

# PAKISTAN

## HOUSING FINANCE



### *Is there a business case for FINANCIAL INSTITUTIONS?*

- The International Finance Corporation (IFC), a member of the World Bank Group, is committed to supporting the growth in the housing sector.
- To help realize the full potential of the opportunity in Pakistan's housing finance sector, IFC undertook this study to underline the volume in mortgage finance market that could be tapped by expanding portfolios across different income segments in small, medium, and large cities.
- The study also focuses on potential returns on assets that could be achieved on mortgage finance portfolios by banks/DFI.
- The study combines information from various secondary sources such as the **Population Census of Pakistan (2017)**, studies of Pakistan Bureau of **Statistics, Pakistan Social and Living Standards Measurement (PSLM) surveys**, research articles, as well as information from banks/DFI, and views from industry experts.

Presenting  
the **Business Case**  
for **TAILORED**  
**HOUSING**  
**FINANCE**

# THE GAP BETWEEN HOUSING SUPPLY AND DEMAND IN PAKISTAN<sup>1</sup>

- There is a high demand for housing units from Pakistan’s low-income segment, however the current supply is negligible.
- **Only 1% of housing supply caters to 68% of the population earning a monthly income of up to US\$ 188.**
- Most of the housing supply targets the high and affluent class in line with commercial viability and affordability.
- Approximately 56% of housing units cater to 12% of the population earning monthly income of more than US\$ 625.

## Housing Finance (HF) has the potential to expand in Pakistan

*Despite a low national mortgage/GDP ratio, Financial Institutions (FIs) (except for the House Building Finance Company Limited (HBFC)) are only limited to Tier 1 cities for their mortgage finance products.*

*With the appropriate products, systems, and funding, mortgage finance can be expanded to 26 cities (Tiers 1, 2 and 3), with the potential to reach approximately 500,000 additional clients across different income segments.*

### TAILORED HOUSING FINANCE IS THE RIGHT MIX OF:

- CUSTOMER PROFILE
- QUANTUM OF INCOME
- GEOGRAPHICAL LOCATION
- MODE & PRODUCT OF FINANCING
- PROPERTY USE, SIZE, AND PRICE

<sup>1</sup> <https://aurora.dawn.com/news/1141727>

# HOUSING DEMAND BY INCOME LEVEL AND CITY TIER IN PAKISTAN

## INCOME SEGMENTS

The PSLM Survey and banks/DFI outline the following customer segments according to their monthly income:

**Upper: US\$ 6,250+**

**Upper Middle: US\$ 3,125-6,250**

**Middle Middle: US\$ 688-3,125**

**Lower Middle: US\$ 250-688**

An additional loan volume of **US\$ 3.8 billion** can be created in the mortgage finance market by existing and new Housing Finance players, to serve approximately 500,000 customers.

City Tier****	Potential Households*	EXPECTED CAPITAL OUTLAYS FOR PROPERTY ACROSS INCOME SEGMENTS ** (in US\$ million)				
		Upper	Upper Middle	Middle Middle	Lower Middle***	TOTAL
Tier 1	360,267	132	1,246	638	760	2,776
Tier 2	96,790	35	335	172	204	746
Tier 3	42,784	16	148	76	90	330
<b>TOTAL</b>	<b>499,841</b>	<b>183</b>	<b>1,729</b>	<b>886</b>	<b>1,054</b>	<b>3,852</b>

\* All cities with a population of >300,000 have been selected from the Census of Pakistan 2017 and further categorized into Tier-1, Tier-2 and Tier-3 (based on HBFC tiering system for cities and focus of the banks). Population then has been adjusted into households and discounted with an 80% factor to remove the risks of overage/underage persons, income correction, households with already owned properties, joint families etc.

\*\* Expected capital outlays have been calculated by taking independent pricing indexing by property valuers in target cities for housing units of up to 125 square yards, average loan amounts required and desired monthly incomes.

\*\*\* This income segment is also currently being targeted through mark-up subsidy scheme of the Government of Pakistan (GoP).

\*\*\*\* Tier-1 includes major cities like Karachi, Lahore and Islamabad. Tier-2 includes medium-size cities like Gujranwala, Multan and Sargodha while tier-3 encompasses small cities e.g. Larkana, Sheikhpura and Gwadar.

# ARE THERE OPPORTUNITIES BEYOND AFFORDABLE HOUSING FINANCE? WHAT IS THE POTENTIAL ROA?

- The GoP is currently providing a mark-up subsidy for housing finance whereby housing units of up to 250 square yards and flats/apartments with covered areas of up to 2,000 square feet are being financed by the FIs for first time home-owners. The finance carries a subsidized pricing of up to 9% per annum for a maximum tenor of 10 years and a maximum loan size of US\$ 62,500.
- The markup subsidy scheme is complemented by provision of low-cost housing to low-income groups by Naya Pakistan Housing and Development Authority (NAPHDA), where housing finance is available from FIs for a maximum amount of US\$ 16,875 for a unit of up to 125 square yards and flat/apartment with a covered area of up to 850 square feet.
- However, the opportunity in housing finance is not just limited to income segments currently covered by the markup subsidy scheme.
- Even if the whole markup subsidy allocation is utilized by the banks to build mortgage portfolio, an additional opportunity of US\$ 1.8 billion will remain untapped across upper-middle income segment. This segment will have better ROA along with lower risk of default.



