

# Evolution of the Regulatory Framework In Pakistan

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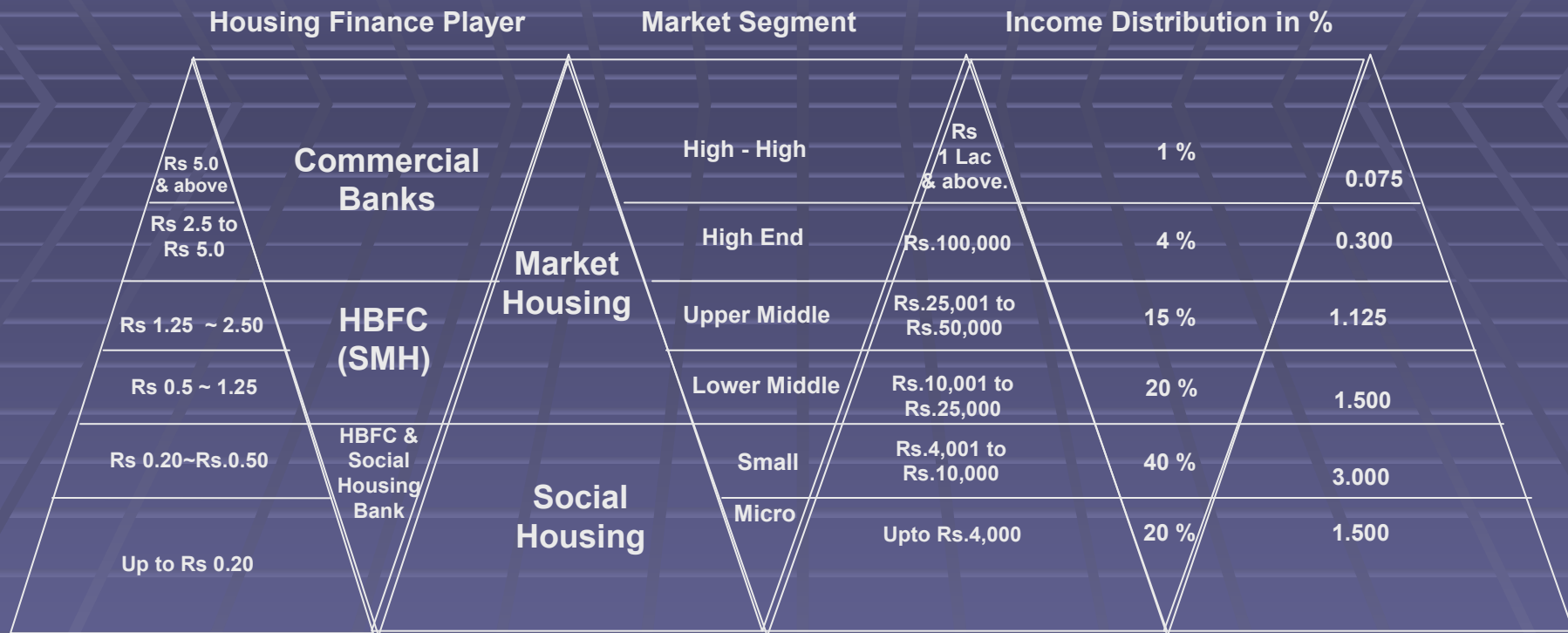
# South Asia: Population Trends

Country	Total Population (mn) 2007	Population Growth % 2007-2015	Urban Population (mn) 2007	Urban Population % of Total	Urbanization Growth %	GDP Growth Rate % 2000-07
India	1,125	1.3	329	29	2.5	7.8
Pakistan	162	2.1	58	36	3.3	5.6
Sri Lanka	20	0.3	3	15	0.2	5.3
Thailand	64	0.5	21	33	1.6	5.3
Mongolia	26	1.0	1.5	57	1.3	7.5
Indonesia	225	1.0	113	50	4.3	5.1
Bangladesh	158	1.6	42	27	3.7	5.7

