



# Policy for Low Cost Housing Finance

March 2019



**State Bank of Pakistan**

**Infrastructure, Housing and SME Finance Department**

---

# Table of Contents

|   |          |
|---|----------|
| <b>1. Introduction.....</b>   | <b>1</b> |
| <b>2. Regulatory Incentives.....</b>  | <b>2</b> |
| <b>3. Specialized DFIs for Housing Finance .....</b>                            | <b>5</b> |
| <b>4. Targets to Banks for Low Cost Housing Finance.....</b>                    | <b>6</b> |
| <b>5. SBP Financing Facility for Low Cost Housing for Special Segments.....</b> | <b>7</b> |
| <b>6. Annexures.....</b>  | <b>8</b> |

---

# 1. Introduction

Pakistan, like other developing countries, has been facing shortage of housing units; and this basic human need is felt more profoundly at the bottom-of-the-pyramid comprising of the poor and financially under-served segments of the society. It is estimated that annual demand for new homes is approximately 700,000 a year, whereas, only about half of this demand is met. Overall, the housing deficit is estimated at 10 million units and growing.

The formal financial sector has been failing to provide adequate and affordable housing finance to a large segment of the population. The combined volume of outstanding housing finance from banks and the HBFCL stands at Rs. 92.4 billion as of Dec. 2018. The outstanding housing finance, including the staff housing loans of financial institutions, is currently equivalent to only 0.5 percent of GDP. This ratio (referred to as mortgage depth) is low in comparison, not only to advanced economies but also to regional developing economies of India and Bangladesh.

The housing finance market has been marred by both supply and demand side challenges. Key supply side issues faced by the industry are: lack of adequate foreclosure mechanism, uncertainty of title deeds, absence of innovative products, risk of maturity mismatch due to unavailability of long term funding and lack of skilled mortgaged bankers. Similarly, key issues related to demand side are: escalating property prices, dearth of financing products, unavailability of formal financial services and volatility in interest rates.

The Government is already taking measures to facilitate adequate housing for all segments of the society. State Bank has decided to introduce regulatory and policy initiatives which will also complement efforts of Government for housing industry. The SBP initiatives cover regulatory relaxations to banks/DFIs, introduction of housing finance targets to banks and subsidized fixed rate financial facility for low cost housing for special segments. These initiatives are expected to facilitate promotion of low cost housing finance in the country.

## 2. Regulatory Incentives

### Definition of Low Cost Housing

In line with the broader objective of promoting low cost housing in Pakistan, SBP has defined low cost housing. The definition will be applicable for incentives that are specifically taken to promote low cost housing.

Low cost Housing: To qualify under low cost housing, the borrower has to fulfill the following criteria:

- Maximum value of the housing unit/apartment up to Rs. 3 million
- Covered area of the housing unit/apartment in urban areas up to 850 sq. ft.
- Loan size up to Rs. 2.7 million

### Relaxation in General Reserve Requirements for Banks/DFIs

Banks/DFIs, under the prudential regulations for housing finance, are required to maintain a general reserve against the respective housing finance portfolios. Currently, Bank/DFIs maintain general reserve in the following manner:

| <b>General Reserves against Housing Finance</b>                          |                          |                |                    |
|--|--------------------------|----------------|--------------------|
| <b>Percentage of classified housing finance to total housing finance</b> | <b>General</b>           | <b>Reserve</b> | <b>(percent of</b> |
|  | <b>active/performing</b> | <b>Housing</b> | <b>Finance</b>     |
|  | <b>Portfolio)</b>        |                |                    |
| <b>Below 5</b>   |                          | 0.5            |                    |
| <b>Below 10</b>  |                          | 1.0            |                    |
| <b>Up to and above 10</b>  |                          | 1.5            |                    |

In order to facilitate bank/DFIs in extending housing finance to low income groups, the general reserve requirements against low cost housing finance portfolio of banks/DFIs is being withdrawn. The relaxation shall only be applicable on Bank/DFI's housing finance portfolio of low cost housing loans as defined by SBP.

### Relaxation in Loan to Value (LTV) Ratio

Banks/DFIs, extending housing finance to low income groups, are being allowed relaxation in Housing Finance prudential regulation by way of increase in LTV ratio to 90:10 from existing 85:15.

### **Allowing Regulatory Relaxation in the Limit on Bank/DFI's Exposure to Real Estate Sector**

Banks/DFIs, in terms of BPRD's Circular no. 01 of 2014, are required to limit their exposure on real estate sector up to 10%. In order to incentivize banks/DFIs for providing low cost housing finance, bank/DFI's exposure to low cost housing, as defined by SBP, will not be included for calculating the real estate exposure limit.

