INFRASTRUCTURE AND HOUSING FINANCE DEPARTMENT

Housing Finance Quarterly Review

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Team Members

Rizwan Pesnani	Director
Syed Farrukh Ali	Deputy Director
Sabbah Rahooja	Assistant Director

The Infrastructure and Housing Finance Department of State Bank of Pakistan presents its Quarterly Housing Finance Review for the quarter ending Dec 31, 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

After demonstrating a promising growth trend during previous five years, the housing finance sector reported a decline of 11.22% in outstanding portfolio over the last year. The total outstanding reported by banks and DFIs as on Dec 31, 2009 was Rs. 74.38 billion compared to Rs. 83.78 billion as on Dec 31, 2008. The total number of outstanding borrowers has decreased from 123,107 to 112,785 since December 2008; showing a 8.4% fall.

Non-performing loans have increased from Rs. 12.31 billion (Dec 2008) to Rs. 15.80 billion (Dec 2009); a 28% 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 past year.

Approximately 472 new borrowers were extended house loans during the quarter, accounting for Rs. 1.61 billion of new disbursements. HBFC accounted for 7.2% of these new borrowers and contributed 4.7% of the new disbursements. HBFC's fresh disbursements for the quarter were reported to be Rs. 77 million.

Financing for outright purchase continues to dominate other sectors (construction and renovation) by comprising almost 59% share in gross outstanding portfolio. Outstanding portfolio for construction and renovation was 30% and 11% respectively.

Outstanding

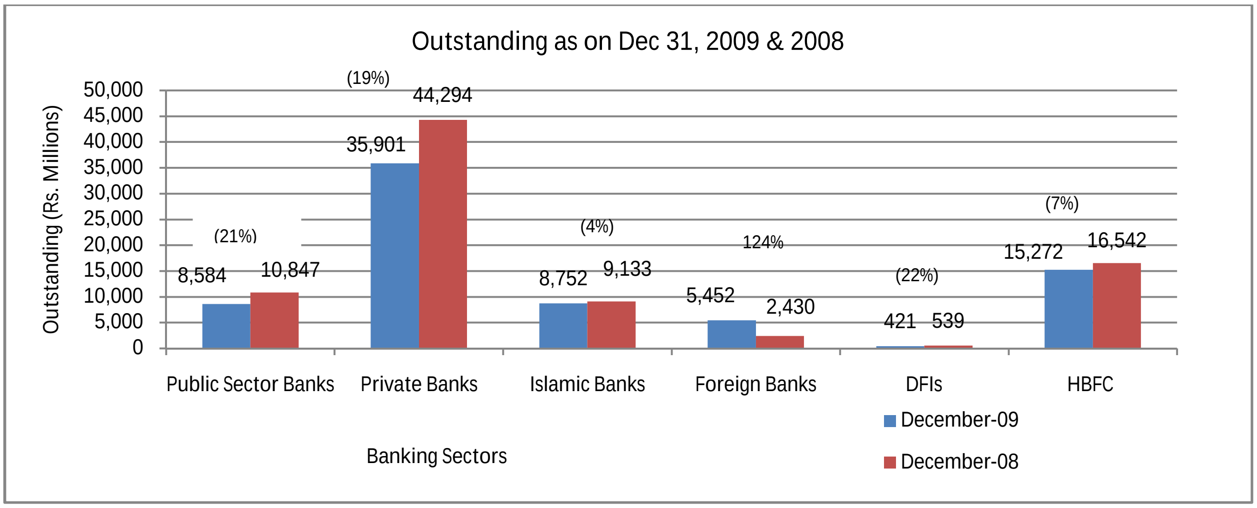
Gross Outstanding

The total outstanding finance as on Dec 31, 2009 of all banks and DFIs stood at Rs. 74.38 billion. Compared to quarter ending Dec 31, 2008 (Figure 1), outstanding of all commercial banks and DFIs collectively decreased by 11.22%.

