INFRASTRUCTURE AND HOUSING FINANCE DEPARTMENT

Housing Finance Quarterly Review

Jan-March 2009

Team Members

Rizwan Pesnani	Director
Syed Farrukh Ali	Assistant Director
Sabbah Rahooja	Regulating Officer

The Infrastructure and Housing Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ended March 2009.

This review aims to present data on housing finance, collated on a periodic basis from public sector banks, private banks, foreign banks, DFIs and House Building Finance Corporation (HBFC).

Contents

Overview

Over the last twelve months, the quarter ended March 2009 witnessed a slight decline of 1.43% in gross outstanding portfolio of the housing finance. The total outstanding reported by banks and DFIs as on March 31, 2009 was Rs. 80.87 billion compared to Rs. 82 billion as on March 31, 2008. The total number of outstanding borrowers has decreased from 126,595 to 121,368 since March 2008; a 4% fall.

Non-performing loans have increased from Rs.8.99 billion (March 2008) to Rs.13 billion (March 2009); a 45% increase over the year. However, this rise in NPLs is not unique to housing finance and is only depicting the overall increase in NPLs of all sectors witnessed in the banking industry during the quarter.

Approximately 940 new borrowers were served this quarter accounting for Rs. 1.78 billion of additional disbursements in housing loans. HBFC accounted for 55% of these new borrowers and contributed over 16% of the Rs.1.78 billion additional disbursement made.

Financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising over 59% share in outstanding.

Outstanding

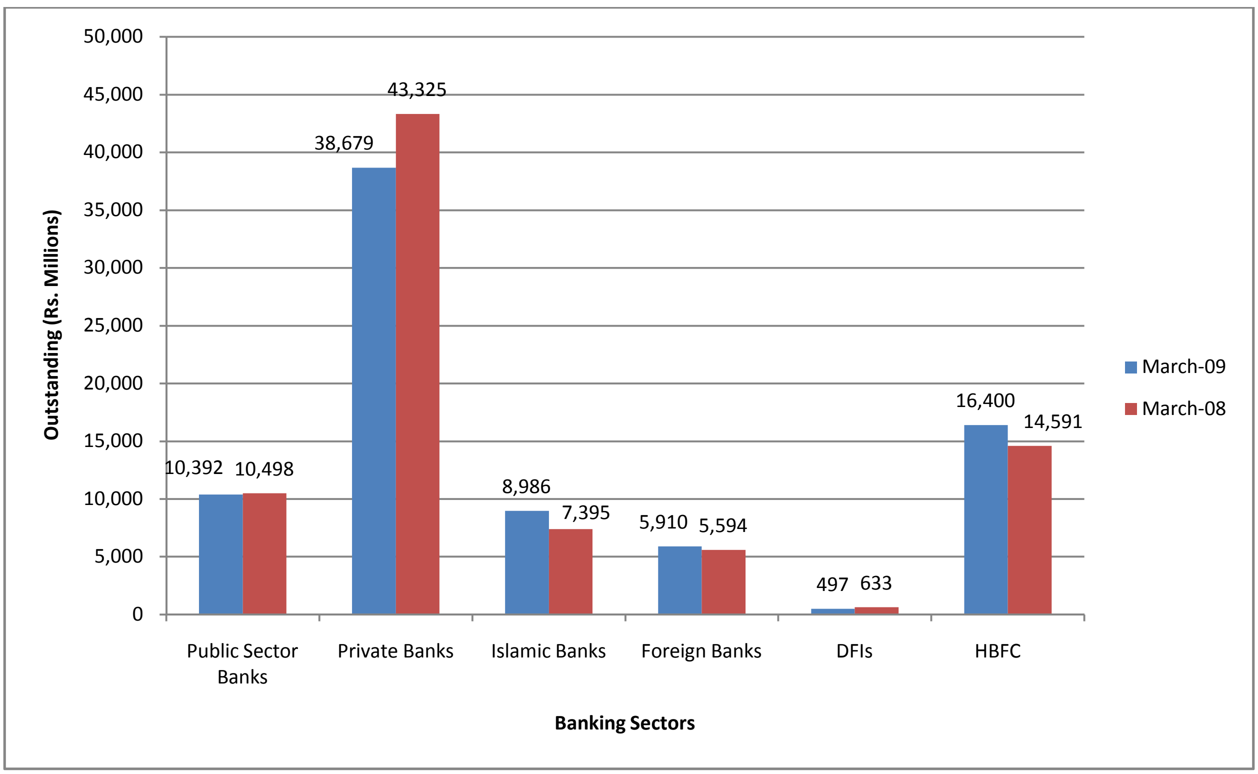
Gross Outstanding

The total outstanding finance as on March 31, 2009, of all banks and DFIs stood at Rs.80.87 billion. Compared to quarter ended March 2008 (Figure 1), outstanding of all commercial banks and DFIs decreased by 1.33%.