# Pakistan: Demographic Snapshot

- Population: 160,000 million
  - Population: 2/3<sup>rd</sup> rural, 1/3<sup>rd</sup> urban
  - Poverty Rate: 24%
  - Access to formal finance: 14%
  - Karachi population: 16 million, growing @ of 7-8% pa
  - No. squatter settlements in Karachi: 600-800 settlements
- Nearly half of Karachi's population is living in squatters
- Major metropolitans like Karachi are facing high rate of urbanization
  - Only Karachi needs 100,000 new housing units per year to meet natural growth, address backlog & urbanization pressure

# Housing Continuum



**Mortgage Affordability**  
(Rupees in Million)

- Per Capita Income
- Minimum Wage Rate

**Housing Market**

Rs.7,500 per month  
Rs.7,000 per month

**Income Distribution**

**Housing Shortage \***  
(In Million)

Total existing backlog is estimated at 7.5 Million units. The shortage in various income segments is assumed in the same proportion as per income distribution pattern. However, actual shortage is much higher in low income segments as opposed to higher income segments.

# Overview of Housing Shortage

Description	2009 (estimate)
Total Housing Stock	20.48 million units
Overall Housing Backlog	7.57 million units
Urban Housing Backlog	2.5-3.0 million units
Number of New Houses required per year over next 20 years.	One million units*
Urban Population (% of total population)	37%
Annual growth rate of housing demand in major cosmopolitans	6-8%
Urban housing units	32.20%

# Overview of Housing Shortage contd..

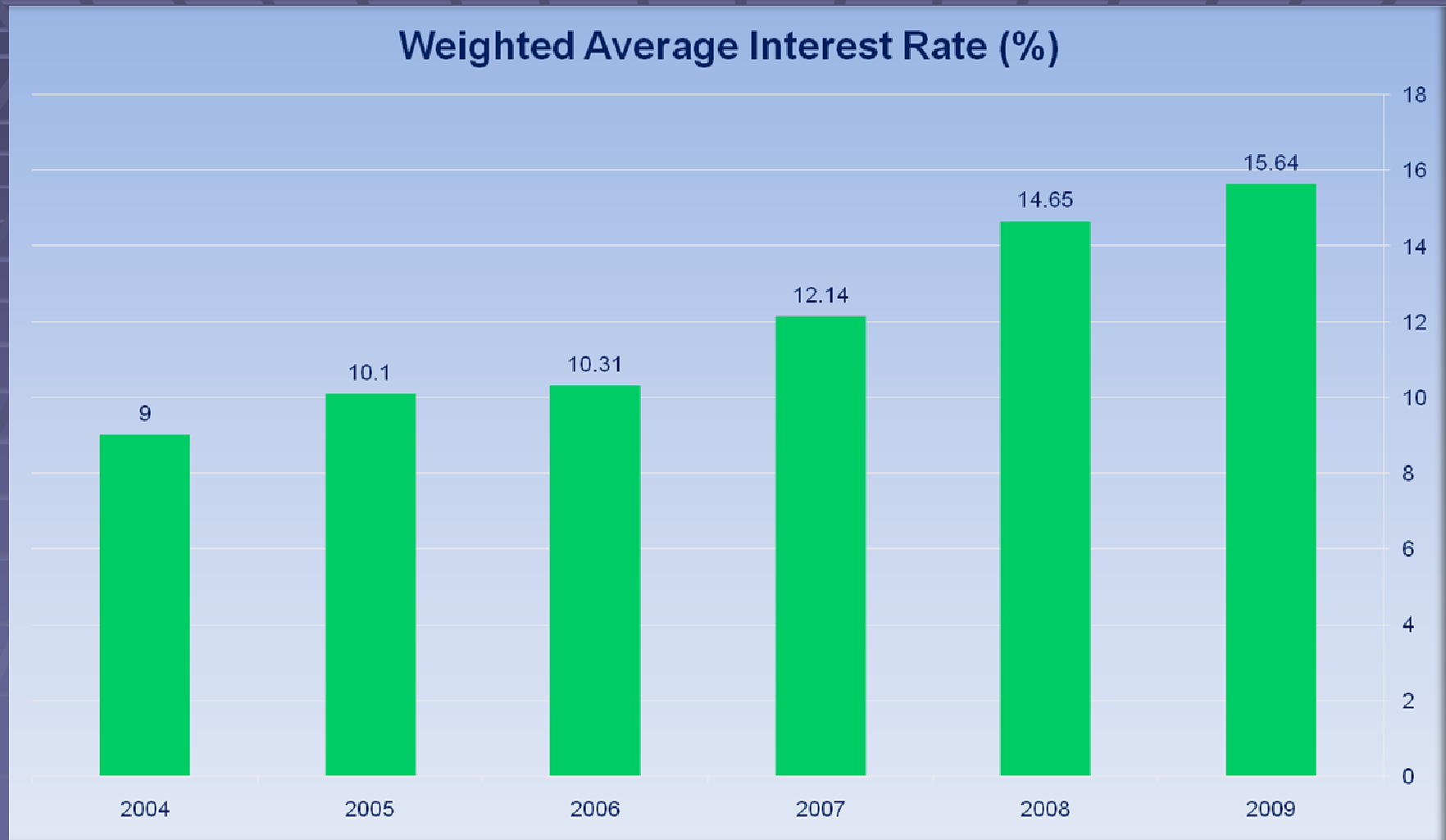
- Candidate for micro-housing: 20% of population
- Candidate for small-housing: 40% of population
- Min wage rate: Rs 7,000 (\$84) / month
- Total housing backlog 7.6 mn units
- Urban housing backlog: 2.5 to 3.0 mn units
- Persons/Room Density (Urban): 3.5
- Average household size: 6.6

