Call it the religious preferences or the general confidence in the Islamic industry; borrowers seem to more at ease with Islamic banks than with other conventional institutions. Islamic banks too, are taking advantage of it by lending aggressively for housing finance and their efforts are yielding sweet fruits. This is the notion depicted by SBP’s latest housing finance review for the quarter ended December 2014.  
  
In line with the boom in real estate sector, gross housing finance is growing in general. During the quarter ended December 2014, gross financing touched Rs53.7 billion mark, depicting an increase of 1.5 percent over the preceding quarter.   
  
The interesting point, however, is that the growth has stemmed mainly from the aggressive lending drive of Islamic banks. Islamic banks’ outstanding financing witnessed a whopping rise of 32 percent over the previous year to Rs15.3 billion. While housing finance by Islamic banks maintained its upward momentum throughout the year, public and private banks rather shied away from lending, whereby the portfolios of foreign banks and DFIs stayed flat.  
  
As for the break-up in terms of loan size, banks/DFIs seem to have a soft corner for the upper class. This is because nearly 64 percent of the outstanding loans of banks/DFIs reflect loans over Rs5 million, whereby the low-income class is often left in the lurch. The case for HBFCL is, however, contradictory where inclination is maintained towards smaller loan size (under Rs1mn).   
  
In terms of contribution of banks, private banks are leading with a dominating share of 36 percent as of December 2014. However, given the unwillingness of banks to lend in recent times, its share has declined from 40 percent as of December 2013.   
  
Yet, the growth in share of Islamic banks is to be cherished. With the housing loan book of Islamic banks ballooning to Rs15.3 billion, , their contribution in outstanding housing loans shot up by nearly 600bps to 29 percent, thus surpassing the share of HBFCL in the outstanding portfolio.  
  
Despite the drastic growth in housing finance by Islamic banks and HBFCL, their NPLs as a percentage of gross loans have improved – another reason why they are actively pursuing lending in this area. Resultantly, industry’s NPLs declined to Rs15.51 billion (down 2.6 percent over Sep’14) from as high as Rs16.21 as of March 2014.  
  
Overall, the number of active borrowers in general has inched down a tad. No thanks to the decline in conventional banks and DFIs overshadowing the growing borrowers of Islamic banks and HBFCL.  
  
Besides, the funds disbursed by the Islamic industry were at the highest standing at Rs2,143 million during the quarter ending December 2014. In relation to the number of borrowers, Islamic industry disburses the highest amount per borrower (Rs7.7 million/borrower) when compared to conventional banks and HBFCL.  
  
In terms of product category, outright purchase pulled the greatest share of over 60 percent, followed by construction. Here, private and Islamic banks were at the forefront with regards to outright purchase, while HBFCL lent more for construction.  
  
Unlike the compelling performance of Islamic industry, microfinance banks were on a decline. The number of borrowers as well as the gross outstanding loan portfolio of microfinance banks witnessed a decline of 1.06 percent and 1.14 percent respectively.   
  
Housing finance is a growing area and the resounding growth in the portfolios of Islamic banks in this area is a testament that the appetite is there. It’s just that public, private, foreign banks and DFIs are perhaps not willing to lend, where the build-up of NPLs is one cause of concern and Islamic banks enjoy a competitive edge in this area. But with interest rates declining, housing finance will become more appealing. It’s the time that banks play their due role in uplifting the mortgage market by lending to the low class in particular.