Figure 1 shows banking sector wise total outstanding since March 2009. Of the total outstanding of Rs. 80.87 billion, commercial banks accounted for Rs.63.97 billion with private banks posting an outstanding of Rs.38.68 billion; a 10.72% decline since March 2008. Public sector banks reported an outstanding of Rs.10.39 billion, followed by Islamic Banks with Rs. 8.99 billion and foreign banks with Rs.5.91 billion. The highest growth of 21.5% was reported among Islamic banks. Excluding DFIs, all commercial banks (public sector banks, private banks, Islamic banks and foreign banks) together posted a 4.26% decline when compared to quarter ended March 2008.

The outstanding loans of HBFC were Rs.16.4 billion; a 12.39% increase over the last year. Other DFIs, have a meager share of Rs. Rs. 0.5 billion in outstanding loans.

Figure 1 Outstanding as on March 31, 2009



Non-Performing Loans

This section analyzes the position of NPLs by first observing increase/decrease in its levels followed by NPLs share in total outstanding over the reporting quarter.

Figure 2 Non-Performing Loans as on March 31, 2009

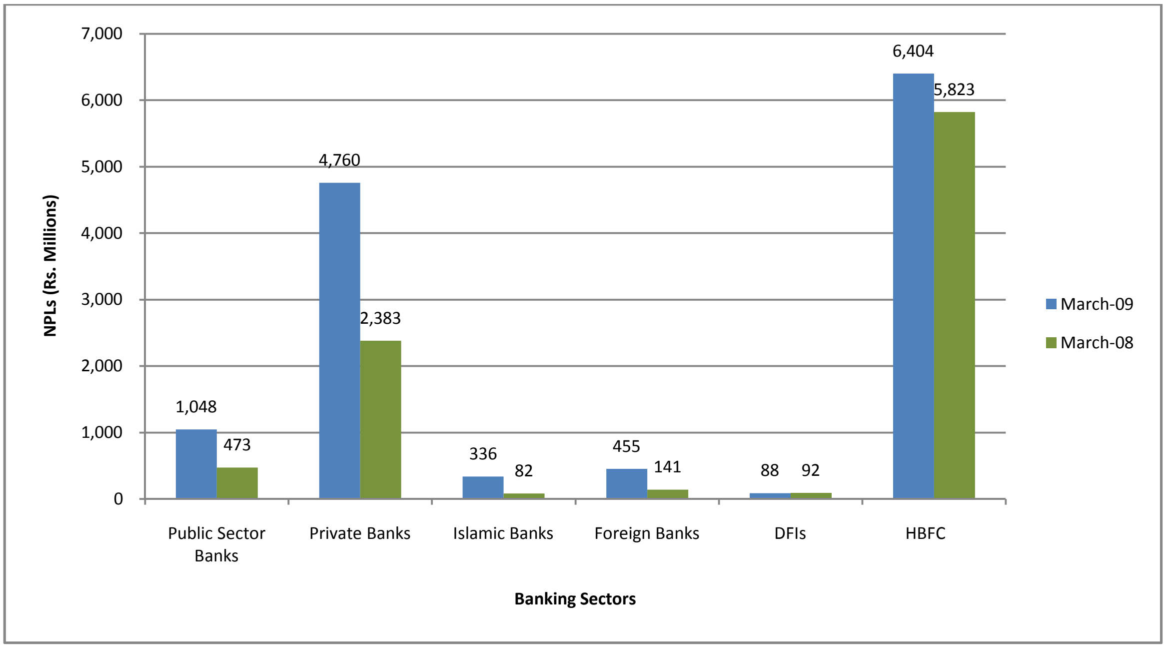
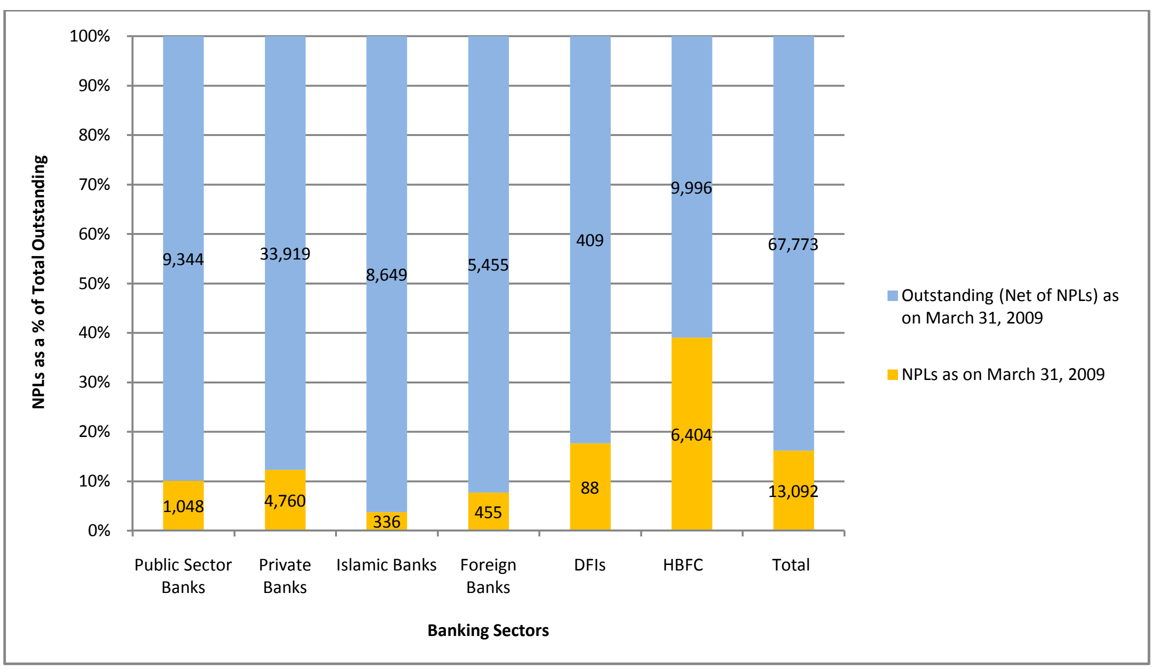