# Outstanding Mortgage Portfolio

Housing Finance Portfolio (Rs million) (end-Dec figures)



# Recent Interest Rates Hikes





# National Housing Policy 2001

- Government's as facilitator and regulator to stimulate housing sector.
- It outlines the improvement and development of financial and legal measures to facilitate the housing sector.
- Provides policy guidelines for Katchi Abadis (slum settlements) as
- Housing is declared as a Priority industry
- Housing Finance Companies are allowed to issue secondary market Bonds.
- **National housing Authority** for Monitoring the implementation of the National Housing Policy

# Stakeholders: Housing Supply & Demand

## ■ Housing Supply:

- Public Sector: PHA, NHA, MoH, and MoF
- Private Sector: Builders and Developers

## ■ Housing Finance:

- Commercial Banks
- Development Financial Institutions (HBFC)
- Microfinance Institutions

## ■ Regulators:

- SBP for Commercial Banks and DFIs
- SECP for Housing Finance Companies (HFC)
- SBP for Micro Finance Institutions

# Regulation & Supervision of the Mortgage Finance Sector

- **SBP (Commercial Banks & HBFC):**
  - Enforcement of Prudential Regulations (PRs)
  - Housing finance is a part of Consumer Finance PRs, until housing specific PRs are framed
  - Annual On-site inspections (by Banking Inspection Department)
  - Off-Site Supervision through Off-Site Supervision & Enforcement & Banking Surveillance Departments
- **SECP:**
  - Housing Finance by NBFCs and HFCs are regulated by SECP under NBFIs Rules
  - Housing specific regulations are being framed

# SBP's Initiatives in Housing Sector

- Infrastructure and Housing Finance Department
- Setting up Housing Advisory Group
- Roadmap of immediate and short term goals
- Close coordination with Association of Builders and Mortgage Bankers

# SBP's Initiatives in Housing Sector contd..

- Implementation of HAG Recommendations
- Housing Finance Guidelines
- Housing Finance Prudential Regulations
- Long-Term Liquidity Facility Institution
- Capacity Building Program
- Product Development (Risk and Income Profile)
- Public Awareness Programs
- Involving Stakeholders

