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| **Road Map to HOUSING FINANCE guidelines** |
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**State Bank of Pakistan**

**Infrastructure and Housing Finance Department**

**(IHFD)**

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Preface

***A strong, well defined and prudent Regulatory regime has direct impact on the overall growth of a particular sector of the economy. Review of the existing prudential regulations reveals that there are many areas and facets of housing finance sector that cannot be covered thoroughly in prudential regulations primarily due to the nature of the document. After having assessed the need of full-fledged mortgage guidelines, IHFD has embarked on introducing a comprehensive set of mortgage guidelines for housing finance covering the all the areas. In this lieu an outline has been prepared to draft Mortgage guidelines based on best international practices.***

***Every effort has been made to cover all the areas and facets of housing finance industry and we hope that this document will go a long way in stabilizing and nourishing the growth of this sector.***

# Review of Existing Prudential Regulations

A strong, well defined and prudent Regulatory regime has direct impact on the overall growth of a particular sector of the economy. Review of the existing prudential regulations reveals that there are many areas and facets of housing finance sector that have not been covered thoroughly in prudential regulations, primarily due to the nature of the document. After having assessed the need of full-fledged mortgage guidelines, IHFD has embarked on introducing a comprehensive set of mortgage guidelines for housing finance covering all the areas of housing finance sector. In this lieu, an outline has been prepared to draft Mortgage guidelines based on best international practices

**Some of the areas covered in existing Prudential Regulation.**

Beside basic requirements for consumer financing, some of the areas that have been covered in existing prudential regulations, specifically for mortgage financing, include

1. Debt burden ration
2. Time
3. Debt /equity Ratio
4. Mortgage equity
5. Lien mark
6. Floating rate mechanism

# Way forward - Mortgage Guideline as a Development project of IHFD for 2009-2010.

Improving regulations in fact is an ongoing activity; to start with, IHFD has embarked on development of full-fledged mortgage guideline in the year 2009-2010. In this lieu, development of mortgage guideline has been taken as one of the development project of IHFD for the year 2009-2010.

Guidelines will be based upon best international practices and will cover all facets of housing finance. It will enable all Banks/DFIs to align their business operations/processes with the best international practices and needs of the industry to foster the growth of housing finance sector. Presently Prudential Regulations on Housing Finance, which is a part of Regulations on Consumer Finance, addresses only key areas whereas there is a pressing need for comprehensive set of guidelines.

Every effort has been made to cover all the areas and facets of housing finance industry and we hope that this document will go a long way in stabilizing and nourishing the growth of this sector.

# Brief summary of each chapter to be covered in the document is s presented hereunder

## Chapter#1”Definitions”

Chapter number one will include all the necessary and pertinent definitions of the document. For example definitions of “Debt”, “Debtor” “Lender” ,“Loan Agreement” ,”Mortgage” ,“Mortgagor,” ”Mortgagee” ,“Mortgaged Property”, “Mortgage deed”, “Property” ,“Movable Property” ,“Immovable Property” “Registry”, “Document of Title”, “Default on Payment” ,“Default on Performance” ,“Lien” , “Creation of Mortgage” and “Mortgagor’s Location” etc

**For example**

1. **“Registry”** means an office that registers a Document of Title and Mortgage transaction on Immovable Property and its related documents and keeps the records.

## Chapter # 2 “Creation of Mortgage”

Main areas that will be discussed include, mortgage process, structure of mortgage business operations, basic eligibility parameters, creation of mortgage, conditions of mortgage creation, mechanism Property valuation, Development of market based products, and Role of Housing observatory.

**For example**

**Mortgage process**

1. The lender should have a written description of all the steps involved in making a mortgage loan, from the initial contact with the client up to the signing of legal agreements, varying the terms of those agreements and up to redeeming the mortgage. This description should comprise a flow chart showing the steps involved and a written description of each of the steps.
2. Financial Institutions should have procedures in place to make sure that all staff that plays a material part in the process receives training to ensure that they understand and are familiar with it.
3. A clearly defined organizational structure should be in place and include responsibilities, accountabilities and roles in all aspects of the mortgage process.

## Chapter # 3 “Mortgage Documents and verifications”

This chapter will cover Engagement of Legal Advisor, Requirements of loan agreement, Repayment Schedule and other Documents, Requirements of Mortgage Loan Application form, Tile Documents, Other relevant Documents, Legitimacy of Documents, Verifications, Combination of mortgage deed and loan agreement:

**For example:**

**Requirements of loan agreement:**

1. Loan Agreement should contain Name & Address of Customer, address of property being mortgaged, amount of credit advanced; period of the agreement; number of repayments; total amount repayable; cost of the credit; interest rate, and general conditions.
2. The Loan Agreement should be in writing and signed by a Mortgagor and Mortgagee and state the name of the Mortgagor(s), Guarantor etc.
3. A clear promise by the Mortgagor to repay the total amount of Debt subject to the Mortgage.
4. When, where and how repayment of Debt or a related installment should occur; and How any installment payments shall be applied to repayment of the Debt. If the Mortgagor is responsible for installment payments at certain dates in the future, the Mortgagee will attach to the Loan Agreement a schedule of such installment payments.