Pakistan's housing supply across all tiers and locations in 26 focused cities is above US\$ 18,000 on average.

A supply of affordable housing units/apartments (up to 125 square yards) is as critical as affordable mortgage financing. Without adequate affordable housing supply, a 'housing for all' agenda could be difficult to achieve.

## RETURN ON ASSETS (ROA)

Assuming higher degree of credit risks as compared to other lending segments, average returns on low income mortgage finance portfolio (currently also covered under mark-up subsidy scheme of the Government) could be up to 2% per annum. In addition to ROAs, such mortgage financing could also offer product cross-sell and higher business growth opportunities.

ROA on mortgage finance to income segments other than those targeted by the markup subsidy scheme could range between 3.50%-4.75%, as estimated from the analysis of FIs' returns on existing consumer mortgage finance portfolio. This also includes the returns on developer finance.

Moreover, mortgage finance products could also be expanded to cover internal employees of FIs, leading to higher staff motivation and retention.

# MORTGAGE FINANCE IN PAKISTAN GROWTH • 'ENABLERS' • CHALLENGES

## Mortgage and Housing Finance

### Demand vs. Supply

- **URBAN POPULATION IS AROUND 25%** more than 208 million people, expected to double between 2030-40.
- **MORTGAGE TO GDP RATIO IS 0.3%** South Asia's average is 3.4%.
- **CURRENT HOUSING DEFICIT IS +10 MILLION UNITS** expected to increase by 0.4 million units per year.
- **LARGE UNDERSERVED MARKET FOR LOW-COST HOUSING**

## Challenges in Housing

### END USERS

lack of affordable housing supply

### LAWS AND REGULATIONS

issues with land titling, registration, administration, and record keeping

### LACK OF FUNDS

limited medium- to long-term funding for on-lending purposes for mortgages. nascent capital markets for raising long-term funding.

### FINANCIAL PROVIDERS

limited capacity of Financial Institutions to offer and manage housing finance.

## Policy and Regulatory Environment

- **Active regulators** like State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP).
- **Introduction of National Financial Inclusion Strategy.** Establishment of Housing Task Force and NAPHDA. Risk-sharing facility by Pakistan Mortgage Refinance Company (PMRC). Mandatory targets for banks for construction and housing finance.
- **Relaxation in general reserve requirements and risk weightages** for FIs lending to low-income segment. Relaxation in taxes on low-cost housing projects.
- **Markup subsidies for affordable housing finance.** Relaxation in regulation for informal income assessment.