# SBP's Initiatives in Housing Sector contd..

- **Short-term:**
  - Large-Scale Developers' Finance Model
  - Enhancing Outreach of Housing/Mortgage Finance
  - Housing Observatory
  - Low-Cost Housing Finance Model
  - Low-Cost Housing Supply Models
  - Expansion of housing finance outreach (Geographical and Faith-Based)
- **Medium to Long Term:**
  - Enhance Mortgage Debt to GDP Ratio at 1% per annum
  - Promote Pro-Poor Housing by encouraging Low-Cost Housing Supply and microfinance institutions

# Housing Advisory Group of SBP

SBP formulated a Housing Advisory Group (HAG), drawing membership from different stakeholders. Its recommendations, given below, are being actively pursued by SBP:

- Reforming Legal Framework affecting Foreclosure, Transfer, Tenancy, Rent Control and Credit bureaus etc.
- Rationalization of Transaction Costs.
- Establishing an integrated land registration information system
- Increasing supply of land for affordable housing.
- Structuring and streamlining large scale developer's finance.
- Facilitate low-cost/low-income housing models and products.
- Facilitate Real Estate Investment Trusts (REITs)
- Provision of long term funding for housing loans.
- Housing Observatory (housing market information system).
- Capacity building of the mortgage banking industry in Pakistan.

# Development of Mortgage Guidelines by SBP

- Comprehensive set of Mortgage Finance Guidelines covering all facets of Housing Finance (Conventional and Faith-Based) based on best lending practices.
- With active involvement of Pakistan Mortgage Bankers Association and feedback from other Stakeholders, these Guidelines would be launched in 2010-2011.



# Development of Prudential Regulations for Housing Finance by SBP

- Currently Housing Finance regulations are covered under Consumer Finance Prudential Regulations.
- Since Housing Finance has its distinct nature and scope, there has been growing demand from all stakeholders to separate Housing Finance from Consumer Finance and to launch full-fledged Housing Finance Prudential Regulations.
- SBP is currently developing Guidelines on Housing Finance to cover Conventional Mortgages, Sharia-Compatible Mortgages.
- SBP intends to announce Housing Specific Prudential Regulations in in 2010-11.

# Prudential Regulations: Mortgage Finance

Components	SBP	SECP
Purpose of loan permitted	Purchase, construct/ build or renovate the residential property.	Purchase, construct/ build or renovate the residential property. Maximum Loan 7.5 million.
Maximum permitted Debt Equity ratio	85:15	85:15
Maximum permitted Debt burden	Monthly amortization payments of all consumer loans should not exceed 50 % of net disposable income.	3:1
loan tenure	Based upon the internal credit policy of Banks/DFIs (however observing adequate asset liability matching).	20 years
General Reserve Requirements	1.5 % of regular portfolio	
Monitoring mechanism for the real estate market	On Quarterly Basis	
Lien	Equitable or registered mortgage	equitable or registered mortgage

# Capacity Building Initiatives by SBP

- Train the Trainers Program:
  - Prepared and conducted by CMHC of Canada
  - Coordination and Technical support of IFC
- Training programs now regularly conducted
- SBP has expanded outreach to cover different cities and Housing Finance professionals
- Capacity Building Programs:
  - Mortgage Origination, Credit Appraisal, Income Assessment, Property Valuation, Documentation and Security Evaluation, Islamic Housing Finance

# Development of Housing Information System and Housing Observatory

- The World Bank, in principle, has agreed to provide technical and financial assistance for development of Housing Observatory
- As a first step, SBP is working on enriching its own Housing Finance Information System
- As an interim step, SBP is working with the Association of Mortgage Bankers for development of a web portal at industry level.
- Other stakeholders like Planning Commission, Urban Planners are being taken on board for data on Housing Supply, and related information on residential infrastructure, utilities, public transport, health and education facilities