### **Relaxation in Property Assessment for Low-Cost Housing Finance**

SBP encourages financial institutions to provide housing finance to the borrowers in low cost housing projects. In order to reduce the transaction cost of the small sized loans, relaxation is being allowed in housing finance prudential regulations by permitting banks/DFIs to use one model property assessment, for a low cost housing society/project only, in place of valuing each individual unit within that society/project.

### **Lower Risk-Weights for Low Cost Housing Finance**

In terms of BSD Circular No. 08 of 2006 dated June 27, 2006 regarding Minimum Capital Requirements – Implementation of Basel II, the standardized risk weight as applicable on banks/ DFIs' exposure to "Residential Mortgage Finance" is 35%. To support the growth of low cost housing in Pakistan, it has been decided to lower the risk weight to 25% for banks/ DFIs' exposure to low cost housing.

### **Banks/DFIs Borrowings from Pakistan Mortgage Refinance Company (PMRC) exempted from CRR and SLR**

Banks/DFIs availing refinance from PMRC have been exempted from maintaining CRR and SLR on borrowings from PMRC. These relaxations/incentives will aid PMRC in operating as viable business entity on sustainable basis. PMRC will also contribute to the development of bond market since it will introduce a new asset class, Conventional and Islamic, for investors. PMRC bonds will progressively have longer maturities than the current debt instruments in the market and would be an investment instrument combining a high degree of security with a yield higher than PIBs.

### **Standardization of Housing Finance Application Form**

The dissimilarities and complexities in loan applications of banks/DFIs hinder easy access of potential borrowers to avail housing finance facilities. Accordingly, a standardized loan application form has been developed in consultation with banks/DFIs with a view to streamline and simplify loan application processing by banks/ DFIs. The standardized application form is being issued through PBA.

### **Upscaling of Housing Finance Limits for Microfinance Banks**

Housing finance is an important tool to increase the living standards of the poor in urban and rural areas. It is, therefore necessary to enhance the role of Microfinance Banks (MFBs) in housing finance. For this purpose, SBP is initiating following measures:

- **Maximum Size of Housing Finance Increased for MFBs**

MFBs are regulated under the Prudential Regulations (PRs) for Microfinance Banks. These PRs restrict MFBs from optimally participating in housing finance. In terms of Prudential Regulation R-5 (A) and R-6, MFBs are limited to extend housing finance up to PKR 500,000, to any single borrower. In order to enable MFBs to fully utilize their potential, MFBs are being allowed to extend housing loans up to PKR 1 million.

- **Removal of Regulatory Cap within Housing Microfinance**

Regulatory cap of 40%, on exposure above PKR 250,000, on housing loans is being removed.

- **Rationalization of Lending Rates and Increased Tenor for Housing Loans**

MFBs may avail long-term wholesale funding lines from PMRC. The availability of long term funding will aid MFBs in rationalizing the interest rates and extending housing loans for longer tenors.

### **3. Specialized DFIs for Housing Finance**

To promote low cost housing finance through specialized housing finance institutions, SBP is considering to allow specialized housing finance DFIs. Banks may establish their subsidiaries or new investors may be allowed to setup these DFIs with reduced paid-up capital of Rs. 3 billion (instead of Rs. 6 billion for normal DFI) and lesser regulatory burden. Banks' subsidiaries setup under DFI mode would be able to take benefit from the branch network and systems of parent bank with necessary firewalls.

## 4. Targets to Banks for Low Cost Housing Finance

Housing finance in Pakistan currently stands at Rs. 92 billion as of December 2018 which is just 1.7% of private sector credit. The policy aims to increase housing finance to 6% of private sector credit over a period of five years.

In order to channelize credit to low cost housing borrowers, SBP has decided to give targets to banks. The target for each bank will be assigned from April 2019 onwards. Banks will be advised to incorporate the assigned targets in their overall business plan and departmental targets. While assessing performance of banks' management, the bank's Board of Directors (BoDs) will review the achievements against housing finance targets. SBP will also periodically monitor the targets and banks' performance.