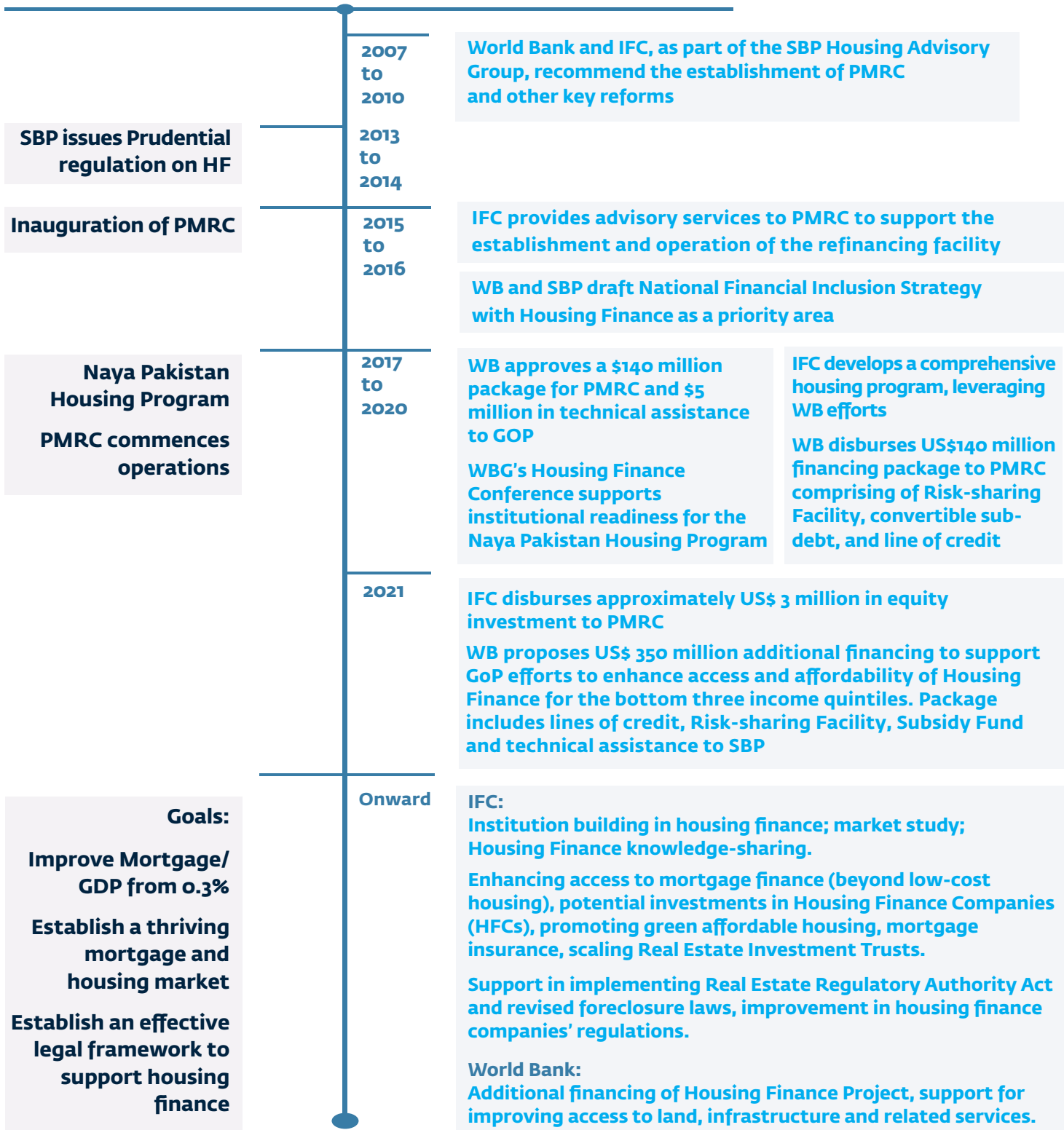
## FINANCE AND CONSTRUCTION INCENTIVES POST COVID-19

- **Policy rate slashed by 625bps** to 7% post Covid-19.
- **Relaxation of Debt Burden Ratio** for consumer loans and regulatory criteria for restructuring/rescheduling of loans. Reduction in Capital Conservation Buffer. Deferment of principal payment on loan obligations.