Banking sector-wise total outstanding with growth/fall (in parenthesis) since quarter ending Dec 31 2008 is shown in Figure 1. Of the total outstanding, commercial banks accounted for Rs. 58.69 billion with private banks posting Rs. 35.90 billion; a 18.95% decline since quarter ending Dec 31, 2008. Public sector banks reported an outstanding of Rs. 8.58 billion, followed by Islamic banks with Rs. 8.75 billion and foreign banks with Rs. 5.45 billion. Excluding DFIs, all commercial banks collectively posted a 12.01% decline when compared to quarter ending Dec 31, 2008.

The outstanding loans of HBFC were Rs. 15.27 billion; a 7.68% decline over the last year. Other DFIs have a meager share of Rs. 0.42 billion in outstanding loans.

Figure 1



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 at the reporting quarters ending Dec 31, 2009 and Dec 31, 2008.

Figure 2

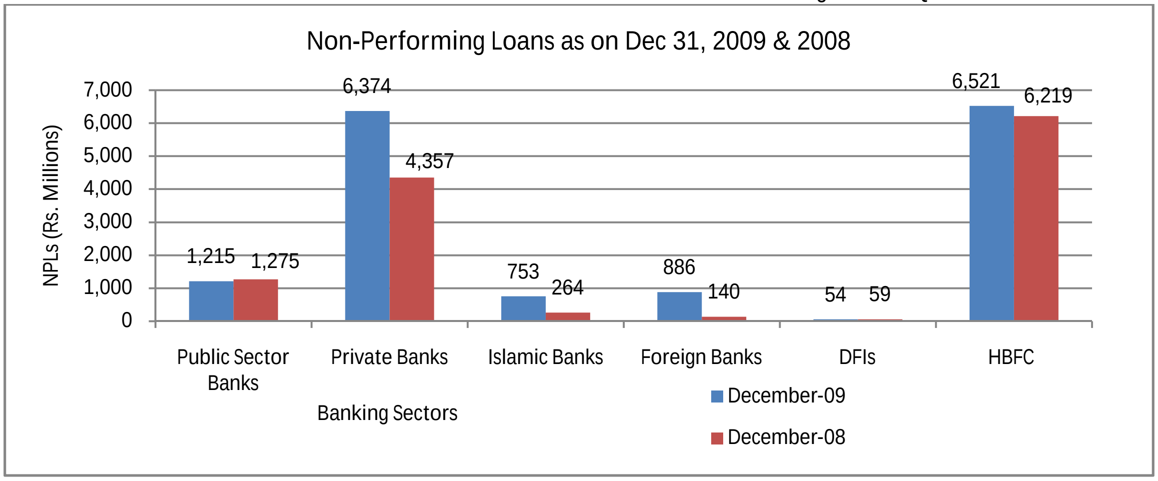


Figure 3

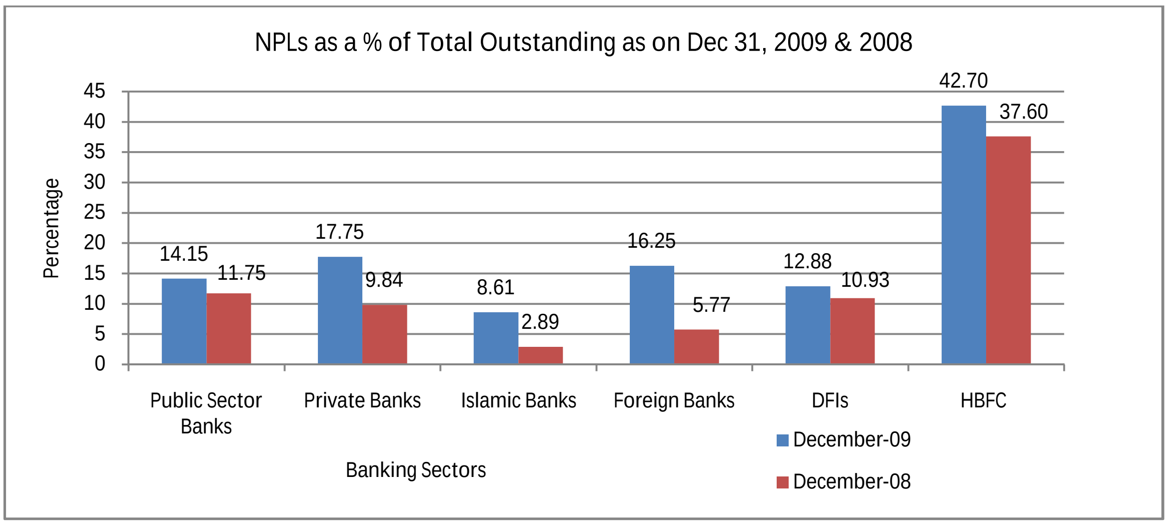


Figure 2 shows that NPLs have increased from Rs. 12.31 billion (Dec 2008) to Rs. 15.80 billion (Dec 2009); a 28% increase during the year. Figure 3 compares NPLs as a percentage of outstanding portfolio at the end of quarter on Dec 31, 2009 and Dec 31, 2008. NPLs as a proportion of total outstanding have witnessed an increasing trend over the last twelve months. This overall rise in NPLs is primarily due to rising inflation and interest rates.