Figure 3. NPLs as a % of Total Outstanding, as on March 31, 2009



*Figures in bar are Rs. in million

For this purpose Figure 2 compares the position of NPLs for the quarters ended March 2009 and March 2008. Figure 3 shows NPLs as a percentage of total outstanding as on March 31, 2009. Overall, NPLs have increased from Rs.8.99 billion (March 2008) to Rs.13.09 billion (March 2009); a 45% increase during the year.

For the purpose of the analysis, NPLs position of HBFC merits exclusivity. HBFC's NPLs have increased from Rs.5.82 billion to Rs.6.40 billion during the year; an almost 10% increase (Figure 2). Although growth of NPLs remains relatively low in absolute terms when compared to other banking sectors, its % share in total outstanding, however, is the greatest; a 39% of its total outstanding constitutes of NPLs (Figure 3).

Excluding HBFC, NPLs for all banks and other DFIs have increased by 146% over the year from Rs. 2.72 billion to Rs.6.69 billion. Although this increase is almost 4 times greater than that of HBFC, the % share of NPLs that all banks and other DFIs(excluding HBFC) constitute is 10.37% of its respective total outstanding.

Among banks, Islamic banks have witnessed the sharpest increase in NPLs during the quarter ending March 2009; an increase of over 300%, from Rs.82 million to Rs.336 million, since March 2008. However, its NPLs constitute only 3.7% share in its total outstanding; the smallest share among banks and other DFIs. NPLs of the public sector banks have increased from Rs. 0.47 billion to Rs.1.05 billion; a 121% increase, and 10% of its total outstanding is classified as NPLs. NPLs for foreign banks have increased from Rs.141 million to Rs.455 million; a 222% increase with 7.7 % NPLs as a % of its total outstanding. Private banks have reported an increase of 99% in NPLs from Rs. 2.38 billion to Rs. 4.76 billion which is 12% of its total outstanding. DFIs (excluding HBFC) have reported a decline in NPLs from Rs. 92 million to Rs.88 million; a 4.13% decline and 17.6% of its total outstanding is reported as NPLs.