- **Construction stimulus package** including tax incentives.

# WORLD BANK GROUP (WBG): HOUSING SECTOR ENGAGEMENTS IN PAKISTAN

## Pakistan's Housing Finance Sector Development

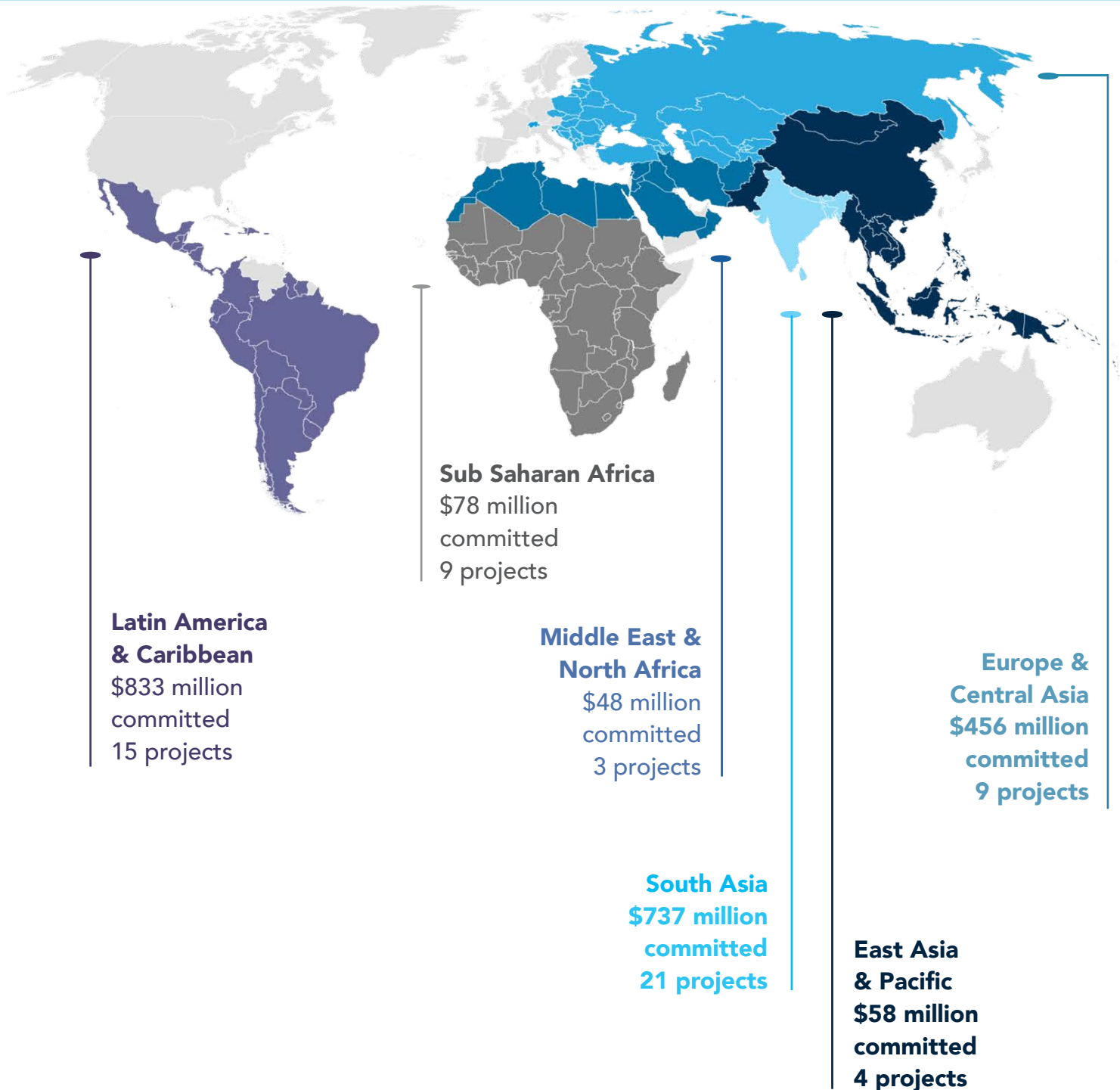
## IFC's Role in Pakistan's Housing Finance Sector