# Large Scale Builder Finance Model

- SBP is working to develop financing models to facilitate large-scale builders/ developers' access to formal financial sector.
- The models are being developed in consultations with the *Association of the Builders and Developers (ABAD)*, *Investment Bankers and Association of Mortgage Bankers (AMB)*.
- Key challenges include:
  - Corporatization of large-scale developers
  - Bankable financial statements
  - Credit rating (Entity and Instrument Ratings)
  - Fiscal issues relating to Book Value and Market Value, declared income and wealth etc

# Setting up of Pakistan Mortgage Refinance Company

## Key Features

Charter	A Development Financial Institution (DFI) under SBP Supervision.
Supervision	SBP with support from SECP
Ownership	PMLs, SBP/Government of Pakistan (GoP), Insurance Companies, Development Finance Institutions, International Finance Institutions
Initial Issued Capital	Rs. 6 billion to meet SBP's minimum capital requirements for DFI's.
Activity	<p>Refinance of mortgage portfolios with recourse to PMLs' and with/without over collateralization</p> <p>Purchase of mortgage portfolios with/without recourse to PML's Issuance of bonds, sukuk and mortgage backed securities (MBS)</p>
Debt Instruments	<p>Bonds, sukuk and MBS</p> <p>Credit lines from financial institutions</p>
Investment Policy	Government Treasury bills, bonds, Sukuk and Deposits in Banks

# Setting up of Pakistan Mortgage Refinance Company contd..

- Business model and feasibility report (IFC's Technical Assistance)
- Business Model aims at covering both Sharia-Compatible and Conventional Mortgages
- Complex Sharia issues are a challenge for this hybrid institution and are being sorted out
- Shareholders to possibly include SBP, IFC, Conventional and Islamic banks
- GoP 20% (confirmed), IFC 20% (expected),
- Few banks have already sent their equity commitments
- PMRC is expected to be functional in 2011

# Housing Finance Portfolio

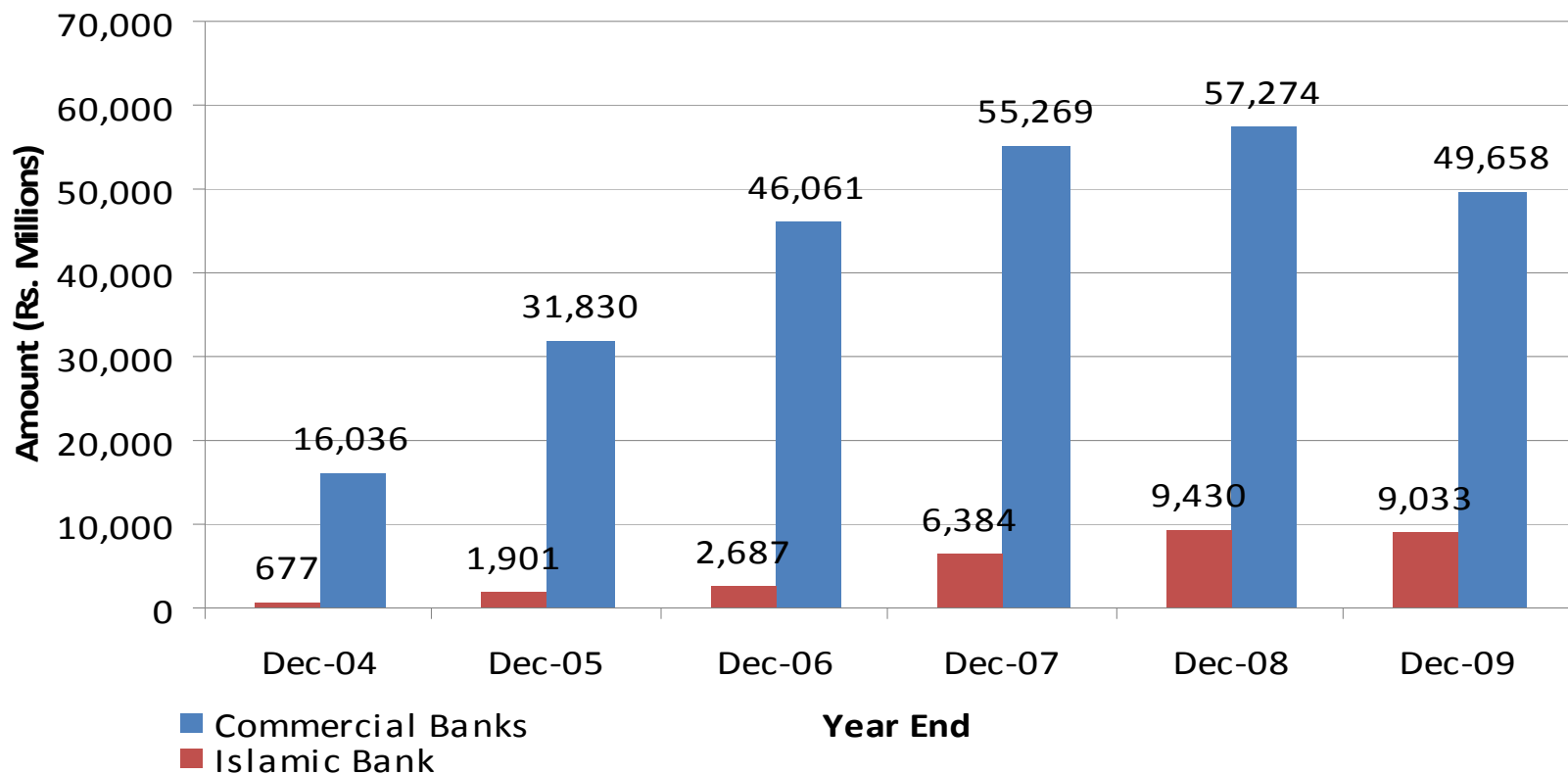
## Islamic Banks (IBs) Vs. Commercial Banks (CBs)

