, the housing finance sector can be termed as 'un-concentrated'.

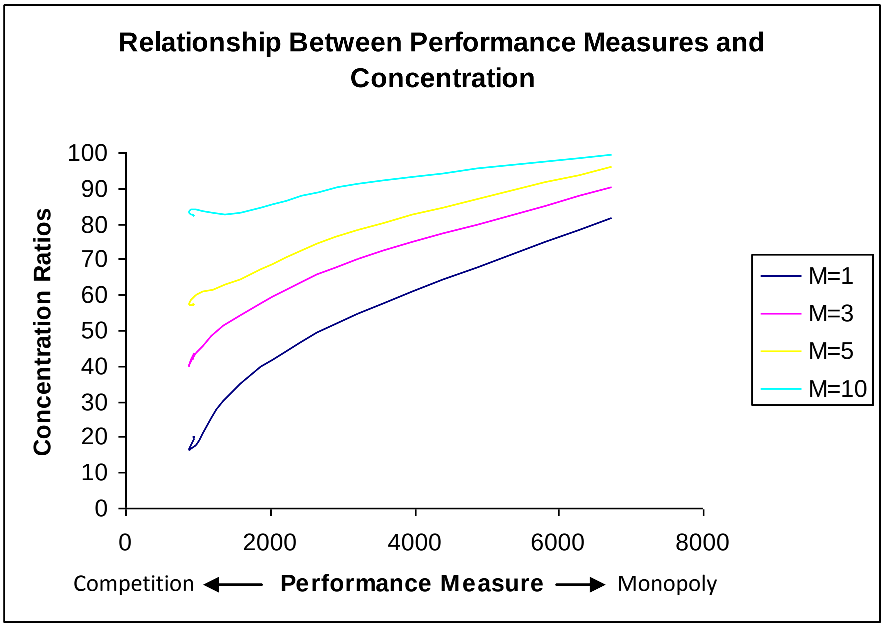
The emergence of the commercial banks in housing finance came at a time when the banking sector itself had experienced considerable transformation and was characterized as 'un-concentrated'.

[11] An HHI less than 100 suggests 'highly competitive market'; less than 1000 indicates 'un-concentrated market' ; between 1000 and 1800 suggests 'moderate concentration'; the index above 1800 indicates 'a highly concentrated market'.

While the housing finance sector was highly concentrated with HBFC as the one dominant player in the market, commercial banks entered and were quick in stirring some level of competition in the sector.

Figure 3.A below graphically summarizes the relationship between performance of the housing finance sector (measured by the HHI) and the concentration levels (measured by the M-concentration ratio). It can be inferred that as performance of the sector became more competitive (indicated by a lower HHI), the concentration levels of top 1(M=1), top 3(M=3) & top 5(M=5) banks reduced. The concentration ratio of top 10 (M=10) also reduced, but not significantly, implying that the housing finance market in Pakistan is dominated by 10 banks including HBFC.

Figure 3.A



While it can be concluded based on the findings of this section, that the housing finance market has seen considerable change and can now be categorized as an un-concentrated market, this analysis on how competitive banks are in offering housing finance remains incomplete. It may be questioned whether these banks are competitive in one or few selected regions, or if they are competing and expanding their outreach geographically too.

4. Geographic Dispersion of Housing Finance Market

This section presents the regions where banks are offering housing finance and analyses if outreach is limited to few concentrated regions.

Geographical Dispersion of the Borrowers

An important feature of outreach is the geographical expansion of services. Geographical expansion takes place when the existing market becomes saturated and firms seek other markets to ensure profits. We look into the geographical dispersion of banks offering housing finance to see signs of increased outreach by banks.

Table 4.A below lists the cities along with each city's portfolio.

Location	No of Borrowers	Outstanding Portfolio (Rs Millions)	%
Commercial Banks			
Karachi	5,439	15,800	39
Lahore	4,206	13,000	32
Islamabad	1,690	4,540	11
Faisalabad	1,125	2,699	7
Rawalpindi	931	1,630	4
Multan	618	838	2
Peshawar	459	569	1
Hyderabad	414	323	1
Rawalpindi / Islamabad	46	231	1
Total of above	14,928	39,631	97
Other locations	1,319	1,523	3
Total	16,247	40,900	
HBFC			
Karachi	6996	3,226	29
Lahore	1830	793	7
Hyderabad	1936	677	6
Faisalabad	1530	599	5
Rawalpindi	914	401	4
Multan	975	348	3
Islamabad	263	321	3
Gilgit	739	224	2
Rahimyar khan	621	218	2
Bahawalpur	579	199	2
	16,383	7,009	62
Other Locations	13,159		
Total	29,542	11,300	

The table shows that among commercial banks 97% of the housing finance portfolio is concentrated in the urban centres of the country. Karachi and Lahore together constitute 32% of the total outstanding portfolio. This is considerably high concentration of the housing finance market.