Further, in Pakistan, mortgage products are by and large homogenous across the financial institutions. There is a dire need of product innovation. Housing finance is currently dominated by variable rate mortgages with no presence of fixed rate mortgages. In order to ensure takeoff of the housing finance, product innovation is required. Introducing fixed rate mortgages will provide needed comfort to the borrowers against fluctuating interest rates. In addition to fixed rate mortgages, there is also a need to introduce mortgage products with respect to varied income segments. Banks/DFIs are encouraged to introduce innovative products, which may include the following features/options:

- a) Availability of fixed/hybrid rate (floating and fixed)
- b) Availability of specified interest-only period products to make regular home loans affordable
- c) Step-up payment option wherein initial installments are lower and repayment schedule is linked to expected growth in borrower's income
- d) Discounted rates for borrowers through institutional arrangements with various public/private sector entities
- e) Availability of flexible tenures and maximum loan tenure as allowed under Prudential Regulations for Housing Finance
- f) Products with no prepayment penalty option



## 5. SBP Financing Facility for Low Cost Housing for Special Segments

The growth in the housing finance has mostly taken place in the upper income segments, while the lower income strata is still deprived of full access to the institutionalized housing finance.

Lack of affordability is a key factor depriving low-income strata of population from full access to institutionalized housing finance to meet their housing needs. This is even a greater challenge for the segments of society with special conditions such as widows, children of Shaheed, transgender, special persons and persons in the areas severely affected by war against terrorism.

In order to facilitate availability of long-term affordable funding for housing to these segments of society, State Bank of Pakistan (SBP) has decided to introduce a “Financing Facility for Low Cost Housing for Special Segments”.

### Salient Features of SBP Financing Facility for Low Cost Housing for Special Segments

- **Participants:** All Banks/DFIs
- **Loan Amount** = up to Rs. 2.7 million
- **Extent of Refinance:**
  - Up to 100% by SBP
- **Scope:**
  - Widows
  - Children of martyrs
  - Special persons
  - Transgender
  - Persons in areas severely affected by terrorism
- **Eligibility of Borrower:**
  - First time home owner
  - Must not have availed housing finance previously
  - For construction of a new housing unit
  - Maximum value of the housing unit up to Rs. 3 million
  - The financing for plot to be purchased for constructing house shall be allowed upto Rs. 1.0 million only.
- **Loan Tenor:** Up to 12½ years
- **Borrower Rate for SBP Refinance:** 5% (including bank's spread of up to 4%)

The financing facility will provide liquidity to the financial institutions, at a subsidized fixed rate, for extending low cost housing finance to special segments.

It is expected that the proposed scheme will encourage even those financial institutions, for extending housing finance, that are currently not active in providing low cost housing finance.

Similar financing facility will also be provided through the Islamic Financial Institutions (IFI). Under this facility, Mudarabah investment of SBP shall be available for up to 100% of the amount financed to eligible customers. SBP shall make Mudarabah investment in general pool of the IFI whereas the IFIs would enter into Diminishing Musharaka or any other Shariah compliant contract. SBP will finance upto 100,000 borrowers under financing facility for special segments..

## 6. Annexures



# STATE BANK OF PAKISTAN

Infrastructure, Housing & SME Finance Department

I. I. Chundrigar Road

Karachi

IH&SMEFD Circular No. 04

March 11, 2019

The Presidents/ Chief Executives,  
All Banks/DFIs

## **Exemptions/Relaxations in Prudential Regulations for Low Cost Housing Finance**

Dear Sir/Madam,

In order to promote low cost housing finance in the country, it has been decided to define the low cost housing as part of SBP's regulatory framework and allow certain regulatory relaxations for banks/DFIs. To qualify under low-cost housing finance, the borrower has to fulfill the following criteria:

- Maximum value of the housing unit/apartment up to PKR 3 million
  - Covered area of the housing unit / apartment up to 850 square feet in urban areas
  - Loan size up to PKR 2.7 million
2. To further encourage and facilitate the Banks/DFIs to pursue low-cost housing finance, regulatory exemptions/relaxations in the following Prudential Regulations (PRs) for housing finance are being advised:
- i. **Regulation HF 4: Loan to Value Ratio (LTV):** LTV ratio of upto 90:10 shall be maintained for low cost housing finance.
  - ii. **Regulation HF 5: Limit on Exposure against Real Estate Sector:** Financing extended to low cost housing, shall be exempted from exposure limit of 10 percent on real estate sector.
  - iii. **Regulation HF-7: Property Assessment:** For the purpose of financing low cost housing units, banks/DFIs are allowed to apply the valuation of single unit on all the units of the same society/colony instead of conducting separate valuation for each unit constructed on the same layout and size.
  - iv. **Regulation HF 9: General Reserve against Housing Finance:** Banks/DFIs are exempted from general reserve requirement against the financing extended to low cost housing.
3. All other instructions on the subject shall remain unchanged.
4. Banks/DFIs are advised to ensure circulation of these exemptions/relaxations in the regulations for housing finance among all their offices/branches for meticulous compliance in letter and spirit.