This overall rise in NPLs is due to rising inflation and interest rates and this may further escalate problem in coming quarters. The high interest rate policy is constraining the supply of housing through constrained access to credit which in turn has caused the growth of mortgage sector to slow down.

Number of Borrowers

The total number of outstanding borrowers has decreased from 126,595 to 121,368 since March 2008; a 4% decrease (Figure 4). Islamic banks have shown an increase (of 16%) with numbers increasing from 1,889 to 2,193 over the year since March 2008, followed by foreign banks (2.7%). Private banks, Public sector banks, HBFC and other DFIs report a decline of 2.8%, 4.25%, 5% and 18.4%, respectively. Other DFIs, however, have very small base.

Figure 4 No. of Outstanding Borrowers

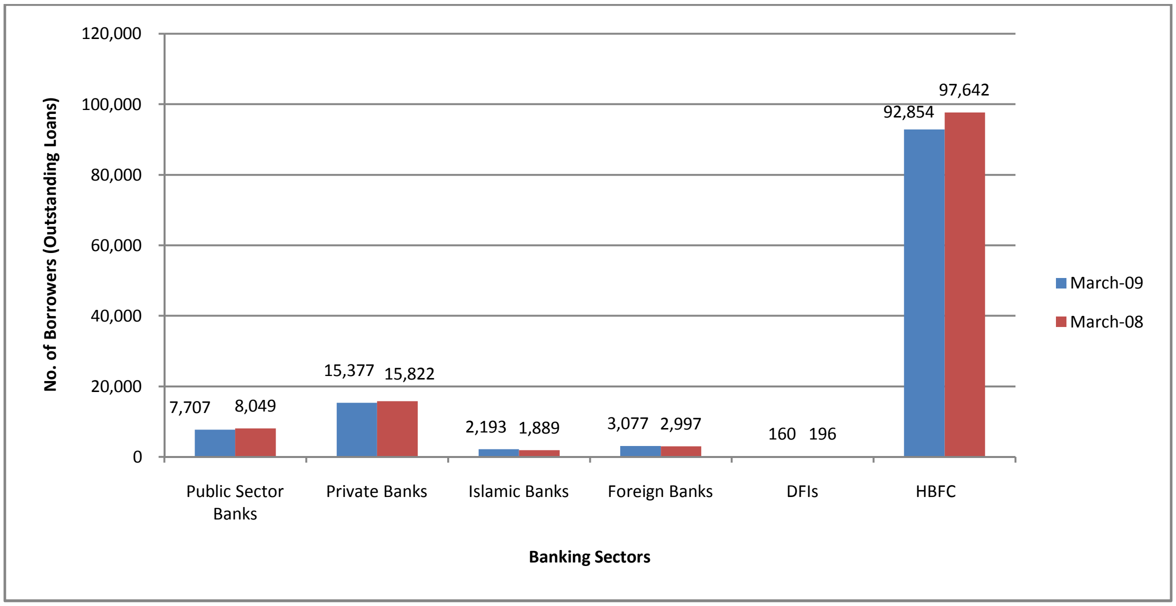
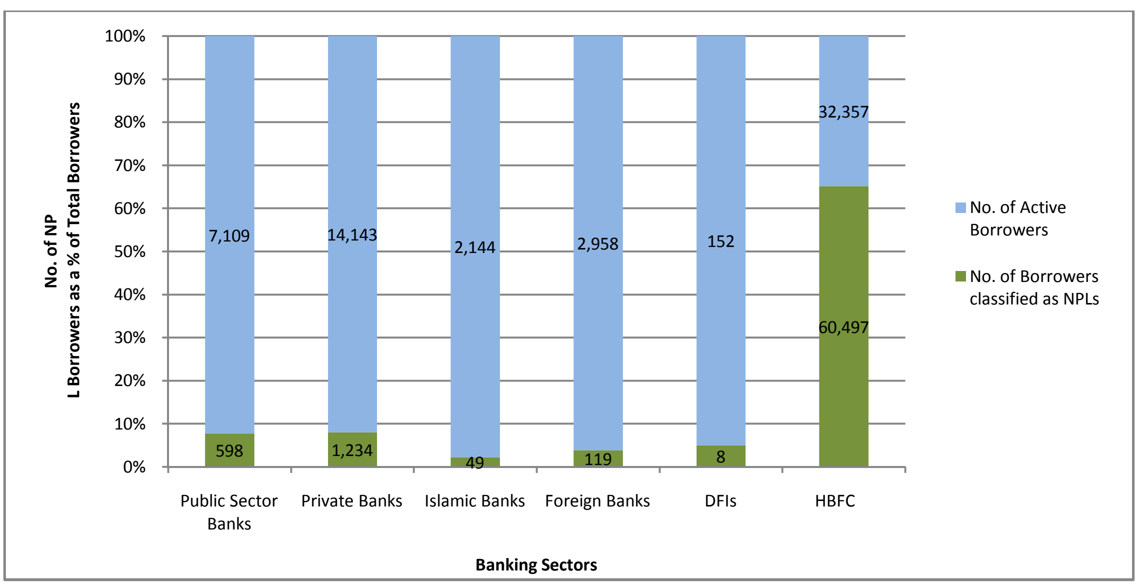