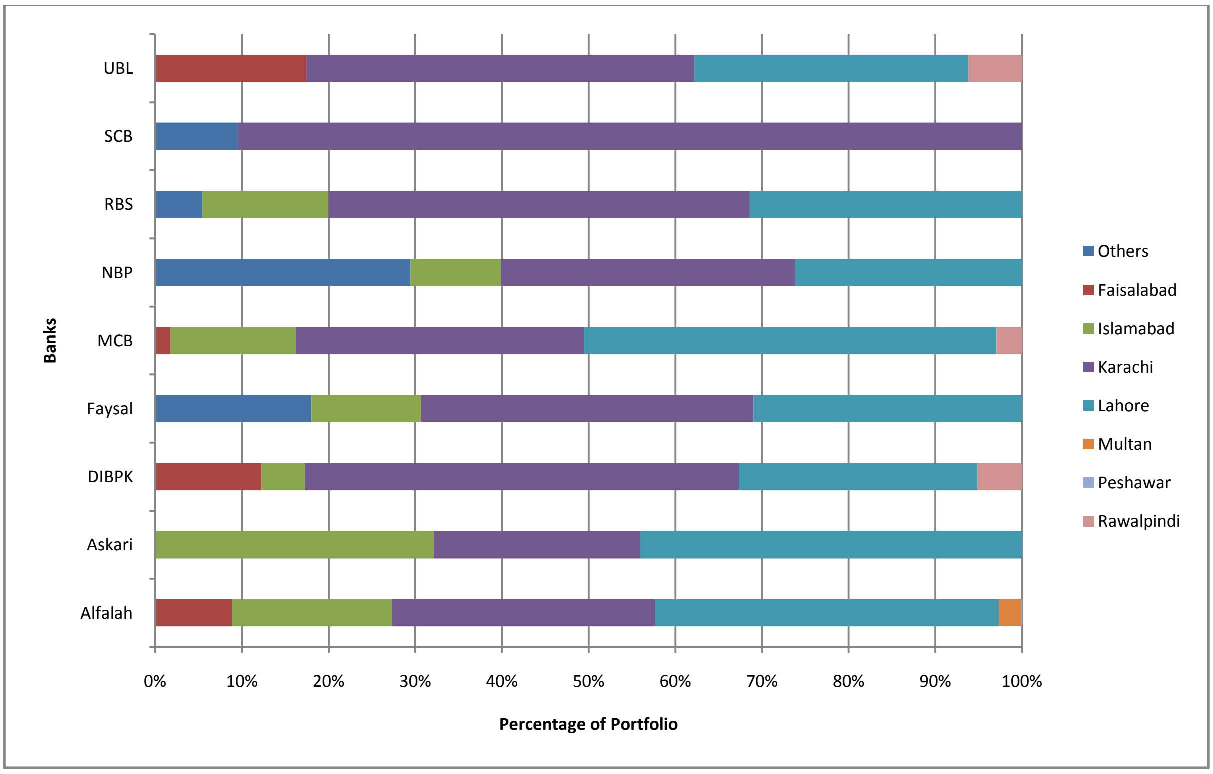
For HBFC, geographical dispersion is much greater. Share of outstanding portfolio among urban centres is 62%. The remaining areas enjoy 38% of the outstanding housing finance portfolio. Karachi enjoys 29% share in HBFC's portfolio.

Figure 4. A gives a graphical representation on the geographic dispersion of the top 9 banks (10th being HBFC).

For the top 10 banks, housing finance is significantly concentrated in the three urban centers (Karachi, Lahore and Islamabad).

This and earlier section on competition together imply that although there is competition among the banks for housing finance, the regions where they are operating are largely concentrated. This poses two questions. First, is it because the existing markets/regions have so high a demand that they have yet to reach their saturation point? Second, is it because banks are simply un-willing to venture into other markets?

Figure 4.A


UBL
SCB
RBS
NBP
MCB
Faysal
DIBPK
Askari
Alfalah
Banks
0%
10%
20%
30%
40%
50%
60%
70%
80%
90%
100%
Percentage of Portfolio
Others
Faisalabad
Islamabad
Karachi
Lahore
Multan
Peshawar
Rawalpindi

5. Analyzing Credit Policies of Banks

Policy Vs Practice.

Analyzing the Credit Policies of Banks

In order to develop a better insight on lending practices of banks for housing finance, it is pertinent to study their internal housing finance credit policies and compare it with their actual practices. A typical housing finance policy sets parameters that cover demographics, income and financing terms for any borrower. Demographics covers areas namely nationality, age and profession of the borrower. Income covers the borrower's salary (if employed) or income (from business) and employment tenure. Financing terms include setting financing limits, loan tenure, debt-equity ratio and the debt burden of the borrower.

Although it is at the banks' discretion to sanction a loan to a borrower who meets the criteria and falls within it's (bank's) set parameters, it is important to see if they are deviating from their own policies. Lending practices beyond their fringes (credit policy parameters) would be indicative of improved level of outreach and a lesser degree of credit rationing[12]. Those lending at a level below their own set parameters will be reflecting increased cautious lending and greater credit rationing, thus limited outreach.

For this purpose, this section will be focusing on four broad parameters namely income, financing limits, loan tenure and the LTVs. Other criterions will also be presented.

Borrowers' Income

According to the credit policies, banks are popularly selecting clients who have an income of Rs 50,000/month[13]. The average income computed across all bank's credit policies is estimated to be approximately Rs 40,000/month. The minimum income set as a criterion is Rs 10,000/month (KASB) and maximum income has been noted as Rs 150,000.

Income in credit policies has been subdivided into salaried, self employed/business (SEP/B) and contractual[14]. Some banks state a general income in their policy. The table 5.A below summarizes the findings of credit policies and the minimum acceptable income levels of each category;

Table 5.A	General	Contractual	Salaried	SEP
Mean	32,667	45,000	29,444	56,143
Min	18,000	35,000	10,000	10,000
Max	50,000	50,000	75,000	150,000
Mode	N.A	50,000	20,000	50,000

Some banks also allow for additional income to be clubbed-in for the purposes of a house loan. This is usually in the form of rental income, income of a co-borrower, income from profit and income

[12] It may also be indicative of increased competition.
[13] Mode of the sample credit policies studied
[14] KASB also offers to 3rd party contractual employees provided their minimum monthly gross income is Rs 20,000.

from commission.[15] For non-resident Pakistanis, Dubai Islamic considers customers with AED 25,000-27,000 (mostly UAE based).

The borrower-wise data collected from banks documents income levels of salaried and business/professionals only. Therefore, the table 5.B, below presents a bank-wise comparison of credit policies with actual lending data for the two groups.

Table 5.B Disposable Income (Monthly)

Bank Name	Salaried				Business/Professionals			
	Credit Policy	Borrower-wise data			Credit Policy	Borrower-wise data		
		Mean	Min	Max		Mean	Min	Max
Albaraka	20,000	159,019	46,552	304,309	33,000	291,616	135,400	523,516
Alfalah	40,000	186,043	27,195	955,000	80,000	206,209	20,391	973,500
Askari	20,000	145,311	15,075	1,237,057	N.R	227,121	20,000	1,340,008
BOK	N.R	20,253	3,914	160,000	N.R	39,443	10,000	200,000
Bank Alhabib	N.R	242,733	14,000	3,000,000	N.R	139,370	131,000	147,739
BankIslami	15,000	148,453	10,300	2,319,694	N.R	527,926	39,707	5,200,000
Barclays	25,000	168,725	39,900	488,000	N.R	1,008,129	158,667	5,826,180
Dubai Islamic	15,000	177,846	17,000	1,500,000	15,000	686,298	31,391	12,800,000
Faysal	N.R	231,707	19,875	5,400,000	N.R	597,614	28,905	5,128,476
HBFC	N.R	19,447	2,131	972,400	N.R	20,801	3,000	984,000
HBL	N.R	43,095	6,171	871,000	N.R	127,034	7,250	1,800,000
Habib Metropolitan*		105,450	10,900	200,000	N.R	.	.	.
KASB	10,000	20,313	10,325	36,387	10,000	14,185	6,524	18,916
MCB	18,000	76,272	18,000	1,371,312	18,000	556,352	25,262	12,900,000
Meezan	20,000	119,194	12,380	1,669,000	N.R	338,655	20,632	5,364,918
NBP	5,000	53,783	2,151	23,000,000	15,000	247,658	11,917	17,100,000
NIB	N.R	51,240	7,054	1,500,000	N.R	108,296	11,000	2,890,340
Pak Libya Holding*		67,924	11,804	754,690		533,668	28,663	5,229,028
RBS	75,000	124,751	11,047	2,500,000	150,000	616,874	15,000	9,592,929
SAMBA*		41,200	11,899	70,501		249,463	173,500	325,425
Soneri	N.A	27,703	4,497	500,000	N.R	86,243	10,000	291,000
Standard Charter	30,000	159,543	12,565	11,000,000	N.R	794,862	16,390	30,000,000
UBL	50,000	177,596	14,300	18,900,000	50,000	387,833	14,038	5,689,562