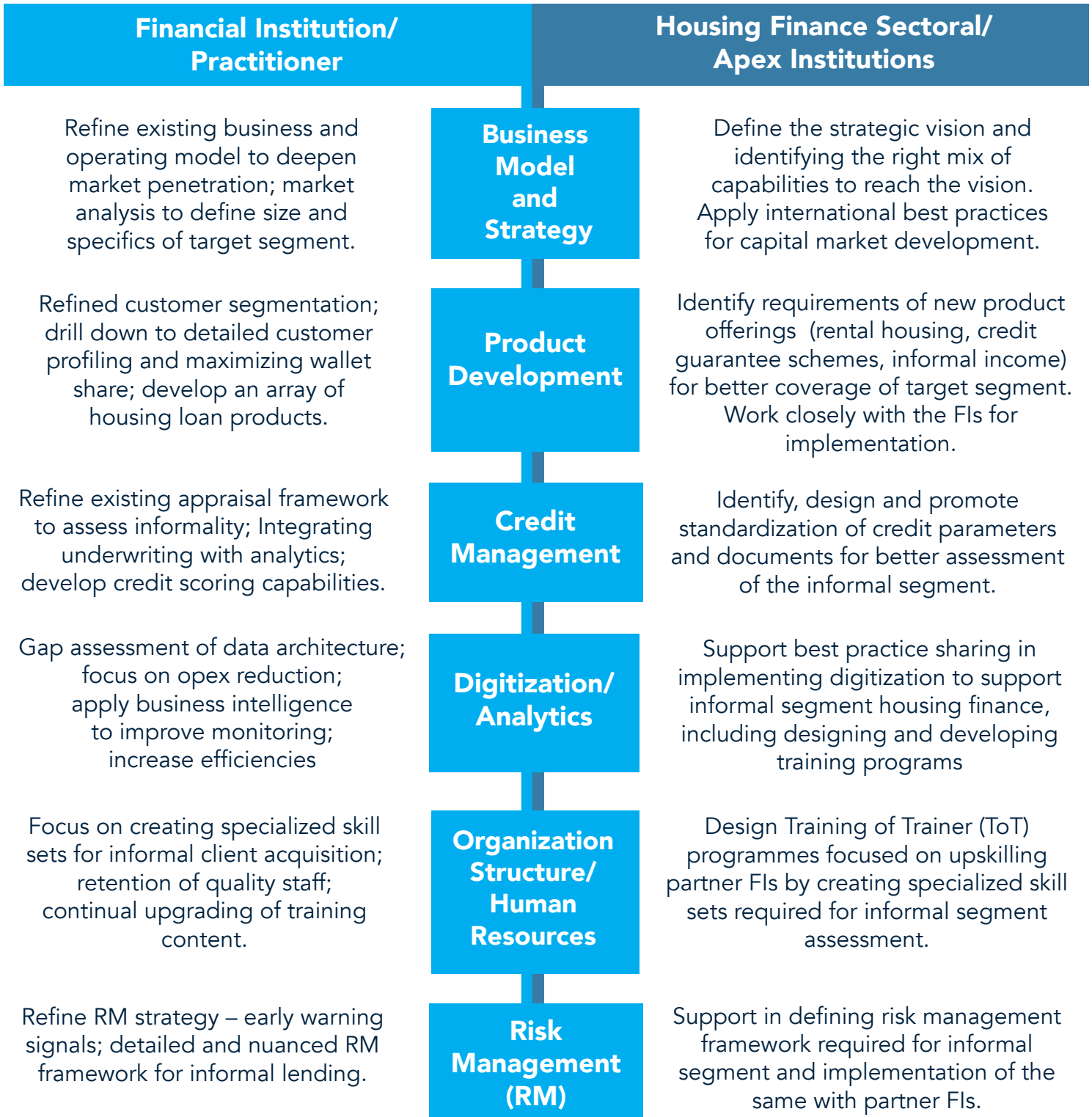
# IFC FINANCIAL INSTITUTIONS GROUP (FIG) GLOBAL HOUSING SECTOR PROJECTS

**IFC FIG had an aggregated exposure of US\$ 2.2 billion with over 60 committed projects in the Housing Sector as of 2020.**

**Investments in the sector include equity, senior and subordinated loans.**



# FIG AFFORDABLE HOUSING FINANCE ADVISORY SUPPORT: CUSTOMIZED INSTITUTIONAL ADVISORY





# IFC TECHNICAL BENCHMARKING: AFFORDABLE HOUSING DIAGNOSTIC TOOLKIT

## Development of Diagnostic Toolkit for Benchmarking of Affordable Housing Finance Institutions

### WHY?

We have synthesized our learnings from managing a Housing Finance Investment Portfolio of more than US\$ 2 billion across 60 projects globally, into a toolkit to help Financial Institutions benchmark their existing Housing Finance Operations against best-in-class practices in affordable housing finance.

### OUTCOME

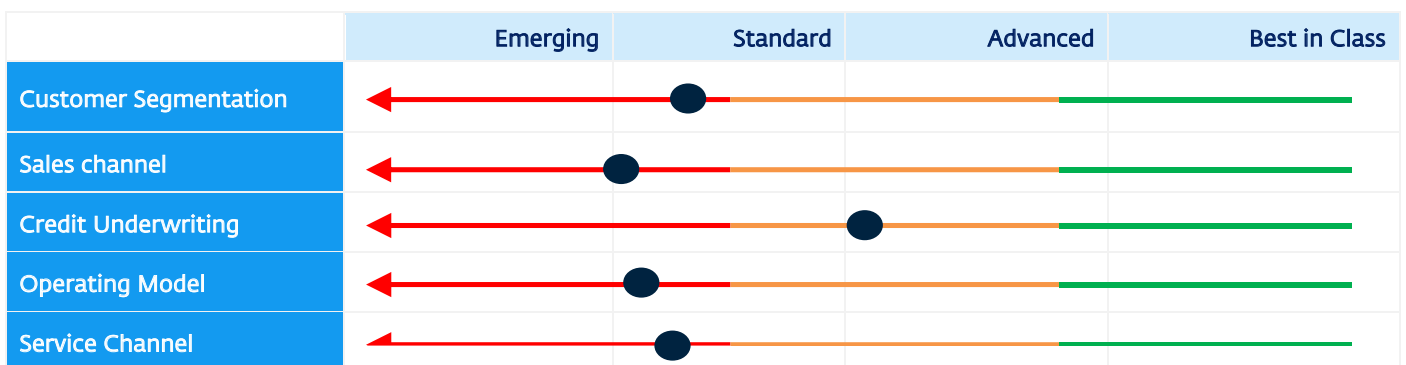
The outcome of the toolkit is a gap analysis document which helps the institution understand critical gaps which need to be filled in order to meet future aspirations and goals in Housing Finance.

### HOW DOES IT WORK?

The toolkit covers the following aspects of Housing Finance Operations of a Financial Institution:

1. Strategy & Business Model
2. Operating Model
3. Product Design
4. Credit Underwriting
5. Data Analytics & Technology Penetration
6. Risk Management
7. HR & Organization Structure
8. Collections