Figure 5 shows number of borrowers that have been classified as NPLs as a percentage of total borrowers. Approximately 51.5% of total borrowers of housing loans have been classified as non-performing. However, this is prominently due to HBFC's number of non-active borrowers that have been classified as non-performing; 65.15 % of total borrowers of HBFC. Thus, excluding HBFC in such an analysis will be important since HBFC caters to 76% of the total outstanding borrowers in housing finance sector which accounts for only 20 % of total outstanding portfolio. Therefore by excluding HBFC, only 7% of total borrowers of housing loans have been classified as non-performing.

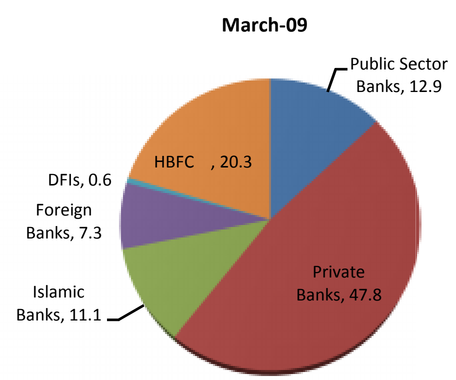
Figure 5 No NPL Borrowers as a % of Total Outstanding Borrowers

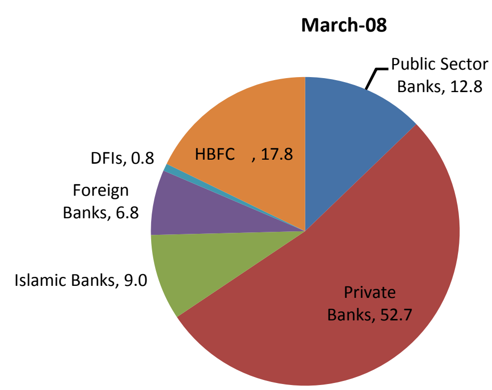


Share of Banks

The overall market share[1] of commercial banks (excluding DFIs) remained almost the same as at the end of last year as it is decreased marginally from 81% to 79%. Within commercial banks (Figure 6), the share of private banks in the total outstanding decreased from 52.7% to 47.8%. Islamic banks have shown good growth; albeit higher growth in NPLs too, with its share increasing from and 9.7% (March 2008) to 11% (March 2009). Share of public sector banks has remained almost the same; a 12.8 % share. Foreign banks' share has increased from 6.8% to 7.3%, since March 2008. The share of HBFC has risen from 17.8% to 20.3% of the total outstanding.

Figure 6 Share of Banks in Total Outstanding





Disbursements

A total of Rs.1.78 billion worth additional disbursements were made during the quarter March 2009 (Table 1). Private Banks extended fresh disbursements of Rs. 629 million followed by Islamic banks with Rs.333 million. HBFC's additional disbursements for the quarter were reported to be Rs. 283 million. Among commercial banks the number of new borrowers totaled 421, with private banks contributing 225 borrowers. HBFC extended loans to 283 new borrowers during the reporting quarter.