HBFC's NPLs have increased from Rs. 6.21 billion to Rs. 6.52 billion during the year; an almost 5% increase (Figure 2). Although growth of its NPLs remains relatively low in absolute terms when compared to other banking sectors, its percentage share in its total outstanding, however, is the greatest, as 43% of its total outstanding constitutes of NPLs (Figure 3).

Excluding HBFC, NPLs for all banks and other DFIs have increased by 52% over the year from Rs. 6.09 billion to Rs. 9.28 billion. The percentage share of NPLs that all banks and other DFIs (excluding HBFC) constitute is 15.57% of their total outstanding portfolio, compared to a 9.06% as on Dec 31, 2008.

Among banks, foreign banks have witnessed the sharpest increase in NPLs during the year in terms of percentage; an increase of almost 532%, from Rs. 140 million to Rs. 886 million. Although, their NPLs constitute only 16.25% share in total outstanding, which was 5.77% on Dec 31, 2008. NPLs of the public sector banks have decreased from Rs. 1.27 billion to Rs.1.21 billion (a reduction of 4.68%) which are

14.15% of total outstanding. NPFs of Islamic banks have increased from Rs. 264 million to Rs. 753 million; a 186% increase with 8.61% of its total outstanding classified as NPLs, which was 2.89% in Dec 2008. Private banks have reported an increase of 46% in NPLs from Rs. 4.35 billion to Rs. 6.37 billion which is 17.75% of their total outstanding as against 9.84 % in Dec 2008. DFIs (excluding HBFC) have reported a decline in NPLs from Rs. 59 million to Rs. 54 million and NPLs as a percentage of outstanding have increased from 10.93% to 12.88%.

Number of Borrowers

Total number of outstanding borrowers has decreased from 123,107 to 112,785 since Dec 2008; a 8.3% fall (Figure 4).