N.R-Not Reported, N.A- Not applicable, * No longer offering housing finance

Among salaried group, only three banks have lent at a higher income amount when compared to their credit policy. For example, Albaraka Bank quotes in its credit policy a minimum salary of Rs20, 000/month whereas, the actual data computes a minimum salary of Rs 46,000. This is reflective of some form of credit rationing. It is important to highlight that although some banks maybe appearing to lend at income levels below their stated minimum (as per policy), this may not necessarily be indicative of 'lending beyond the fringes'. On investigation it was observed that some banks have in fact recently revised their minimum income criteria upwards. Since the borrower-wise data used dates as far back as 2002, this upward revision may in fact be indicative of a more restrictive approach where the bar has now been raised higher for potential borrowers. This is probably due to increase in monetary policy rate that are making monthly installments relatively higher than before.

[15] Rental income can be clubbed to an extent of 75% if reflected in Bank Statement (KASB) and 50% otherwise (KASB & Dubai Islamic). MCB allows only 50% of the clubbing if bank statement is available. Dubai Islamic considers 25% of income from profit and 80% income from commission too.

Loan Tenure

According to banks' credit policies, for outright purchase and construction, popular tenures are a minimum of 3 and maximum 20 years, whereas for renovation it is a minimum of 3 to maximum of 10 yeaRs For renovation some banks are offering tenure of 20-25 years[16], as well. The table 5.C below presents a comparison of loan tenures as stated in credit policies and computed tenures based on borrowers-wise data.

Table 5.C Tenure (years)

Bank Name	Credit Policy		Borrower-wise data		
	Min	Max	Mean	Min	Max
Albaraka	3	20	13	1	20
Alfalah			9	0.5	21
Askari	1	20	13	-	30
BOK	-	15	11	4	15
Bank Alhabib	-	20	12	4	20
BankIslami	2	20	16	3	21
Barclays	3	20	15	3	20
Dubai Islamic	3	30	14	2	21
Faysal	N.R	N.R	16	1	20
HBFC	2	20	16	0.2	25
HBL	3	20	15	0.4	20
Habib			1	1	3
KASB	3	20	14	2	23
MCB	2	20	16	1	21
Meezan	3	25	17	-	22
NBP	3	20	16	1	25
NIB			13	2	21
Pak Libya Holding			15	4	20
RBS	3	25	14	1	25
SAMBA			19	14	20
Soneri	-	20	11	2	20
Standard Charter		20	9	1	20
UBL	N.R	N.R	16	2	20

According to the actual loan tenures computed using the borrower-wise data, 6 banks have extended loans for tenure greater than the one stated in their respective credit policy. 11 banks have lent for more than 20 years' tenure.

A greater tenure implies that a house loan can be made more affordable since monthly installments will be smaller. On closer inspection it is observed that this includes over 6,559 cases where banks have extended loans for tenure greater than 20 years

Of this number, only 54 pertain to commercial banks (6,505 cases are of HBFC). Among commercial banks, loans with a tenure greater than 20 years are those that have an average estimated credit facility of Rs 5 million (approximately). The average income for these 54 cases is estimated to be Rs 232,580. This clearly indicates that although banks are offering longer tenures, they are highly selective; offering limited borrowers belonging to high income group. Prima facia, long tenures increase affordability; however, commercial banks remain selective.

HBFC on the other hand is offering longer tenures to borrowers who have an average credit facility of Rs 300,000 and a disposable income of Rs 14, 000 (approximately).

Financing Limits

With the exception of one bank, almost all banks have financed below their minimum stated financing limit (as per credit policy). Table 5.D lists the mean, minimum and maximum financing extending by banks.

[16] RBS & Faysal Bank

Table 5.D Financing Limits

Bank Name	Credit Policy		Borrower-wise data		
	Min	Max	Mean	Min	Max
Albaraka	300,000	15,000,000	4,146,273	1,005,650	11,600,000
Alfalah	1,500,00	50,000,000	2,344,707	6,777	29,300,000
Askari	300,000	30,000,000	3,684,067	45,000	65,000,000
BOK	-	10,000,000	419,708	100,000	4,000,000
Bank Alhabib	300,000	20,000,000	3,409,044	250,000	16,000,000
BankIslami	200,000	50,000,000	4,006,003	250,000	32,000,000
Barclays	-	50,000,000	7,737,765	1,000,000	41,600,000
Dubai Islamic	500,000	50,000,000	7,218,309	500,000	50,000,000
Faysal	500,000	50,000,000	4,670,188	115,618	36,600,000
HBFC	100,000	7,500,000	432,325	18,000	7,500,000
HBL	300,000	15,000,000	1,638,358	150,000	26,900,000
Habib Metropolitan			5,439,000	950,000	17,100,000
KASB	300,000	20,000,000	1,043,969	100,000	7,000,000
MCB	500,000	30,000,000	4,913,857	296,800	30,000,000
Meezan	300,000	40,000,000	3,413,990	8,000	50,000,000
NBP		35,000,000	1,937,360	40,000	35,000,000
NIB			1,356,415	100,000	10,400,000
Pak Libya Holding			3,535,912	250,000	45,000,000
RBS	500,000	50,000,000	4,525,804	150,000	50,000,000
SAMBA			2,389,350	500,000	4,900,000
Soneri	-	10,000,000	769,554	59,921	6,250,000
Standard Charter		30,000,000	3,426,254	100,000	60,000,000
UBL	500,000	30,000,000	4,978,478	500,000	50,000,000

Banks that are offering relatively smaller loans include BOK, HBFC and Soneri. The average financing limits hover in the range of Rs 0.4 million to Rs 0.7 million. The average (mean) financing extended by Barclays and Dubai Islamic Bank are the highest in the sample; Rs 7.7 million & Rs 7.2 million, respectively.