[1] Based on gross outstanding

Table 1

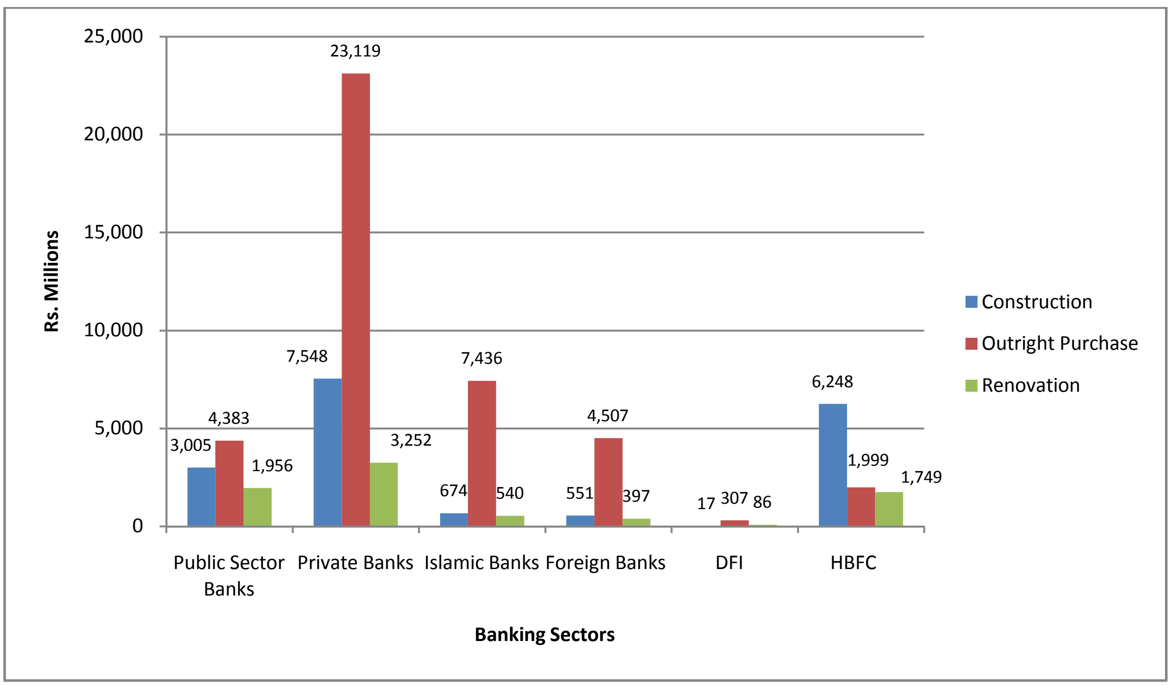
Disbursements during the quarter March 2009

	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	139.26	92
Private Banks	629.21	225
Islamic Banks	333.42	5
Foreign Banks	392.63	47
All Banks	1,494.52	421
DFIs	0	0
HBFC	283.02	520
Total	1,777.54	941

Sectoral Share

The greatest share of housing finance is currently being attracted towards outright purchase (Figure 7).

Figure 7 Mortgage Products: Outstanding (net of NPLs) as on March 31, 2009



The total outstanding for outright purchase stood at Rs.47.6 billion as on March 31, 2009; a 59% share in total outstanding of Rs.80.8 billion. This is followed by the construction category where outstanding reported at quarter end stood at Rs.23.8 billion and that of renovation stood at Rs.9.39 billion. Over the year, financing for construction increased by 6%, while that for outright purchase and renovation decreased by 4% and 7.3%, respectively.

HBFC has taken a lead in financing for construction; a 47%. Private Banks have taken a lead in the outright purchase and renovation sector; a 56% and 41% share, respectively.

Analysis of Loan Variables Adopted by Banks/DFIs & HBFC

Table 2, 3.A & 3.B summarizes loan variables across all banking sectors including weighted average interest rate, Loan-to-Value ratio (% financing by banks), average maturity, average loan size, average time for loan processing and number of cases classified as foreclosures.

Weighted average interest rate

The overall weighted average interest rate for the quarter ended March 2009 comes to 15.42%; an increase of 2 percentage points when compared to March 2008. Highest weighted average interest rate was reported by Islamic banks at 17.81%, DFIs (excluding HBFC) at 17.6% and foreign banks at 17.53%. Public sector banks reported a weighted average interest rate of 14.96% and private banks reported 14.55%.The weighted average interest rate reported by HBFC is 11.88%; a 1.83 percentage point decrease compared to quarter ended March 2008.

