

2009



# State Bank of Pakistan

## Infrastructure and Housing Finance

### “SCOPE OF HOUSING FINANCE GUIDELINES”

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### **Chapter No .1 “Mortgage Process and Creation of Mortgage”**

#### **Mortgage process**

To emphasize on the documentation of the mortgage process by lender for ease of the customers and on the capacity building of the staff involved in leading process.

#### **Mortgage creation**

This section will discuss the technical aspects of using one or more properties to be used for obtaining mortgage loan(s) on the same property.

#### **Conditions of mortgage creation**

This will specify the minimum conditions of creation of mortgage, including signing of mortgage deed by counter parties, exchange of title documents between mortgagor and mortgagee, registration of mortgage and any amendment with the registration authority.

### **Chapter No .2 “Mortgage documents and verifications”**

#### **Engagement of legal advisor:**

To emphasize on engagement of suitable and appropriate legal advisor for development of documents.

#### **Requirement of loan agreement:**

To summarize the minimum contents to be included in loan agreement including the particulars of mortgagor, mortgagee and guarantor, repayment schedule, promissory note etc

#### **Verifications**

Listing down the important documents to be obtained from borrower including tile documents of property and income related documents etc and highlighting the importance of risk management through verifications of all the documents provided by the mortgagor and also the contents provided in the application form.

#### **Mortgage offer**

This section will shed light on the importance of documenting a mortgage offer through issuance of an offer letter and summarizes the contents to be included in the offer letter i.e. loan period, amount payable, mark up and details of property and correspondence addressees etc.



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### **Repayment Schedule and other Documents**

Emphasize the need of providing repayment schedule and other set of documents including General Power authority, indemnity bond and Guarantee forms etc to the mortgagor.

### **Requirements of Mortgage Loan Application form**

This will specify the contents and information to be provided in the application including personal, professional and property details etc also will urge banks to develop such an application form which provide space to obtain the required information from mortgagor.

### **Chapter No. 3 “Ownership and Tile Documents”**

One of the most consequential portion of the guidelines that will identify and list the varied types of tile and ownership documents including Lease, Sale deed, mutation and building plans etc. that a mortgagee needs to obtain from mortgagor and will guide the mortgagee ways to obtain clean tile demounts free from encumbrances to create a safe mortgage.

### **Chapter No. 4 “Property valuation”**

#### **Property valuation**

To emphasize on the need of engaging a professional (on the panel of approved valuer by Pakistan Bankers Association) for property valuation.

In addition ,defining the property evaluation mechanism and its importance and also the pertinent and fundamental areas to be covered in the valuation report including and address of property , repair work required, market & forced sale value, number and types of rooms, covered area and overall conditions of the property etc.

### **Chapter No. 5 “Insurance”**

This will specify the types of the issuance policies i.e. property and life and the minimum areas to be covered for insurance in each policy type by Mortgagee.

### **Chapter No. 6 “Lending Criteria”**

To discuss the importance of synchronizing the internal lending criteria by mortgagee with prudential regulation of SBP and listing down basic parameters set by SBP including Debt equity ratio, debt burden ratio and time period etc. In addition, encouraging and guiding banks to play their due role in ameliorating the overall housing finance condition in the country through developing the innovative and market driven products targeting the varied needs of different



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stratum of the population instead of concentrating loan portfolios into a particular location and/or target class(es) etc.

### **Chapter No.7 “Recovery and Auction”**

This part of the document will specify the most suitable recovery procedures to adopt considering the sundry vicissitudes of Pakistan’s housing finance milieu including obstacles and challenges that Banks can face and the ways to tackle these obstacles effectively. The problems a bank can face in handling post date cheques and the measure to be adopted to overcome these problems will also be discussed. It will also highlight the need of adopting the recovery procedures it to in line with the recover ordinance 2001 and other prevalent pertinent laws in the country.

#### **Auction of Mortgage Property**

This will specify the steps to be taken by mortgagee before going into auction which include in time notice(s) to mortgagor, advertising in local and widely circulated newspaper(s) and other formalities to be completed beforehand.

#### **Reserve price of the Property to be auctioned**

To emphasize on the requirement of formulating the reserve price of the property under consideration for auction based upon the applicable law(s) in order to preclude further involvedness and intricacy and to safe guard the interest of mortgagor as well as of mortgagee.

#### **Utilization of sales proceeds through Auction**

Identifying the mechanism of appropriation of funds/sale proceeds obtained form the auction of property to different heads.

#### **Effect of auction on Mortgaged Property**

This portion will discuss the possible effect(s) of auction on mortgagor, inhabitant and the legal status of auctioned property. It’s also highlights the ways to handle the grievances if any in light of established laws.

#### **Mortgagee as Attorney**



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This section will discuss technicalities and the legal status of mortgagee to get the auctioned property registered in favor of buyer and to expedite eviction of the current occupant in accordance with the pertinent law.

### **Protection after Power of Sale**

To discuss the legal status of the buyer of auctioned property to use it without any restriction and encumbrance

### **Right to Redeem Mortgaged Property**

This is to emphasize the legal status of mortgagor and his right to settle the default and/or the outstanding amount and get his property redeemed as per terms and conditions agreed upon in loan agreement and mortgage deed.

## **Chapter No. 8 “MIS & Accounts Management”**

To specify the role of IT and MIS in accounts management and the requisite set of information that to be generated through MIS.

### **Mortgage Accounting System**

Discuss the importance of modules that should be included in software and database to generate meaningful report (monthly, quarterly, and annual) to facilities not only customers but the top management of the organization in decision making.

### **Reporting**

To the list the areas generally covered in good reporting systems including share of regional mortgages, product wise share of outstanding, default amounts, profitability and market segments etc

## **Chapter No. 9 “Relationship Management”**

Emphasizing on the importance of relationship management on the apart of mortgagee as well of mortgagor and to draw minimum acceptable standards required for perpetual, lasting and mutually beneficial relationships between mortgagee and mortgagor.



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### **Duties and obligation of mortgagor**

To summarize the duties that a mortgagor is expected to perform in manner consistent with essence of the loan agreement including providing encumbrance free title documents, proper maintenance of mortgaged property and payment of debt on time etc

### **Duties and obligation of mortgagee:**

To summarize the duties that a mortgagee is expected to perform in manner consistent with essence of the loan agreement including disclosure of information, providing accounting information and notifying the mortgagor through written notification(s) as and when required etc.

### **Chapter No.10 "Housing observatory"**

This will discuss the role of housing observatory and the information to be made available including real estate prices trends, housing supply, demand and shortages, housing finance mark up rates and housing projects started or going to be started etc to the key stakeholders within organization .

### **Chapter No 11 "Loan Transfers (BTF)"**

To summarize the necessary formalities to be completed by Mortgagee and mortgagor before execution and signing of BTF loan agreement.