Figure 4

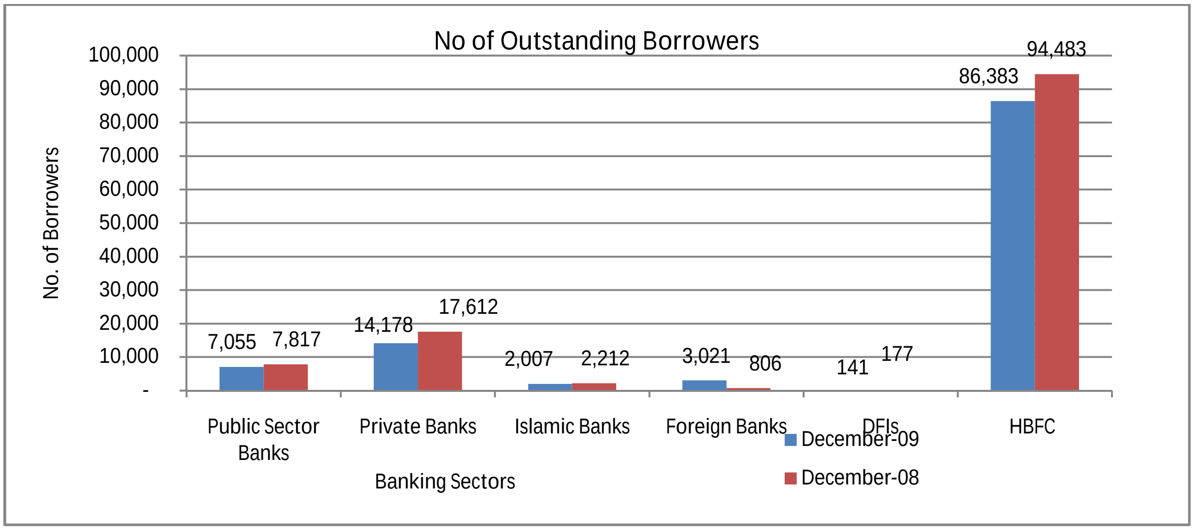
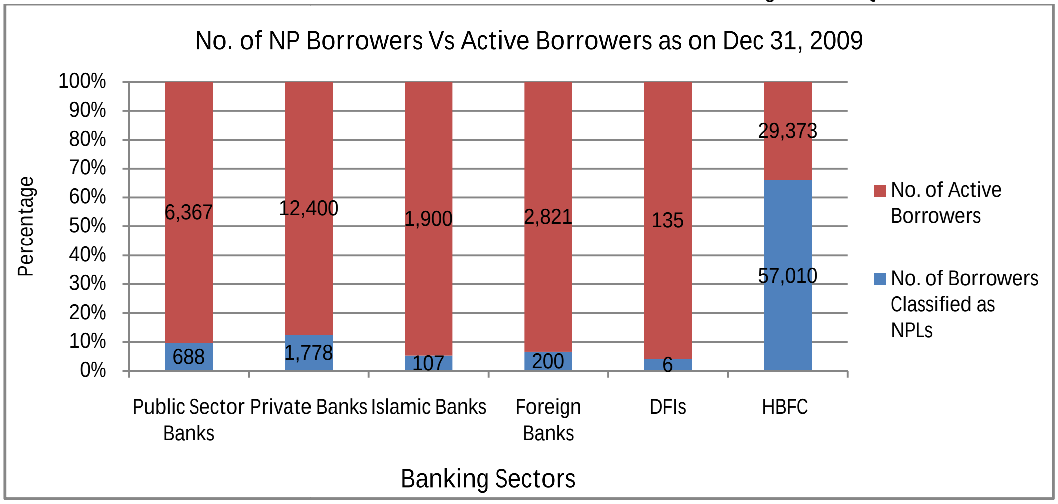


Figure 5 shows number of borrowers that has been classified as NPLs as a percentage of total borrowers. Approximately 53% of total borrowers of housing loans have been classified as non-performing. However, this is primarily due to HBFC's number (57,010) of non-active borrowers that have been classified as non-performing, which comes to 66% of total borrowers of HBFC. Thus, excluding HBFC in such an analysis will be important as it caters to 76% of the total borrowers in housing finance sector which accounts for only 20% of total outstanding portfolio. Thus, by excluding HBFC, only 10.52% of total borrowers of housing loans have been classified as non-performing.

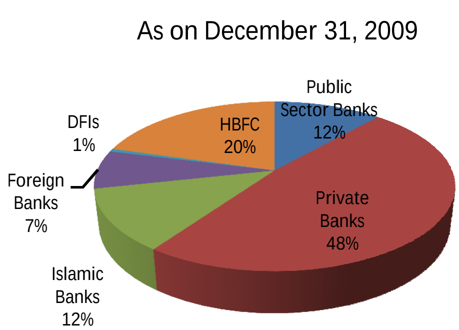
Figure 5

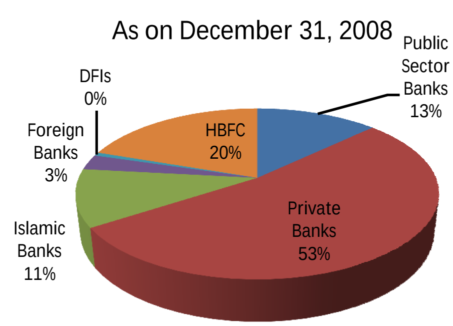


Share of Banks

The overall market share[1] of commercial banks (excluding DFIs) remained almost the same since the end of last year, as it decreased marginally from 80.6% to 79%. Within commercial banks (Figure 6), the share of private banks in the total outstanding decreased from 53% to 48%. Share of public sector banks has declined slightly from 13% to 12%. Share of Islamic and foreign banks have increased from 11% to 12% and 3% to 7% respectively. The share of HBFC has remained almost stagnant at 20% of the total outstanding.