Average maturity periods

Average maturity periods have slightly declined; from 13.2 years (March 2008) to 12.5 years (March 2009). Table 2 shows that public sector banks have extended housing loans for an average tenure of 10.6 years followed by foreign banks with 12 years, private sector banks with 11.9 years, DFIs (excluding HBFC) with 14.5 years and Islamic banks for 14.9 years. HBFC's average maturity period is reported to be 15.2 years; a decrease from 16.7 years when compared to March 2008 figures.

Loan to Value ratio

The percentage of financing (Loan to Value ratio) extended by banks has slightly declined during last year (Table 3.A). The LTV ratios for housing finance fell from 56.5% during quarter March 2008 to 52.8% during quarter ended March 2009. The sharpest decline was witnessed among foreign banks where the LTV ratios fell from 58% to 36% during quarter ended March 2009. The LTVs for HBFC remained the same at 55%. Decline in LTV ratios and increasing interest rates reflects that housing finance is becoming more unaffordable, especially for the salaried class and lower income groups.

Average time for loan processing

The reported average time for loan processing is 25 days for all banks and DFIs; a trend that has remained the same over the year. The processing time can be considerably reduced if land titling issues are resolved, documentation is standardized and institutional inefficiencies removed. Moreover, application processing is a centralized process, where branches forward applications to central branches/head offices for assessment and approvals.

Average loan size

Average loan size for disbursements made during the quarter ended March 2009 is Rs. 2.52 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs.1.08 million for the reporting quarter. Islamic banks have disbursed loans with an average loan size of Rs. 3.7 millions. This is an increase of over 20% in size (in Rs.) compared to March 2008 when average loan size was reported at Rs. 3 million. Private banks report an average loan size of Rs. 2.3 million, foreign banks of Rs. 2.7 million and public sector banks report Rs. 1.75 million. The housing finance market is still inclined towards lending to high income group.

No. of foreclosures

No. of cases initiated for foreclosures have increased by 84 new cases during the quarter March 2009, for banks/DFIs.

Table 2

	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08
Public Sector Banks	14.96	14.3	13.33	13.13	12.78	10.6	10.8	9.4	11.1	11
Private Banks	14.55	13.34	13.61	12.94	12.75	11.9	11.9	11.9	12.1	12.5
Islamic Banks	17.81	18.23	14.86	13.22	13.84	14.9	15.3	15	16.6	16.6
Foreign Banks	17.53	16.89	15.05	14.67	14.4	12.0	11.8	9.1	12.5	14.5
All Banks	15.52	14.57	13.94	13.23	13.1	12.3	12.1	11.6	12.7	12.75
DFIs	17.6	16.84	16.01	14.84	13.68	14.5	14.7	12.4	14.7	14.8
All Banks & DFIs	15.60	14.65	14.02	13.29	13.12	12.4	12.2	11.6	12.8	13
HBFC	11.88	11.35	13.71	13.71	13.71	15.2	15.1	15.1	16.7	16.7
Total Average	15.42	14.4	13.97	13.45	13.42	12.5	12.4	11.8	12.9	13.2

Table 3. A

	Loan to Value Ratio					Average Time for Loan Processing (days)				
	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08
Public Sector Banks	60.5	63.1	58.3	63.7	58.2	31.7	38	38.6	39.2	38
Private Banks	55.3	40.3	52.7	57.9	56.8	22.8	22	22.8	22.6	22.8
Islamic Banks	55.3	39.8	56.7	59.1	55.9	30.4	36.9	33.6	21.5	20.9
Foreign Banks	36.1	41.9	36.5	59.8	58.9	22.5	23.6	18.8	23.8	23.8
All Banks	53.0	44	52.4	58.9	56.5	25.3	26.3	25.7	24.5	24.7
DFIs	43.1	44.2	49.1	45.4	47.5	30.0	30	30	30	30
All Banks & DFIs	52.6	44	52.3	58.3	56.5	25.5	26.4	25.9	24.7	24.9
HBFC	55.8	67.5	55	55	55	30.0	30	30	30	30
Total Average	52.8	44.7	52.3	58.1	56.5	25.7	26.6	26.1	25	25.17