Loan-to-Value Ratios

On an average, the banking industry allows financing around 70% for outright purchase and construction (as per credit policies). However, popular financing limits are 60% and 80%[17] for outright purchase and construction, respectively. Average for financing for renovation is 65%. Some banks' criteria for evaluating financing is based on whether the customer is self employed, salaried or on contract.

[17] Modes of the sample of credit policies.

Table 5.E LTVs

Bank Name	Credit Policy	Borrower-wise data		
	Max	Mean	Min	Max
Albaraka	80	50	15	84
Alfalah	60	36	0.5	83
Askari	85	38	-	104[18]
BOK	70	36	5	83
Bank Alhabib	75	48	10	82
BankIslami	80	49	7	84
Barclays	85	62	5	85
Dubai Islamic	75	62	7	85
Faysal	80	43	1	84
HBFC	70	73	2	84[19]
HBL	85	57	5	85
Habib Metropolitan		40	8	70
KASB	70	41	4	75
MCB	70	62	4	85
Meezan	85	53	0.3	85
NBP	70	53	5	85
NIB		52	2	294[20]
Pak Libya Holding		57	7	85
RBS	65	53	1	85
SAMBA		67	35	118[21]
Soneri	80	50	6	84
Standard Charter	60	54	4	129[22]
UBL	65	65	7	99[23]

According to actual LTVs computed using the borrower-wise data, banks are generally financing a maximum of over 80% of the collateral values. On closer observation the number of cases that are being financed more than 80% are very limited; only 1,255 borrowers. Of these 1,209 are commercial bank borrowers and the reaming 46 are HBFC's borrowers.

It is re-iterated that some banks have recently revised their credit policies and have adopted a more cautious approach by bringing down the maximum LTV.

5 banks are seen to be financing less than 50% of the collateral value.

In addition to incomes, financing limits, loan tenure and LTVs, the credit policies of banks/DFIs include other criteria to assess if a borrower will qualify for house loan.

Of the 19 banks whose credit policies were reviewed, 12 banks extend loans to resident as well as non-resident Pakistanis. 4 banks (HBL, KASB, BOP & UBL) offer their products to Pakistani residents only. The minimum and maximum age range is between 25 and 65 (mode of the sample). There are banks where the minimum has been relaxed to 18.

KASB bank documents a list of unapproved professions which are; Lawyers, journalists, agriculturists, law enforcement personnel, commission based businesses, entertainment, politicians, non-licensed cable operators, money changers, overseas employment agencies, internet service providers with

[18] To investigate the bank was called several times but no one responded.
[19] 185 cases were reported to have an LTV greater than 85. They are excluded from this analysis and are currently under investigation by HBFC.
[20] List of cases where LTV was greater than 85 was sent to NIB. Data was corrected for some, however, 48 cases remain unresolved due to their MIS being upgraded.
[21] A loan approved for an ex-employee under SAMBA's HR policy.
[22] There are 2 loans that have an LTV greater than 85. The bank claims that these two loans were disbursed on a greater than 85 LTV, however, one of them has been settled.
[23] 2 cases. One where the value of the property used as collateral decreased by the time the third tranche was disbursed, thus raising the LTV. The other case involves a borrower who has given a bond of £50,000 as additional security, not included in the calculation of the above LTV.

less than 5 yrs exp (for renovation only), auto dealers with less than 5 yrs exp & government contractoRs Other banks do not define any such criterion for Profession.

On an average, banks are requiring 2 years of work experience for both salaried and contractual employees. For those who are self employed, banks are popularly requiring at least 3 years of experience in the same job and industry.

There is no policy against property sizes to be financed. However, Alfalah is the only bank that explicitly restricts financing for property sizes less than 5 marlas.

Of all the banks, HBL explicitly states criteria on property lease. It states that at least 5 years should be remaining at the time of maturity of loan.

Out of the 19, 6 banks explicitly state the location/regions where they extend financing and maintain a 'Positive List'. These include Alfalah, KASB, MCB, RBS, Dubai Islamic & UBL. Popular locations are urban centers. HBFC caters to all urban areas including tehsils, small towns and districts headquarters all over Pakistan.

The table 5.F below summarizes the age of property that qualifies for financing;

Table 5.F

Bank(s)	Age of Property (Years)
HBL	Not more than 40
KASB, RBS	Not more than 30 (RBS allows 35yrs for apartments)
MCB, Faysal	Not more than 50
HBFC	Not more than 45
UBL	Not more than 40 (for apartments)

Some the policies presented above indicate that banks are highly selective in extending housing finance. Restriction of property sizes is a clear example of how credit is rationed.

6. Efficiency of Foreclosure Law in Pakistan

This chapter analyses the efficiency with which foreclosure proceedings take place. Efficiency is measured on three parameters, namely number of steps involved, cost and time taken to resolve foreclosure cases. This analysis involves a study of both pending cases and those that have been successfully foreclosed by banks/DFIs.

Background

Availability of correct and accurate information and the presence of an efficient dispute resolution mechanism are critical for smooth transaction processes for any two transacting parties. From the lender's point of view if accurate information on a borrower's credit worthiness is easily available, the more likely it is that a loan will be extended to such a borrower. Similarly, if a lender has greater confidence on the legal system to help it recover its losses, the lender is more likely to extend a loan more tuned to accommodate borrower's need and capacity. In the absence of a sound legal system, the lender will protect its own interest by being overly cautious. This may involve higher interest rates, larger down payments and even credit rationing. According to the 'World Bank Doing Business Report', Pakistan ranks 154th in the enforcement of commercial contracts. With a total number of 47 procedures, it takes 976 days on average for disposal of a commercial dispute. India ranks 180 and takes 1,420 days with 46 procedures involved before a commercial contract is enforced through the judicial system. Sri Lank ranks slightly better than Pakistan. US ranks on the 6 and takes only 300 days and 32 procedures to enforce a contract[24].