Figure 6: Share of Banks in Total Outstanding





Disbursements

A total of Rs. 1.61 billion worth fresh disbursements were made during the quarter ending Dec 31, 2009 (Table 1). Private banks extended new disbursements of Rs. 878 million followed by Islamic banks with Rs. 493 million and foreign banks with Rs. 92 million. HBFC's fresh disbursements for the quarter were reported to be Rs. 77 million. Among commercial banks, the number of new borrowers totaled 438, with

[1] Based on gross outstanding

private banks serving 291 borrowers. HBFC extended loans to 34 new borrowers during the reporting quarter.

Table 1

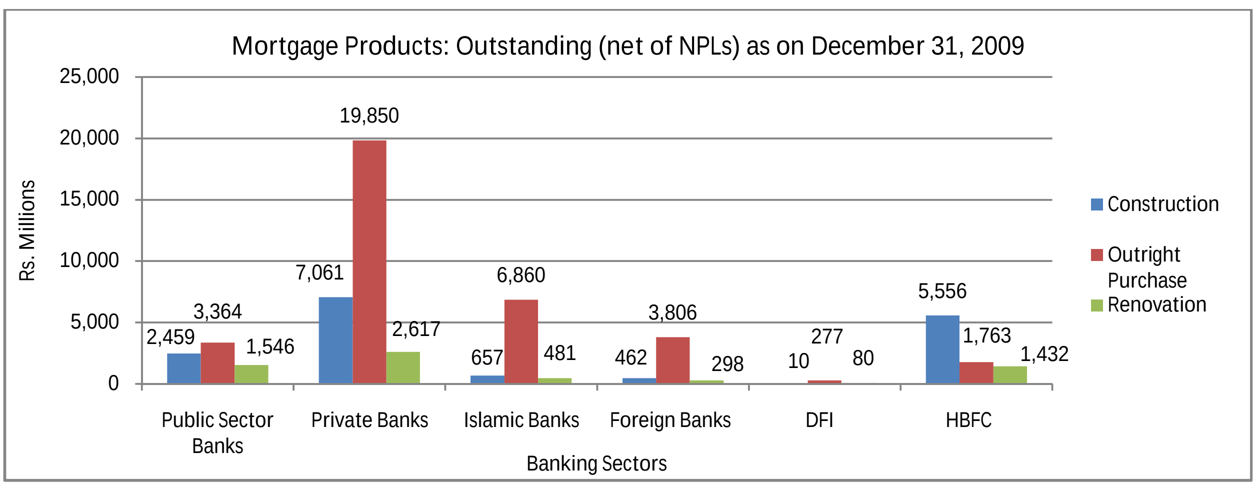
Disbursements during the quarter ending Dec 31 2009

	Amount (Rs. Millions)	No. of Borrowers
Public Sector Banks	68	32
Private Banks	878	291
Islamic Banks	493	105
Foreign Banks	92	10
All Banks	1532	438
DFIs	0	0
HBFC	77	34
Total	1,609	472

Sectoral Share

The biggest share of housing finance continued to be attracted towards outright purchase (Figure 7).

Figure 7



The outstanding, net of NPLs, for outright purchase stood at Rs. 35.91 billion as on Dec 31, 2009; a 59% share in total outstanding of Rs. 74.38 billion. This is followed by the construction category where outstanding reported at quarter-end stood at Rs. 16.21 billion and that of renovation stood at Rs. 6.45 billion.

Active portfolio shows that private banks have taken a lead in financing for all three sectors; construction 44%, outright purchase 55% and renovation 41%.