Yours sincerely,

-sd-

**(Ghulam Muhammad)**

Director



# STATE BANK OF PAKISTAN

Banking Policy and Regulations Department

I. I. Chundrigar Road

Karachi

BPRD Circular No. 01 of 2019

March 11, 2019

The Presidents/Chief Executive Officers

All Banks/ DFIs

Dear Sir/ Madam,

## **Basel Capital Adequacy Framework: Lowering of Risk Weight on Low Cost Housing Finance**

Please refer to the instructions contained in BSD Circular No. 08 of 2006 dated June 27, 2006 regarding Minimum Capital Requirements – Implementation of Basel II.

2. Under the existing instructions, the standardized risk weight as applicable on banks/ DFIs' exposure to "Residential Mortgage Finance" is 35%. However, to support the growth of "Low Cost Housing" in Pakistan, it has been decided to lower the risk weight to 25% for banks/ DFIs' exposure to "Low Cost Housing" wherein borrowers are meeting the relevant criteria as prescribed by SBP, from time to time.
3. Currently, "Low Cost Housing" exposure of only those banks and DFIs shall be entitled to receive the preferential risk weight of 25% for capital adequacy purposes, wherein borrowers are meeting the requisite criteria as specified in IH&SMEFD Circular No. 04 of 2019.
4. All other instructions, on the subject, shall remain unchanged.

Please acknowledge receipt.

Yours Truly,

-sd-

**(Muhammad Akhtar Javed)**

Director



**STATE BANK OF PAKISTAN**  
Domestic Market and Monetary Management Department  
I. I. Chundrigar Road  
Karachi

DMMD Circular No. 08 of 2019

March 11, 2019

The Presidents/Chief Executive Officers

All Banks

Dear Sirs/Madams,

**Statutory Reserve Requirements-Cash Reserve and Statutory Liquidity Requirement**

Please refer to [DMMD Circular no. 04](#) and [DMMD Circular no. 05](#) dated March 08, 2018 regarding Statutory Cash Reserve Requirement and Statutory Liquidity Requirement respectively.

It has been decided that '*Borrowings from Pakistan Mortgage Refinance Company Limited*' will be exempted from maintenance of Cash Reserve Requirement and Statutory Liquidity Requirement.

All other instructions on the subject will remain unchanged.

Yours truly,

-sd-

**(Rizwana Rifat)**  
Senior Joint Director



# STATE BANK OF PAKISTAN

Domestic Market and Monetary Management Department  
I. I. Chundrigar Road  
Karachi

DMMD Circular No. 09 of 2019

March 11, 2019

The Presidents/Chief Executive Officers

All Micro Finance Banks

Dear Sirs/Madams,

## **Statutory Liquidity Requirement (SLR)**

Please refer to [BSD Circular no. 31](#) dated December 17, 2008 on the subject cited above.

It has been decided that '*Borrowings from Pakistan Mortgage Refinance Company Limited*' will also be exempted from maintenance of Statutory Liquidity Requirement.

All other instructions on the subject will remain unchanged.

Yours truly,

-sd-

**(Rizwana Rifat)**  
Senior Joint Director



# STATE BANK OF PAKISTAN

Agriculture Credit and Microfinance Department

I. I. Chundrigar Road

Karachi

AC&MFD Circular No. 01

March 11, 2019

The Presidents/Chief Executive Officers,  
All Microfinance Banks

Dear Sirs,

## **Housing Finance – Enhancement of Loan Limits for Microfinance Banks**

Please refer to Regulation R-5 of the Prudential Regulations for Microfinance Banks.

2. In order to rationalize lending limits under 'Housing Finance' for MFBs, it has been decided to enhance the maximum loan size from Rs. 500,000 to Rs. 1,000,000. Moreover, the restriction to maintain 60% of housing portfolio within the loan limit of Rs. 250,000/- is also being removed.

3. However, MFBs shall develop related institutional capacity and appropriate mechanisms for monitoring the housing finance exposure. All other instructions on the matter will remain unchanged.

Please acknowledge receipt.