In the case of housing finance, the presence of an efficient foreclosure law is of critical importance for the sector to expand. An efficient foreclosure law implies that there is minimal costs and time involved for an efficient disposable of a foreclosed property. In the case of developed countries like the US it takes on average 250 days (8 months)[25] from the commencement of mortgage enforcement proceedings to execution of sale for a typical case. Similarly, according to another study, it takes in Sri Lanka 71 days and India 187 days to resolve foreclosure cases[26]. Pakistan is estimated to take 131 days to successfully foreclose a mortgaged property.

Foreclosure Law in Pakistan- History

Like most of the developing countries, the issue of foreclosures is a sensitive one in Pakistan too. The process of foreclosing a property has a social implication and is often treated as a social stigma for a borrower. And that is why a legal process is often labeled as being more biased towards the debtor; a common perception among banks. Policy makers and courts are themselves reluctant to evict citizens from their homes, which may be culturally offensive and politically unpopular. However, in order to increase outreach, the legal system needs to be strengthened so that the financing needs of a greater number of potential borrowers can be met. As Chiquier and Lea (2009) in the book quote;

> "..Even though there are few cases of mortgage execution in most emerging economies, efficient execution procedures may be needed to avoid the perception by citizens that repayment has no consequences and convince creditors that they are protected, thereby facilitating the access of housing finance to many more households."
>
> (Page 94)

[24] *Doing Business 2009*. Rep. Washington: World Bank, 2009. Print.
[25] Chiquier, Loïc, and Michael Lea, eds. *Housing Finance Policy In Emerging Markets*. Washington: World Bank, 2009. Print.
[26] *Housing Finance Beyond the Upper-Income Groups: How to Reach the Poor in South Asia*. Report Presented at the South Asia Housing Finance Forum, New Delhi India on January 27-29 2010. The World Bank 2009. The report has estimated best case scenarios.

In order to make the legal system efficient in addressing the needs of the banking system for mortgaged properties, the Financial Institutions (Recovery of Finances) Ordinance of 2001 provided for a new foreclosure law mechanism. The Sections 15(2) of the Ordinance empowers financial institutions to foreclose a mortgage property without recourse to the court of law. However, recently the Lahore High Court had passed a judgment on December 23, 2008 whereby Section 15 of the Ordinance was declared unconstitutional and without legal effects.

Subsequently, the Supreme Court of Pakistan on February 11, 2009 suspended the Lahore High Court's decision, bringing back to life Section 15 of the Ordinance which has once again entitled banks, investment banks and leasing companies to sell mortgaged properties without intervention of the court. This instance has substantially reduced financial institutions' confidence as the Supreme Court has only suspended the Lahore High Court ruling on Section 15, but not annulled it. It is commonly felt among the banking sector that despite Supreme Court's decision, there will always be danger that foreclosures carried out by the Banks/DFIs under Section 15 could be overturned if the final decision on this Ordinance is not in favor of banks/DFIs.

Objectives of the Survey

The objective of this survey is to document and gauge the efficiency of Foreclosure Law in Pakistan. Since banks are currently reluctant to utilize Section 15 to their benefit, they are now more inclined to seek recovery through the Banking Court.

Banks/DFIs were asked to report the cases as on December 31, 2009 on the following three parameters;

1. Number of steps followed
2. Cost
3. Time taken

The survey also documents cases that are currently pending with the Banking Court. Banks were asked to report common reasons for delay. Prior to final compilation of findings, the responses received were discussed with the respondent banks, as well.

Respondent Banks

The survey was sent to 25 banks. Of these, 10 banks are seeking recoveries of foreclosed properties; either through auction or through the judicial process. The others are not involved in foreclosure proceedings.

Table 6.A

	No. of cases successfully foreclosed		No. of cases pending		Total	
	HBFC	Commercial banks	HBFC	Commercial banks	HBFC	Commercial banks
Without recourse to the court of law	10,886	125	N.R[27]	214		339
With recourse to the Banking Court	1,752	8	N.R	827		835
Total	12,638	133	N.R	1,041		1,174

[27] Not reported

The table 6.A summarizes the number of cases that have been foreclosed successfully and those that are still pending. It can be seen that a majority (1,041 cases out of 1,174) of foreclosed cases of the commercial banks are currently pending. Of these, a majority is seeking recovery through the Banking Court. 827 cases out of 1,041 pending cases of the commercial banks are pending in the courts (the remaining being settled without recourse to the Banking Court). It is important to see that these cases are facing a very narrow funnel; with only 8 cases that have been successfully foreclosed through the banking court. This shows the backlog that is being created in the system i.e. only 1% of the total cases that were put through the court have successfully seen through complete judgment and enforcement process.

Commercial banks have sought recovery of 339 cases without recourse of the Banking court, through direct auction. Of these, 125 cases have been successfully foreclosed; a considerable high proportion when compared to 8 cases that were successfully foreclosed when pursued through the banking court.

Exerting its power under Section 15 of the Recovery Ordinance 2001, a financial institution clearly prefers to seek recovery on a defaulted mortgage loan without recourse to the Banking Court. However, despite having this power, the system is riddled with problems.

Successful Settlement of Foreclosed Cases by Financial Institutions

Foreclosing a property without recourse to the banking court

Steps Involved

As stipulated under Section 15 of the Recovery Ordinance 2001, in case of default in payment by a customer, the financial institution issues three notices. The first notice is issued requiring payment of the outstanding amount within 14 days from the service of the notice. If the customer fails to make the payment, a second notice is issued requiring payment within 14 days. If the customer continues to default in the payment, the financial institution serves a final notice to the customer requiring payment within 30 days from the service of the final notice. HBFC on the other hand serves 2 notices of 30 days each with a final notice served for another 30 days. In addition to these notices, HBFC also serves a warning notice of 15 days. Subsequent to failure on the part of the customer to respond on the third notice (and on the warning in the case of HBFC), the financial institution arranges publication of an auction in 2 widely circulated papers. Then a valuation of the property takes place.

Once the auction is successfully done, the financial institution then files Accounts of auction proceedings with the Banking Court. The purchaser may then be assisted by the financial institution for possession with the help of the Banking Court.

In addition to the above steps, financial institutions make continuous follow-ups with the customer and pursue a settlement arrangement acceptable to both (the institution and the customer) by offering a discount or a waiver[28].