## Chapter # 4” Recovery and Auction”

Recovery procedures(as per recovery ordinance 2001),Auction of Mortgage Property, Value of Purchase Price under a Power of Sale, Utilization of sales proceeds through Auction ,Effect of auction on Mortgaged Property, Mortgagee Retaining Mortgaged Property, Mortgagee as Attorney, Protection after Power of Sale, Right to Redeem Mortgaged Property and court Protection of Mortgagor etc.

**For example**

 **Auction of Mortgage Property**

FIs can choose to auction the property after full filling the following requirements and auction can take place at any time or place under commercially reasonable conditions. Also, the Mortgagee may elect to lease the Mortgaged Property to a third party or purchase the Mortgaged Property at a public sale.

1. Specific written Notice to the last known address of the Mortgagor
2. General notice by publication in the local language in at least one reputable daily newspaper with wide circulation in the village, city, district or province where the Mortgaged Property is located. Where such publication is not feasible, any other available means of general notice to the local public is acceptable.
3. The Notice for auction should include a description of the Mortgaged Property, unpaid amount of the Debt, the amount of the applicable expenses or, where the amount of the expenses has not been determined, a reasonable estimate;
4. A statement that, upon paying the due amounts, a Person responding to general or specific notice may buy or redeem the Mortgaged Property; and also the day, time and place of any public auction.

## Chapter # 5 “Risk Management”

Topics to fall in this chapter may include Credit Policy, Loan Assessment, Credit risk management, Arrears Management, Insurance Policies

**For example:**

**Loan Assessment**

The lender should employ the following basic steps in critically assessing a loan application. Assess if:

* 1. Required information/documentation is in place.
	2. Application matches the standard criteria.
	3. Customer has the ability to repay.
	4. Customer has clean credit history.
	5. Property is suitable for mortgage.
	6. No legal or other impediments (age/bankruptcy etc).
	7. Costs and funds available match.

## Chapter # 6 “MIS & Accounts Management”

All the FIS should develop MIS and accounting systems that can generate comprehensive monthly/quarterly and yearly reports as per requirement. The systems that that have to be developed fall under the following categories.

**For example:**

**Reporting:**

Good reporting information which is accurate, timely and relevant. Monthly/Quarterly/Annual reports to be available by Branch/Area/Total Bank for:

* 1. Mortgage Book size/split by products (total value, total volume, average term, average interest rate, average LTV etc.)
	2. Share of National Mortgages (where available)
	3. Market Segments
	4. Portfolio share by sales channel
	5. Growth Profile
	6. Performance v Targets
	7. Applications v Approvals v Declines v Drawdowns
	8. Application Pipeline
	9. Arrears Profile (Split into 30, 60, 90 ,180 and 390 & above days)
	10. Maturity Profile
	11. Geographic Profile/Employer Profile
	12. Profitability
	13. Historic Data Retention
	14. Ability to produce reports as required by rating agencies and investors

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## Chapter # 7 “Relationship Management”

Under this chapter the areas to be covered include whole chain of relationship management from loan initiation to loan closing and foreclosure.

**For example:**

**Duties and obligation of mortgagor:**

1. The Mortgaged Property should be free from other liens and encumbrance.
2. Stabilization and explanations of all rights, remedies, duties and obligations of parties and the remedies which arise from Default on Payment or Default on Performance
3. An understanding that Default on Payment or Default on Performance may result in the loss of any and all ownership and title rights in the Mortgage Property up to the extent of secured Debt;
4. A promise to keep Mortgaged Property, other than land, insured in a manner consistent with local standards; and promise to make reasonable repairs to Mortgaged Property
5. a clear statement that the Mortgagor has read and understands all the terms and conditions of the Mortgage deed;
6. To repay all Debt timely and in the agreed manner;

And unless otherwise agreed in writing or until all Debt is repaid, the Mortgagor

1. Will not sell Mortgaged Property without written consent of the Mortgagee;
2. Will not allow encumbrances or Liens filed against the Mortgaged Property;
3. Will allow inspection of the Mortgaged Property by the Mortgagee during business hours;
4. Will pay utilities, taxes and other public charges against the Mortgaged Property.