Table 3.B

	Average Loan Size					No. of Foreclosures[2]		
	Mar-09	**Dec-08**	**Sep-08**	**Jun-08**	**Mar-08**	**Mar-09**	**Dec-08**	**Sep-08**
Public Sector Banks	1.75	1.46	1.8	2.08	1.36	26	N.A	N.A
Private Banks	2.29	2.4	2.38	4.12	2.88	199	178	173
Islamic Banks	3.70	2.52	3.63	2.84	3.05	14	12	8
Foreign Banks	2.68	2.79	1.97	2.48	2.48	88	69	N.A
All Banks	2.50	2.33	2.41	3.41	2.7	327	259	181
DFIs	0[3]	3.01	2.47	2.73	2.6	1	1	1
All Banks & DFIs	2.52	2.35	2.41	3.38	2.6	328	260	182
HBFC	1.08	0.86	0.86	0.89	0.89	2,674	2,658	2,658
Total Average/Total	2.46	2.29	2.35	3.32	2.56	3,002	2,918	2,840

Conclusions

Statistics for the quarter ending March 2009 depict slowing growth (compared to March 2008 quarter). With a rising trend in NPLs, the sector needs to be monitored closely. Islamic banks continue to be displaying promising growth in the housing finance sector. However, it's also showing a rising trend in NPLs.

The quarter continues to gives signs of cautious lending from banks amidst decreased affordability of the borrowers and unfavorable macroeconomic conditions. Signs of cautious lending include, fall in LTVs (with the exception of HBFC) and a slight decline in average loan size. It is due to the small size of the housing finance portfolio that financial institutions are currently managing housing-related risk. However, the lack of a conducive institutional framework still poses as a constraint towards the establishment of a well structured mortgage market.

[2] The no. of foreclosure cases are cumulative figures, i.e, cases initiated for foreclosures since inception and include those actually settled.

[3] No disbursements were made during the quarter by DFIs

Major Initiatives and Achievements

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

Establishment of Housing Advisory Group

As part of its earlier efforts, SBP had established a Housing Advisory Group (HAG). The HAG was established with an intention to conduct a thorough analysis on the existing regulatory and policy framework affecting housing finance. The HAG made number of recommendations stressing on the need to enhance access of financial services for the development of housing sector. These include reforms in legal and regulatory framework, establishment of secondary mortgage market, development of market intelligence, provision of affordable/ low income housing finance products. SBP had already disseminated the recommendations to the concerned stakeholders and is also in process of initiating measures for establishment of secondary mortgage market.

SBP-World Bank Proposal for housing sector development

SBP and World Bank have agreed to work together for implementing key recommendations of HAG and bring about financing environment conducive to growth of housing sector by focusing on: restructuring of HBFC, establishment of Mortgage Refinance Company, low cost housing finance, establishment of an observatory for real estate market and capacity building of professionals engaged in housing finance through housing experts.

Capacity building Program

In addition to initiatives taken to institutionalize housing finance, SBP realizes that a simultaneous development of human capital will play a critical role in ensuring sustainability of housing finance. A Cooperation Agreement was signed between International Finance Corporation, the private sector arm of the World Bank Group, and SBP to launch a housing finance training program in Pakistan. The training intends to cover all aspects of housing finance from product development, loan marketing/distribution and origination to loan underwriting, servicing and risk management. Representatives of banks and non-bank financial institutions associated with mortgage lending business benefited from this. First session of training was conducted and designed by the Canadian Mortgage Housing Corporation (CMHC) in December 2007 in SBP Karachi. In pursuance of continued capacity building, the second and third sessions were conducted by SBP and a panel of local experts, in May 2008 and in November 2008. Till date, approximately 200 bankers from over 20 banks have been trained in the mortgage business.

Report on ‘Expanding Housing Finance System in Pakistan’

A report titled ‘Expanding Housing Finance System in Pakistan’ has been published, combining SBP-World bank study on ‘Housing Finance Reforms in Pakistan’ and SBP Housing Advisory Group (HAG)’s report. This publication presented an overview of housing finance market in Pakistan and key constraints that impede development of housing sector in the country. A set of policies and strategies suggested in the source reports, were also presented in this combined report.