[28] DIBPK informs that it offers incentives to the customer in the form of discounts/waiver that maybe be equivalent to charges which will be borne by the customer if recovery is sought through Banking Court

Time Taken

The response received on time taken to foreclose a property by exercising power under Section 15 of the Recovery Ordinance 2001, varies from bank to bank, making it difficult to conclude onto an average time taken. However, a parallel can be drawn from HBFC's response for 10,886 of its cases that were settled without recourse to the Banking Court. HBFC claims that it takes 180 days on an average. Responses and the respective number of cases are summarized below for each respondent bank;

Table 6.B			
Sr. No	**Bank Name**	**Number of cases that have been successfully foreclosed without recourse to the court of law till December 31, 2009.**	**Average time taken (days) from the moment a borrower is declared 'defaulter' to the time when recovery is made**
1	MCB	23	365-700
2	DIBPK	7	150-180
3	BOK	10	90-540
4	RBS	9	400
5	SCB	76	90+
6	HBFC	10,886	180

Cost

Of the banks that responded to the survey, 2 gave an average cost of 125-175K. Publication in newspaper itself costs more than 100,000. DIB also accounted its cost of waiving profits (Rs 370,000). BOK reported the lowest cost of 1,000/case (average). This is because they have included cost of telephone and recovery staff travel. HBFC reports an average cost of Rs 5,000.

Problems faced by Banks

Most banks responded that there is a lack of Implementation of Section 15 of Financial Institution Recovery Ordinance-2001 in letter & spirit.

Difficulty is faced normally when the case is in execution stage, and the bank gets authority for the sale / auction of the property without having its possession. Buyers are mostly reluctant to participate in the auction process. Although, the Banking Court allows for possession if the auction is not made successful once or twice, this process itself with repetitions not only delays the auction process but makes it costly too.

Banks have also identified valuation of the property as a hindrance in the smooth functioning of the auction process. There are certain gaps in the assessment/valuation of the mortgaged property and banks claim that the customer gets a relief upon having a disagreement of the minimum appraised price of the property under auction.

Moreover, lack of cooperation from local administration on security issues at the time of on-site public auction has also been identified as an issue causing delays. HBFC responds that seeking recovery in remote areas of Baluchistan becomes a challenge due to the existence of dominant tribes/communities.

Lastly, one of the most common feedback given by banks is the attitude of the customer. Customers usually don't attend phone calls from the recovery staff and often are not available at the time of visits of bank's representatives.

To conclude, banks identify the execution process as the most time and cost consuming stage in the non-judicial processes. It has also been pointed out that there is currently no specific standard fee structure for the auctioneer fees. In addition to the above HBFC explains that visits made by the recovery staff to far flung areas for follow up purposes are mostly time and cost consuming.

Foreclosing a property with recourse to the banking court

Steps

The survey documents three steps in general, namely, filling and service, trial and judgment and lastly, enforcement of judgment. Each of these three broad steps is then broken down into further smaller steps[29].

Table 6.C				
	Steps	Sub-Steps	Average Time Taken (days)	Average Cost incurred (Rs)
1	Filling & Service	9-10	22-135	49,833
2	Trial & Judgment	14	120-500	20,833
3	Enforcement of Judgment	10	90-360	60,000

Filing and Service

Table above shows that the filing and service steps take on an average between 22 to 135 days per case. This step is also known to cost Rs 49,000 per case (on an average).

There are 3 major steps that take longer than reasonable time to complete. First, physical delivery of summons (first and second attempt) takes longer than its due course. When a first attempt to physically deliver summons and complaint to the Defendant is unsuccessful, a second attempt is made. Second, application for substituted services also takes longer than reasonable time. Because physical deliver is not successful in majority of the cases, the Plaintiff applies for substituted services, through publication in newspaper. Third, attachment of property takes longer too. Although attachment of property is not mandatory, until & unless the risk/property sale apprehension is involved from the borrower's end. It was observed that some banks were going through with the attachment of property while others were skipping this step. Upon inquiry, it was found that while attachment of property was not mandatory, judges in Sindh were requiring it as a procedure to be followed and a pre-requisite for the trial and judgment phase.

To improve the efficiency of the filing and service step, banks suggested the following;

1. The court should adopt a transparent process for the fresh valuation of the mortgaged property to eliminate the element of disagreement between the bank and the customer.
2. The plaintiff bank's staff can be engaged in the service process in order to provide support to the Bailiff.
3. Lien against all mortgage property should be marked so that risk of property selling could be avoided.

[29] These steps were adopted from World Banks report "Doing Business 2008". These steps are listed out in the Annexure with the survey on Foreclosure attached.

4. The requirement for attachment of property by Banking Court in Sind should be removed as it is causing substantial delays in the filling and service step.
5. Adjournment should be up to the limit of three.

Trial and Judgment

There are on average 14 steps involved. These steps take on an average between 120-500 days and costs Rs 20,000 (approximately) per case on an average. Standard Chartered responded that it had taken approximately 300-720 days per case.

There are 2 major concerns of banks when following through the trial and judgment step. First, the trail itself takes a long time; where both the parties argue the merits of the case before the court. Second, adjournment requests are made time and again which cause court proceedings to be delayed. Other areas where banks feel that a longer than reasonable time is involved include defendants' filling of defense or answer to Plaintiff's claim, order for submission of final arguments and the final writing of judgment.

To improve the efficiency of the trial and judgment step, banks suggested the following;

1. Case should be decided within statutory timeline affixed under the law; however delay in compliance is eventually due to the unavailability of Judges, limited number of banking courts & heavy inflow of cases pending since many yeaRs
2. Ensure timely appearance of lawyers on dates and efficient follow ups within courts.
3. The filing of the cases along with the supporting documents should be comprehensive enough that the defendant is not be able to get a relief from the court in any manner.
4. Efficient and competent judges, well versed with the banking transactions, be appointed by the judiciary in the Banking Courts so that the defendant cannot cause unnecessary delay in the proceedings by taking adjournments.
5. Maximum limit to be set on adjournment

Enforcement of Judgment

The table 6.C above shows that enforcement of a judgment takes between 90-360 days per case on an average and costs around Rs 60,000 per case on an average. There are 10 steps involved on average.