Analysis of Loan Variables adopted by Banks/DFIs & HBFC

Tables 2, 3 & 4 summarize loan variables across all banking sectors including weighted average interest rate, Loan-to-Value ratio (% financing by banks), average maturity, average loan size and average time for loan processing.

Weighted average interest rate

The overall weighted average interest rate for the quarter ending Dec 31, 2009 comes to 15.64%; an increase of 1.24 percentage points when compared to quarter ending Dec 31, 2008. Highest weighted average profit rate was reported by foreign banks at 17.73%, a 0.84 percentage point increase compared to quarter ending Dec 31, 2008 followed by Islamic banks at 17.12% and DFIs (excluding HBFC) at 16.5%. Private banks reported 14.98%, public sector banks reported a weighted average interest rate of 14.89% and HBFC reported 13.5%.

Average maturity periods

Average maturity period have shown increase signs i.e.; from 12.4 years (Dec 2008) to 12.56 years (Dec 2009). HBFC's average maturity period is reported to be 15.98 years, while that of Islamic banks is 15.25 years. Table 2 shows that among commercial banks, public sector banks have extended housing loans for an average tenure of 9.5 years followed by private sector banks with 12.3 years and foreign banks with 12.43 years.

Loan to Value ratio

The percentage of financing (Loan to Value ratio) extended by banks has increased during last year (Table 3). The LTV ratio for housing finance rose from 44.7% during quarter ending Dec 2008 to 58.58% during quarter ending Dec 2009. The sharpest increase was witnessed among private banks where the LTV ratio rose from 40.3% to 60.25%. The LTVs for HBFC has, on the other hand, decreased from 67.5% to 60% during the last year.

Average time for loan processing

The reported average time for loan processing is 24 days for all banks and DFIs; a trend that has remained almost similar over the year. Currently, the application processing of most banks is a centralized process, where branches forward applications to central branches/head offices for assessment and approvals. Moreover, the processing time can be considerably reduced if land titling issues are resolved; documentation is standardized and institutional inefficiencies removed.

Average loan size

Average loan size for disbursements made during the quarter ending Dec 2009 is Rs. 2.50 million for all banks, except HBFC. The average loan size for HBFC is reported to be Rs. 0.74 million for the reporting quarter. Islamic banks have financed with an average financing size of Rs. 2.81 million. Private banks report an average loan size of Rs. 2.44 million, foreign banks of Rs. 2.74 million and public sector banks report Rs. 2 million. The housing finance market is still inclined towards lending to high income groups.

Table 2

	Weighted Average Interest Rate (%)					Average Maturity Period (Years)				
	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08
Public Sector Banks	14.89	15.34	15.12	14.96	14.3	9.50	11.29	10.6	10.6	10.8
Private Banks	14.98	14.86	15.01	14.55	13.34	12.33	12.20	11.3	11.9	11.9
Islamic Banks	17.12	19.92	17.66	17.81	18.23	15.25	14.32	14.5	14.9	15.3
Foreign Banks	17.73	17.87	17.49	17.53	16.89	12.43	12.01	11.1	12.0	11.8
All Banks	15.71	16.11	15.67	15.52	14.57	12.38	12.41	11.6	12.3	12.1
DFIs	16.5	17.41	17.80	17.6	16.84	14.36	14.34	13.8	14.5	14.7
All Banks & DFIs	15.74	16.16	15.77	15.60	14.65	12.46	12.48	11.7	12.4	12.2
HBFC	13.5	14.65	12.50	11.88	11.35	15.98	15.50	15.2	15.2	15.1
Total Average	15.64	16.05	15.61	15.42	14.4	12.56	12.57	11.9	12.5	12.4