### Illustration of a Business Model classified as Emerging



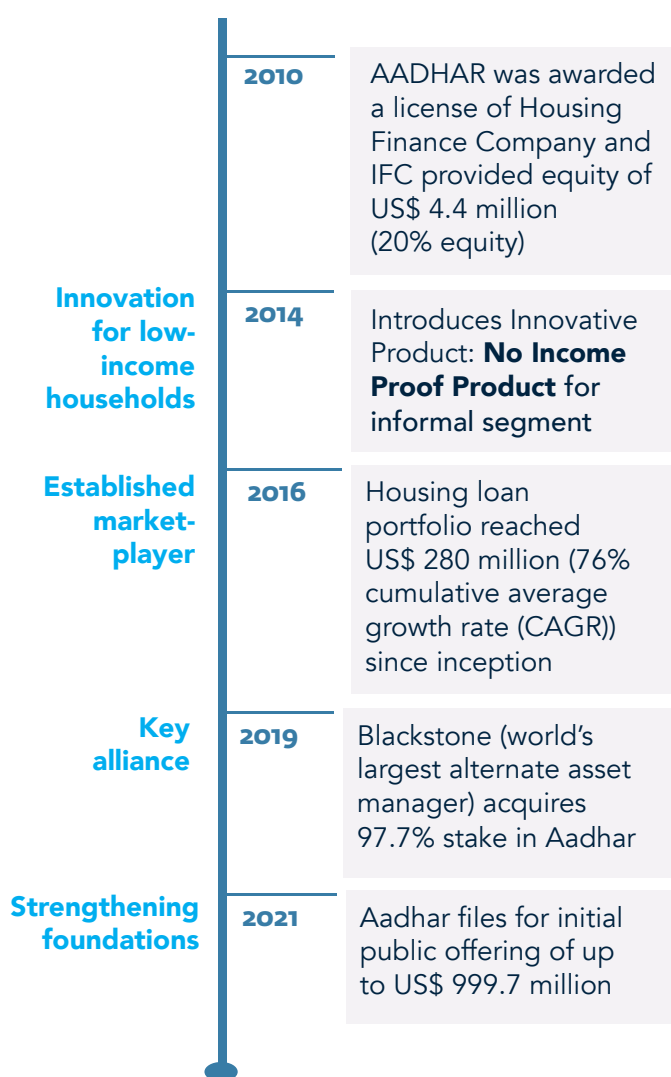


# CASE STUDY: AADHAR

## Through Investment and Advisory Services, IFC Helped Aadhar Housing Finance Launch and Scale up Its Affordable Housing Business in India

**AADHAR** was established in 2010 with IFC’s equity investment of US\$ 4.4 million (20% equity) to provide housing loans to low income segments in low income states. IFC also provided advisory services to Aadhar to enable it to become the first housing finance company in India that is focused on low income customer segments.

### OPERATIONALIZATION AND IFC’S INVESTMENT



### CUSTOMER PROFILE

<b>Ticket Size</b>	Home loans with average ticket size of INR 840,000 (~US\$ 11,700) in urban and semi-urban geographies of India. 90% disbursement up to INR 20 lakhs ticket size (~US\$ 28,000)
<b>Client Segment</b>	Aadhar customers include people from informal segment who do not have adequate income proof documents. Composition - Salaried (66%), Self-employed and others (34%)

### IFC’S INVESTMENT ACHIEVEMENTS

- IFC helped mobilize US\$ 10 million for the greenfield company
- Success of Aadhar helped spur other HFCs in India to achieve CAGR between 30%-60% of their loan portfolios.

### IFC’S ADVISORY SUPPORT

- Helped Aadhar develop and launch new housing finance products targeting lower income households.
- Introduction of Responsible Finance Framework for client protection and awareness.