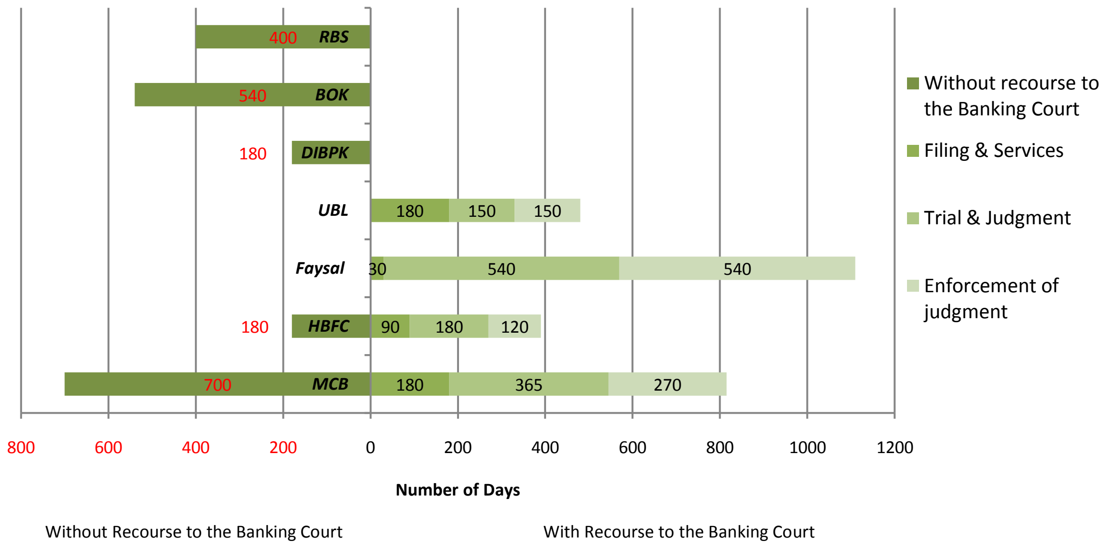
Banks have identified 4 steps that usually take longer than reasonable time to complete. First, attachment of enforcement order. Second, request to Defendant to comply voluntarily with the judgment. This is often delayed because Defendant opposes aspect of the enforcement process before the judge. Third, call for public auction by the judge. Fourth, judge's decision on bids presented at the public auction.

To improve the efficiency of the Enforcement of Judgment step, banks suggested the following;

1. Unnecessary adjournments should be avoided. The judge should decide the objections without giving the adjournments.
2. After first attempt of non delivery of summons, newspaper publication should be placed

The figure below presents a graphical summary of foreclosed cases in the housing finance sector.

Figure 6. A Foreclosed Cases



It can be observed that the number of foreclosed cases and the time taken vary from bank to bank. There are banks that have tried foreclosing a property through both channels while some have either sought recovery through the banking court or have exercised their powers under Section 15 of the Recovery Ordinance. Cases that have been pursued via the non-judicial process have taken less time (in the case of HBFC & MCB) when compared to the number of days it took to recover through the court.

Due to the number of cases and the number of banks involved in foreclosures, it becomes difficult to generalize findings and establish a realistic average time taken in these two procedures. However, despite the variation and few number of cases, the one thing that is evident is that seeking recovery via the non-judicial process is less time consuming. As much as this is favored by banks and encourages easy and quick disposal of cases, in most cases the defendant takes a stay order and the case is then diverted to through the judicial system.

Cases Pending

Settlement without recourse to the Baking Court

Of the 10 banks who responded, the table below presents only those that have foreclosure cases pending and are seeking recovery without the involvement of the Banking Court.

Table 6.D							
		MCB	DIBPK	SCB	KASB	RBS	HBFC
a.	No. of cases pending	6	2	175	22	9	
b.	Average time taken in most of the cases (days)	300	300		17	987	
c.	No. of days for an efficient disposal	180	225		17	600	

There is a variation in responses received from respondent banks. Cases in the non judicial process have been pending for a minimum of 300 days (10 months) and a maximum of 987 days, on average. The serving of notice has taken some banks a minimum time of 90 days (on average) and others 200 days (on average). The most common reason cited is the non-availability of customers on the address provided.

Settlement through the Banking Court

While banks are seeking recovery through the non-judicial process, a majority of their cases are currently pending with the courts. Banks were asked to report the number of cases that are pending at each of the three stages namely filing & services, trial and judgment and enforcement of judgment, as on December 31, 2009. They were also asked to report the number of days each step takes and give an opinion on how long it should take. The table below summarizes their response;

Table 6.E

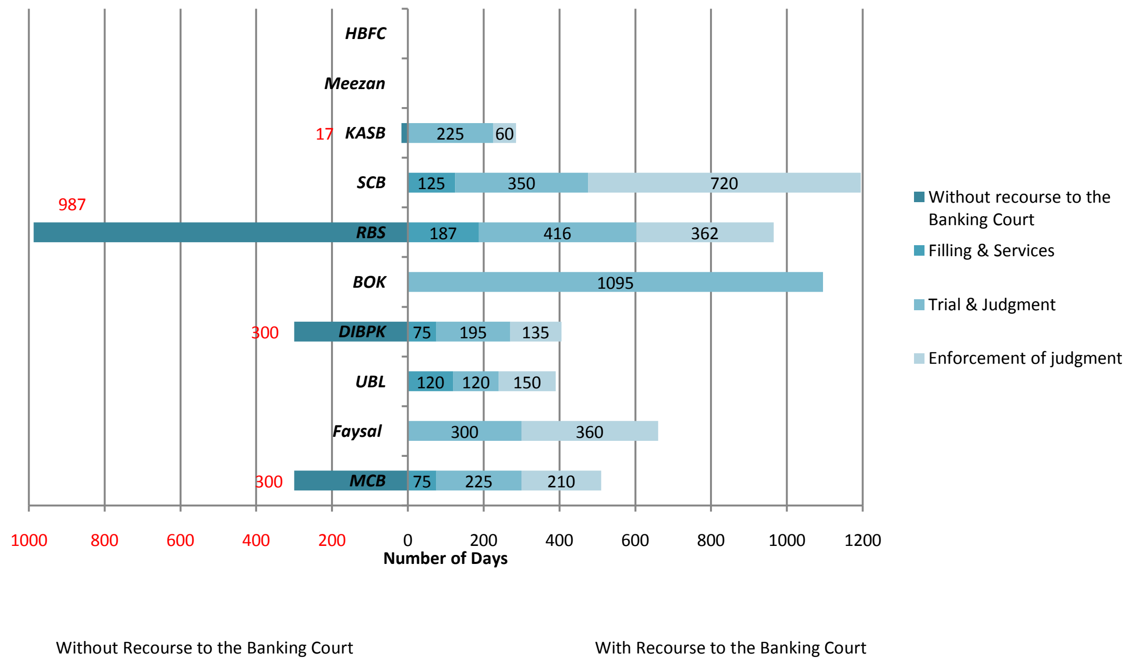
			MCB	DIBPK	SCB	Faysal	UBL	KASB	BOK	RBS	Meezan	HBFC
1	Filing & Service											
	a.	No. of cases pending	60	24	58	0	76	0	0	25	1	
	b.	Average time taken in most of the cases (days)	75	75	125		120		45	187	30	
	c.	For an efficient disposal, how long (days) should this stage take	30	45	75		60		30	90		
2	Trail & Judgment											
	a.	No. of cases pending	91	6	27	137	20	6	2	54	5	
	b.	Average time taken in most of the cases (days)	225	195	350	300	120	225	1095	416	90	
	c.	For an efficient disposal, how long (days) should this stage take	90	75	180	180	60		180	420		
3	Enforcement of Judgment											
	a.	No. of cases pending	76	1	22	56	35	4	0	26	15	
	b.	Average time taken in most of the cases (days)	210	135	720	360	150	60		362	365	
	c.	For an efficient disposal, how long (days) should this stage take	90	45	360	240	90	N.A		210		