Table 3

	Loan to Value Ratio					Average Time for Loan Processing (days)				
	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08
Public Sector Banks	65.97	61.4	61.6	60.5	63.1	27.9	30	34.6	31.7	38
Private Banks	60.25	60.4	58.5	55.3	40.3	23.2	23	21.8	22.8	22
Islamic Banks	58.47	55.9	56.9	55.3	39.8	23.1	31	34.6	30.4	36.9
Foreign Banks	50.24	49.8	51.6	36.1	41.9	23.1	23	20.7	22.5	23.6
All Banks	59.23	58.1	57.9	53.0	44	23.8	25	25.5	25.3	26.3
DFIs	41.82	42.5	43.3	43.1	44.2	30.0	30	30.0	30.0	30
All Banks & DFIs	58.51	57.5	57.3	52.6	44	24.1	26	25.8	25.5	26.4
HBFC	60.00	55.8	54.2	55.8	67.5	30.0	30	30.0	30.0	30
Total Average	58.58	57.4	57.1	52.8	44.7	24.3	26	26.0	25.7	26.6

Table 4

	Average Loan Size				
	Dec-09	Sep-09	Jun-09	Mar-09	Dec-08
Public Sector Banks	2.00	1.84	1.92	1.75	1.46
Private Banks	2.44	2.29	2.48	2.29	2.4
Islamic Banks	2.81	3.34	3.87	3.70	2.52
Foreign Banks	2.74	2.77	2.89	2.68	2.79
All Banks	2.48	2.47	2.62	2.50	2.33
DFIs	2.99	3.01	3.12	3.09	3.01
All Banks & DFIs	2.50	2.49	2.64	2.52	2.35
HBFC	0.74	0.74	1.08	1.08	0.86
Total Average/Total	2.45	2.44	2.56	2.46	2.29

Conclusions

The quarter ending Dec 31, 2009 depicted a decrease in overall portfolio. NPLs in the housing finance portfolio display a rising trend and banks continue to show signs of cautious lending amidst decreased affordability of the borrowers. LTVs have increased considerably and maturity periods have increased only slightly. Average loan size has increased but only marginally. It is due to the small size of the housing finance portfolio that financial institutions are currently managing housing-related risks. However, the lack of a conducive institutional framework and secondary mortgage market still pos as a major constraint towards the growth of housing and housing finance sector which is one of the potential key drivers of the economy.

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.

Implementation of Housing Advisory Group's Recommendations

As part of its earlier efforts, SBP had established a Housing Advisory Group (HAG) 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 currently coordinating with the Ministry of Housing & Works, Pakistan Banks' Association (PBA), Association of Mortgage Bankers (AMB) and Association of Builders and Developers (ABAD) for implementation of some of the key recommendations.

Mortgage Refinance Company

SBP and World Bank Group have agreed to work together for implementing key recommendation of HAG for creating financing environment conducive to growth of housing sector by focusing on: establishment of Mortgage Refinance Company, availability of low cost housing finance and establishment of an observatory for real estate market. Work on the establishment of Mortgage Refinance Company is now being pursued aggressively. IFC developed a detailed business plan and feasibility for the Mortgage Refinance Company. Principal buy-in of the Ministry of Finance has been elicited and equity commitments are being pursued with banks, GoP and IFC.

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. In accordance with the Cooperation Agreement signed between International Finance Corporation (private sector arm of the World Bank Group) and SBP, a comprehensive housing finance training program was launched. The training covered all aspects of housing finance from product development, loan marketing/distribution and origination to loan underwriting, servicing and risk management. Till date, approximately 200 bankers from over 20 banks have been trained in the mortgage business. More capacity building programs would be conducted in future.

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.

Creation of Web Portal

In a drive to provide different stake-holders with reliable needed information on various factors of housing/mortgage industry, as also recommended by HAG, SBP is working, in coordination with the Association of Mortgage Bankers, for developing a web portal.

Development of Housing Finance Guidelines

Since housing/mortgage finance has different mechanism and parameters, and has distinctive features, it is important and necessary to have a separate set of PRs and Guidelines for housing/mortgage finance. These would be developed and shared with concerned stake-holders for consultation and improvement.

Development of Mechanism/Model for Large-Scale Developer Finance

Growth of Large Scale Developers is essential for development housing sector to its potential. Banks have generally stayed away from LSDF because of the associated risks and unstructured Large Scale Developers sector. An effort will be made to develop a suitable model acceptable to banks and developers, and which can remove the underlying bottle necks and make the projects bankable.