Note: Portfolio numbers as of Annual Report 2019-20



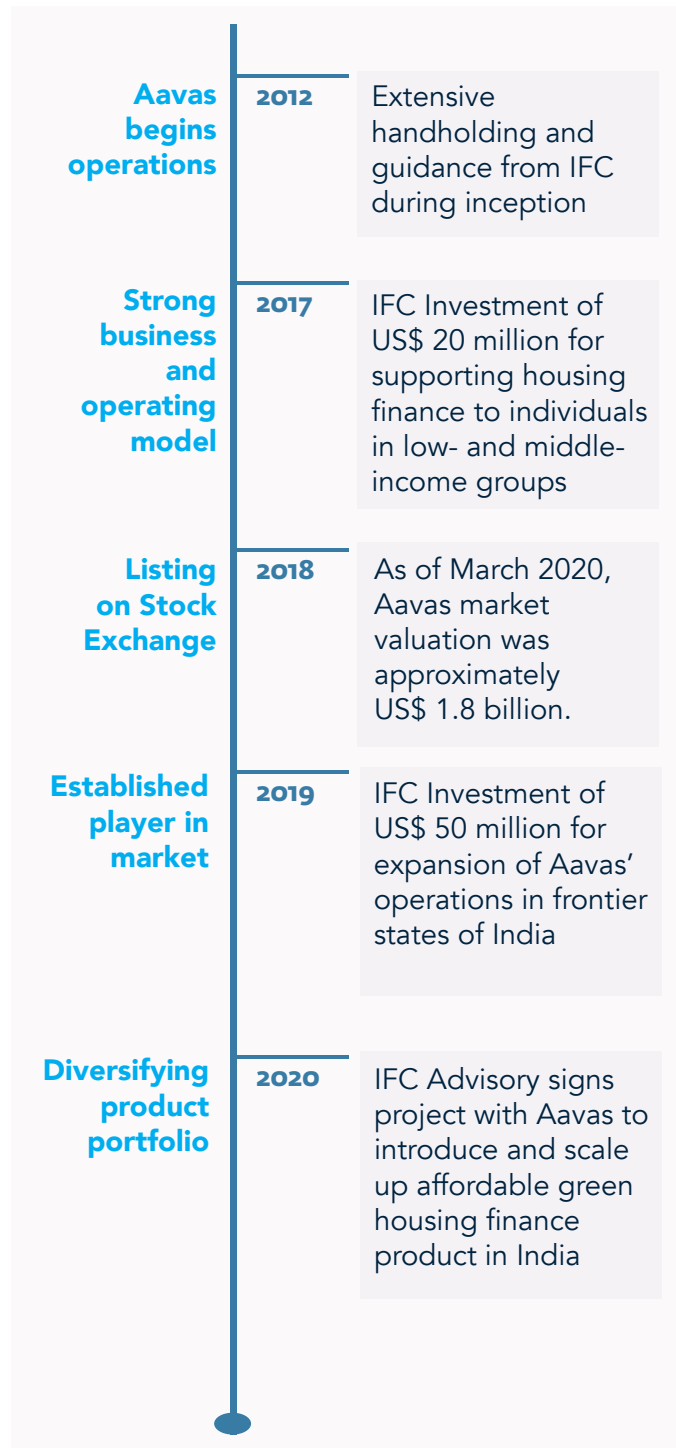
# CASE STUDY: AAVAS

## IFC helped Aavas Financiers Scale Up its Affordable Housing Business in India and Venture into Affordable Green Housing

**AAVAS FINANCIERS LIMITED** (erstwhile Au Housing Finance Limited) was incorporated in February 2011 to provide housing finance for low and middle income customers in rural and semi-urban areas of India. The majority of its portfolio is for self-constructed houses, hence the dependence on developers is quite low. The majority of Aavas customers have limited access to formal banking credit to finance their housing needs because of limited availability of income proof documents, minimum banking history and non-availability of credit bureau scores.

<b>Ticket Size</b>	Home loan average ticket size of INR 850,000 (~US\$ 12,000) in rural and semi-urban India
<b>Business Performance</b>	100,000+ active customers; asset under management (AUM) growth at a CAGR of 41.2% (industry average: 14.7%), AUM of US\$ 1.32 billion
<b>Client Segment</b>	65% of cases from low income states in India, 40% of customers have no previous loan with a financial institution. Composition: 40% salaried; 60% self-employed
<b>Technology &amp; Analytics</b>	Re-engineering of business processes through extensive use of technology and digital (60% of cases disbursed in <10 days)
<b>Asset Liability</b>	Healthy Asset Liability Management profile with positive asset liability gap for next three years
<b>Growth NPL ROA</b>	Demonstrated track record of high growth and healthy asset quality (NPL<1%) and profitability (ROAs>2.5% each year FY15-20).

Note: Portfolio numbers as of Annual Report 2020-21



# CASE STUDY: BANCO LA HIPOTECARIA

IFC is a long-time partner of Banco La Hipotecaria, a primary mortgage lender in Latin America, specializing in serving low and middle-income segments



**LA HIPOTECARIA (LH)** is a full-service housing finance bank, based in Panama, that specializes in the origination and servicing of residential mortgage loans for low to middle-income population, with a proven capacity to securitize these loans. LH is a pioneer in residential mortgage backed securities (RMBS) in Central America (out of which eight have been cross-border). IFC helped expand LH's operations in El Salvador and Colombia.

### IFC'S INVESTMENT ACHIEVEMENTS

- IFC has provided revolving long-term credit lines, not readily available in the market, to meet LH's business model of securitizing mortgage assets.
- With IFC's equity investment in LH, the company was able to expand into Colombia, thereby increasing the access of low to middle-income population to long-term mortgage financing in El Salvador, Panama, and Colombia.
- IFC helped LH tap international investors for mortgage-backed securities thereby increasing the funding required to address the housing finance needs of the low to middle-income population.

LH commences operations	1997	Company licensed in Panama
	2004	IFC provides 3-year credit line of US\$15 million IFC provides 7-year credit line of US\$ 20 million for opening in El Salvador
IFC's first investment	2009	IFC provides a US\$ 25 million credit line to holding company. IFC makes equity investment in the holding company of US\$ 3.5 million (13.5% ownership)
	2010	LH becomes a regulated bank in Panama
Became a regulated bank	2011	With IFC's support, LH begins operations in Colombia
	2012	IFC invests in loan of US\$10 million
	2014	IFC provides credit line and invests in bond of US\$ 30 million
	2021	IFC and LH sign a US\$ 50 million credit line to expand mortgage financing in Panama and El Salvador, with a focus on women-headed households.