There are currently 827 cases pending with the court at various stages. Over 240 cases are pending in the 'filing and services' stage. Banks report that this stage should ideally take 30 to 90 days, however, in totality the 'filing and service' of cases have been reported to be pending from a minimum of 30 to a maximum of 187 days. 340 cases are pending at the 'trial and judgment' stage. It has been pointed out by banks that the trial and judgment stage should ideally take 60 to 420 days. Instead cases have been pending trial for a minimum of 90 to a maximum of 1,095 days. 230 cases have been pending final decision i.e., the enforcement of judgment, from a minimum of 60 days to a maximum of 720 days. The expected duration reported by banks of the final stage is from a minimum of 45 to a maximum of 360 days.

Similar to the representation made earlier for foreclosed cases, a graphical summary of pending cases (below) shows that the efficiency with which cases proceed from one stage to the next is varies across banks. There are instances where banks have cases pending for as long as 1000 days through both channels. Some of the most cited reasons given by banks for the delays include non availability of customers at the given address, stay orders issued against decree, frequent adjournments, non-availability of judges, limited number of courts (especially in Rawalpindi and

Islamabad), non-cooperative staff at the Banking Courts and various delaying tactics adopted by the defendants.

Figure 6. B Pending Cases



Conclusions

Given the design and depth of the survey conducted and the results drawn, housing finance market in Pakistan can clearly be characterized as a small, polarized and a concentrated market with limited geographical dispersion. Although it is recognized that commercial banks are inclined towards high income borrowers compared to HBFC, a closer incision reveals concentration patterns at a much more micro level involving the characteristics of the borrowers in each income band and each house loan band. For example, it was observed that within loan ranges HBFC and commercial banks not only have a 'niche' market but also share a segment of loan sizes (of Rs 0.5 to Rs 1M), hence presence of a 'common market' too.

Further, the demographics of the borrowers reveal how far apart HBFC and commercial banks lie on the spectrum of borrowers' income. HBFC is offering housing finance to lower middle income groups who have smaller financing needs (in terms of loan size). Furthermore, these smaller sized loans are made affordable with longer tenures and greater LTVs. This is contrary to what is observed among commercial banks. Commercial banks are extending bigger loans, for relatively smaller tenures and lower LTVs.

Commercial banks are relatively cautious in lending as reflected by their credit policies. This is primarily due to institutional bottlenecks faced by the housing sector. One such obstacle captured in this survey is the efficiency of Foreclosure Law. The results revealed that it takes longer than reasonable time for a mortgages property to be foreclosed either through the Banking Court or under Section 15of the Recovery Ordinance 2001. This encourages financial institutions to raise the bar of qualification even higher, thus restricting potential borrowers from access of finance.

The findings of this study invoke a host of other questions, the answers to which maybe perused in another research initiative. First, if a low middle income borrower is considered 'bankable' by HBFC, then why do commercial banks restrict themselves to high end borrowers? If HBFC is in fact catering to low middle income borrowers, how good is the repayment history of this particular strand of borrowers? If this strand passes the test, then are commercial banks making a conscious decision to ration credit and restrict such borrowers?

Second, is there a case that this behavior is in fact consumer driven? High income borrowers prefer doing business with a commercial bank, have greater equity (thus lower LTVs) and have the capacity to pay off the bank sooner? Similarly do lower-middle income borrowers prefer doing business with HBFC?

Recommendations for Future Initiatives

In the process of compiling the findings of this survey, areas were identified that required policy initiatives. The recommendations are made as follows;

1. eCIB has a rich dataset to offer for housing finance. This includes information on collateral values and force sale values. However, since these fields are not mandatory, important information is lost and is not reported by banks. It is suggested that a set of recommendation be drafted proposing the CPD to make selected fields mandatory for reporting to eCIB.

2. Arrange a meeting with all banks and share results of the survey. The banks should be encouraged to expand housing finance and share with SBP their future housing finance expansion strategies. Some of the issues to be discussed are as follows;

    - The matter of 'Positive List' and 'Negative List' areas will be taken up with banks/DFIs
    - The matter of 'Unapproved professions' in the case of KASB will be discussed with them.
    - Housing Finance extended by banks is concentrated in big cities. This issue also needs to be taken up with them.
    - Lack of implementation of credit policies also needs to be discussed with banks/DFIs

3. It was observed that banks/DFIs are adopting different approaches in computing the LTVs in cases where the loan is for the purpose of land plus construction. In some cases the LTV breaches the maximum of 85% during initial years. It should be explored if a standard approach is needed and can be designed.
4. Banking Courts in Sind make the 'attachment of property' a mandatory part of the judicial process, although it is at the discretion of the plaintiff to request for the attachment of a property. This step makes the judicial proceedings unnecessarily longer. A recommendation to the Ministry of Law and Justice can be drafted.
5. Banks have stated that judges at the Banking Court lack expertise to deal with foreclosure cases. A recommendation to initiate a formal training program for judges and lawyers can also be made.
6. A review of disparities in disposable income criteria will also be carried out