	2009			2008			2007			2006			2005		
	CB	IB	Total	CB	IB	Total	CB	IB	Total	CB	IB	Total	CB	IB	Total
No of Institutions	23	6	31	23	6	31	23	5	28	23	2	28	23	1	25
Outstanding HF (Rs bn)	50	9	74	57	9	83	55	6	76	46	3	62	32	3	55
Share in Total (%)	67	12	100	68	11	100	73	8	100	74	4	100	58	3	100



# Outstanding Portfolio Islamic Banks (IBs) Vs. Commercial Banks (CBs)

## Outstanding Housing Finance Portfolio



# Sharia-compliant Housing Finance

- In 2004 IBs share in total outstanding mortgages was 2% (Rs 0.7 bn). In 2009 it was 12% (Rs 9.0 bn) - a compound growth rate of 68% per year
- For CBs, it moved from 44% (Rs 16.0 bn) to 67% (Rs 49.6 bn) - a compound growth rate of 25%
- The NPLs as %age of total outstanding moved from:
  - Comm. Banks: 10% in 2008 to 17% in 2009
  - Islamic Banks: 3% in 2008 to 10% in 2009
- The main reasons for rise in NPLs were:
  - Rise in profit rates
  - Enforcement by SBP of more stringent Prudential Regulations on NPLs and Provisioning.

# Role of Sharia-Compliant Housing Finance

- Makes Housing Finance accessible by faith-based clientele (expansion of outreach)
- Islamic Housing Finance grew more faster than Conventional Banks
- Housing Finance Portfolio as percentage of overall bank financing:
  - 2.5 to 3% for Conventional Banks
  - 10% for Islamic Banks
- Housing Portfolio is among the most favored and secure asset class on Islamic principles of finance.
- Risk sharing and management ( joint ownership), and not Risk elimination
- Financing instruments are asset backed, not paper backed (Derivatives)

# Pro-poor Housing: Main Issue of Asia-Pacific Region

- Asia-Pacific Union for Housing Finance (APUHF): A regional platform has been set primarily to address Pro-Poor Affordable Housing Issues.
- APUHF needs your support and cooperation.

**Pro-Poor Housing:**  
**Issues We Know**  
**Answers We Need**

**Thank You!**

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