# CASE STUDY: PRIORBANK



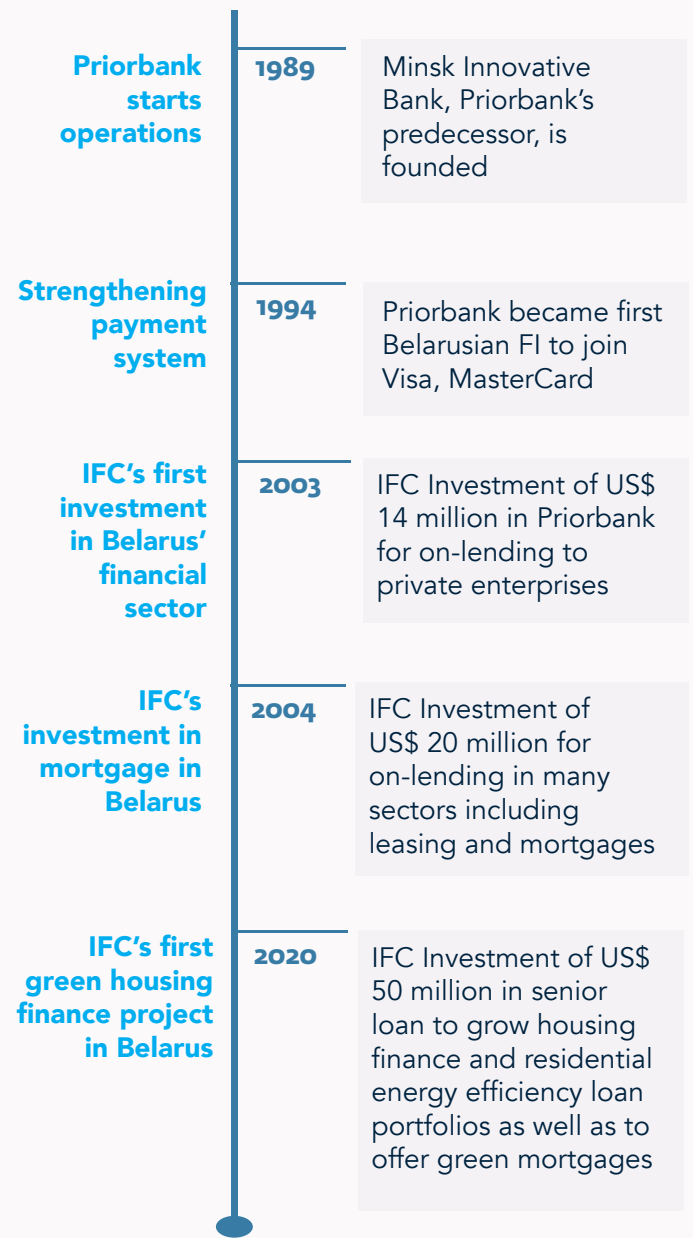
## Through Investment and Knowledge support, IFC helped Priorbank in Belarus to enhance Mortgage Finance portfolio and introduce Green Mortgages

**PRIORBANK** is the sixth largest bank in Belarus and the largest private bank in a country dominated by state-owned banks. Historically focused on corporate lending, Priorbank’s strategy has seen a shift towards SMEs and retail lending, with a focus on mortgages. Target client base for mortgages has been the upper-middle income population.

### IFC’S INVESTMENT ACHIEVEMENTS

- IFC’s housing loans have provided Priorbank much-needed long-term local currency funding which is enabling them to realize their mortgage lending strategy.
- IFC has also supported Priorbank to increase their knowledge and capacity for green housing finance through training and introduction of the **Excellence in Design for Greater Efficiencies (EDGE)** certification system for green mortgages.

### KEY MILESTONES



# Acronyms

ALM	Asset Liability Management
AUM	Asset Under Management
CAGR	Cumulative Average Growth Rate
DFI	Development Finance Institution
EDGE	Excellence in Design for Greater Efficiencies
FIG	Financial Institutions Group
FIs	Financial Institutions
GDP	Gross Domestic Product
GoP	Government of Pakistan
HBFC	House Building Finance Company Limited
HF	Housing Finance
HFCs	Housing Finance Companies
IFC	International Finance Corporation
INR	Indian Rupee
LH	La Hipotecaria
NAPHDA	Naya Pakistan Housing and Development Authority
NPL	Non-performing Loan
PMRC	Pakistan Mortgage Refinance Company
PSLM	Pakistan Social and Living Standards Measurement
REIT	Real Estate Investment Trust
RERA	Real Estate Regulatory Authority
RM	Risk Management
RMBS	Residential Mortgage Backed Securities
ROA	Return on Assets
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
ToT	Training of Trainers
WB	World Bank
WBG	World Bank Group

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