Yours sincerely,

-sd-

**(Noor Ahmed)**

Director



# STATE BANK OF PAKISTAN

Infrastructure, Housing & SME Finance Department

I. I. Chundrigar Road

Karachi

IH&SMEFD Circular No. 05

March 11, 2019

The Presidents/ Chief Executives,  
All Banks/DFIs

## Financing Facility for Low Cost Housing for Special Segments

Dear Sir/ Madam,

Lack of affordability is a key factor depriving low-income strata of population from full access to institutionalized housing finance to meet their housing needs. This is even a greater challenge for the segments of society with special conditions such as widows, children of Shaheed, transgender, special persons and persons in the areas severely affected by war against terrorism. In order to facilitate availability of long-term affordable funding for housing to these segments of society, State Bank of Pakistan (SBP) has decided to introduce a "Financing Facility for Low Cost Housing for Special Segments" (The Scheme). Salient features of the Scheme are as under:

- **Participants:** All Banks/DFIs
  - **Loan Amount:** Up to Rs. 2.7 million
  - **Refinance:** Up to 100% by SBP
  - **Scope:**
    - Widows
    - Children of martyrs
    - Special persons
    - Transgender
    - Persons in areas severely affected by terrorism
  - **Eligibility of Borrower:**
    - First time home owner
    - Must not have availed housing finance previously
    - For construction of a new housing unit
    - Maximum value of the housing unit up to Rs. 3 million
    - The financing for plot to be purchased for constructing house shall be allowed upto Rs. 1.0 million only
  - **Loan Tenor:** Up to 12½ years
  - **Borrower Rate for SBP Refinance:** 5% (including bank's spread of up to 4%)
-



2. Yearly limits shall be allocated to individual banks/DFIs under the Scheme. Applications for sanction of limits for each fiscal year (July-June basis) shall be sent by the interested banks/DFIs to the Director, Infrastructure, Housing & SME Finance Department, latest by 15<sup>th</sup> May each year to facilitate sanction of annual limits at the earliest. For the current year, the request for sanction of limits may be submitted within 30 days from the date of issuance of this circular.

3. The refinance under the Scheme shall be available for loans sanctioned from the date of issuance of this circular and up to December 31, 2023. Details of the Scheme and its documents are attached herewith at Annexure I and II respectively.

Encl:

**Annex-I:** Financing Facility for Low Cost Housing for Special Segments

**Annex-II:** Documents for Financing Facility for Low Cost Housing for Special Segments

Yours sincerely,

**-sd-**

**(Ghulam Muhammad)**

Director

---



# STATE BANK OF PAKISTAN

Infrastructure, Housing & SME Finance Department

I. I. Chundrigar Road

Karachi

IH&SMEFD Circular No. 06

March 11, 2019

The Presidents/ Chief Executive Officers,  
All Islamic Banks and Banks / DFIs having Islamic banking branches

## **Islamic Financing Facility for Low Cost Housing for Special Segments**

Dear Sir/ Madam,

In order to facilitate availability of long-term affordable funding to some of the selective low income segments, SBP has launched a “Financing Facility for Low Cost Housing *for Special Segments*” through IH&SMEFD Circular No. 05 of 2019. In this regard, SBP is also introducing a Mudarabah based “Islamic Financing Facility for Low Cost Housing *for Special Segments*” (The Facility) for Islamic Banking Institutions (IBIs) and Islamic DFIs; collectively referred as Participating Islamic Financial Institutions (PIFIs). Salient features of the financing facility are as under:

- **Participants:** All Banks/DFIs
- **Financing Amount:** Up to Rs. 2.7 million
- **Scope:**
  - Widows
  - Children of martyrs
  - Special persons
  - Transgender
  - Persons in areas severely affected by terrorism
- **Eligibility of Borrower:**
  - First time home owner
  - Must not have availed housing finance previously
  - For construction of a new housing unit
  - Maximum value of the housing unit up to Rs. 3 million
  - The financing for plot to be purchased for constructing house shall be allowed upto Rs. 1.0 million only
- **Financing Tenor:** Up to 12½ years

2. Under this facility, Mudarabah investment of SBP shall be available for up to 100% of the amount financed to eligible customers. SBP shall make Mudarabah investment in general pool of the PIFI.

---

3. PIFIs may submit their requests for allocation / assignment of limits under this facility to be evaluated by SBP as per its internal criteria. Yearly limits shall be allocated to individual PIFI under the Scheme. Applications for sanction of limits for each fiscal year (July-June basis) shall be sent by the interested PIFIs to the Director, Infrastructure, Housing & SME Finance Department, latest by 15<sup>th</sup> May each year to facilitate sanction of annual limits at the earliest. For the current year, the request for sanction of limits may be submitted within 30 days from the date of issuance of this circular.

4. The Mudarabah investment under the Scheme shall be available for financing sanctioned from the date of issuance of this circular and up-to December 31, 2023. Details of facility, Shariah Structure of the facility and facility documents are provided in the attached Annexures.

Encl:

**Annex-I:** Islamic Financing Facility for Low Cost Housing for Special Segments

**Annex-II:** Documents for Islamic Financing Facility for Low Cost Housing for Special Segments

Yours sincerely,

-sd-

**(Ghulam Muhammad)**

Director

---