

# Resolving the **affordability** and **informal** housing challenge

Case from **Pakistan** Housing Sector



**PMRC**  
PAKISTAN MORTGAGE REFINANCE  
COMPANY LIMITED

**Mudassir H. Khan**  
Managing Director & CEO



**Population**  
241.5 Mn

**Rural 61%**  
**Urban 39%**

**Population Distribution**  
Male 51.48%  
Female 48.52%

**PSX Market**  
**Capitalization**  
US\$ 37,000 Mn

**Import & Export (1Y)**  
Imports \$55,400 Mn  
Exports \$31,301 Mn

**Remittances (1Y)**  
\$31,281 Mn

**Per Capita Income**  
**\$1,680**

**GDP FY 2023-24**  
**US\$ 375,000 Mn**

**GDP growth rate**  
**2.38%**

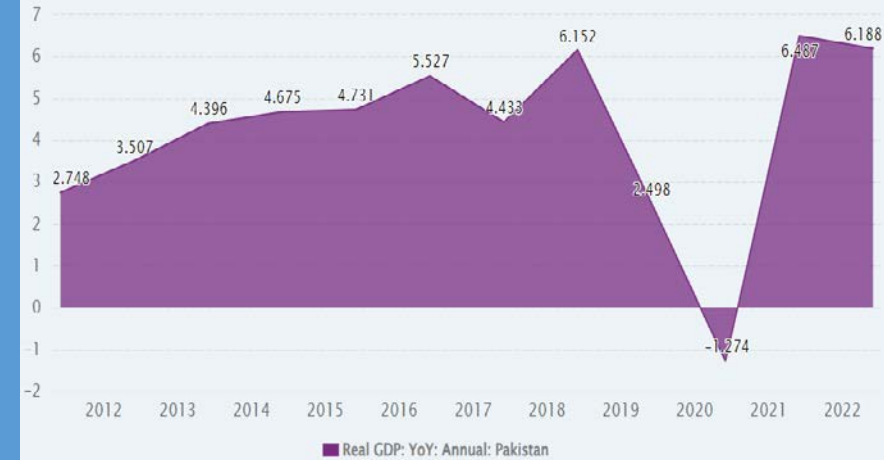
**Exchange Rate**  
**1 USD = 278 PKR**

## Pakistan at a Glance

**As per recent Census**  
**results, around 79% is**  
**youth (under 40)**

**Population**  
**Growth @ 2.55%**

Pakistan GDP Growth YoY



# Role of PMRC

**Act as intermediary between mortgage lenders and capital markets**

**Develop primary mortgage market**

Providing medium & long term funds at fixed rate.

Promote sound mortgage lending practices

**Develop the local bond market**

Introduce new class of Long term assets for investors

Promote fixed rate bonds / sukuk

**Public Sector - (43.3%)**

- Ministry of Finance
- National Bank of Pakistan

**Private Sector - (56.7%)**

- IFC
- Major private banks of Pakistan

- Started operations in June 2018 as a DFI
- Serving as a secure source of long-term funding
- Promoted expansion of affordable housing finance
- Established standards of mortgage
- Provide innovative, viable and market-based financial products
- Introduce new assets classes for local capital market

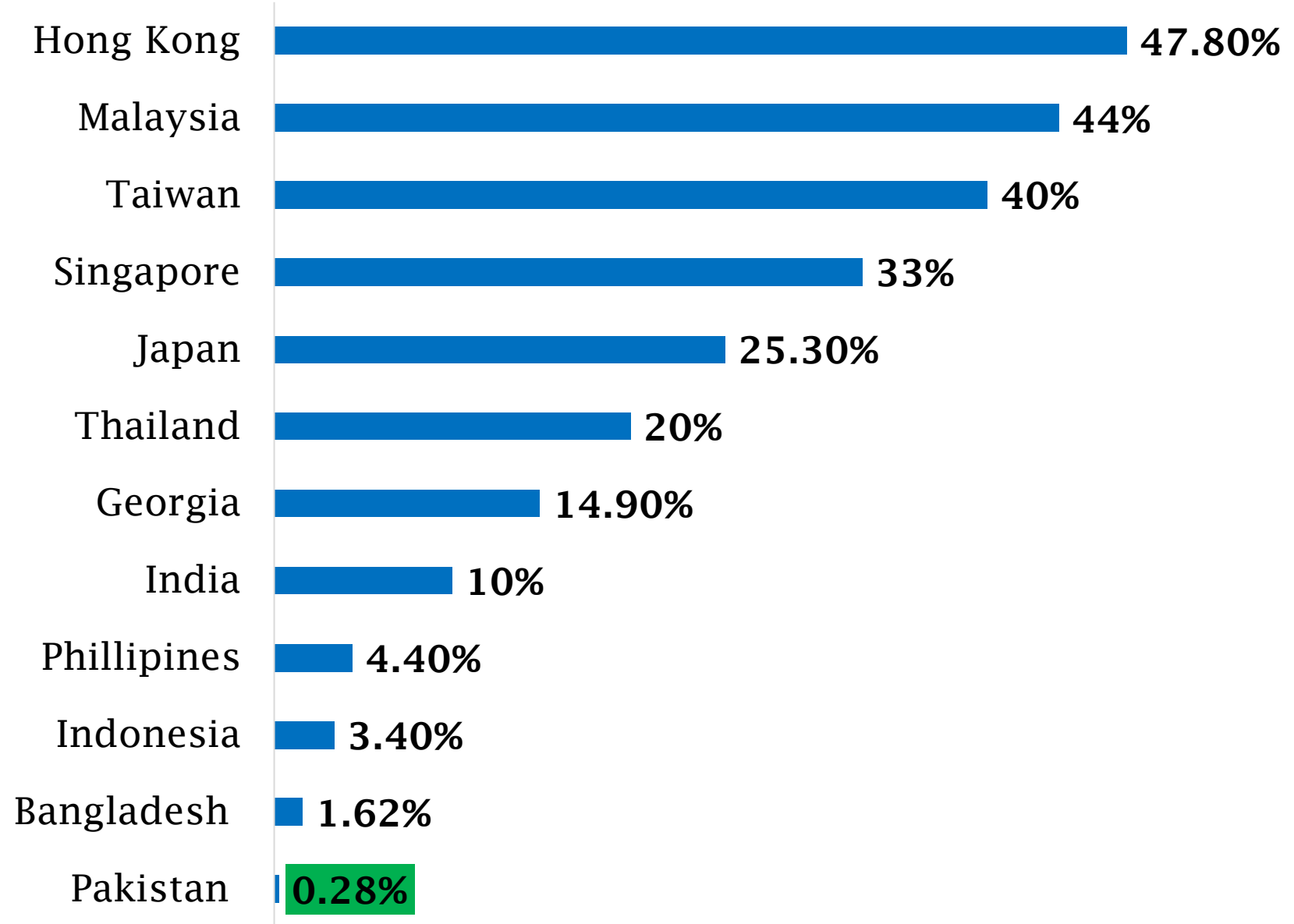
# Housing in Pakistan

Pakistan's GDP to Mortgage Ratio is **0.28%**, which is the lowest in the region

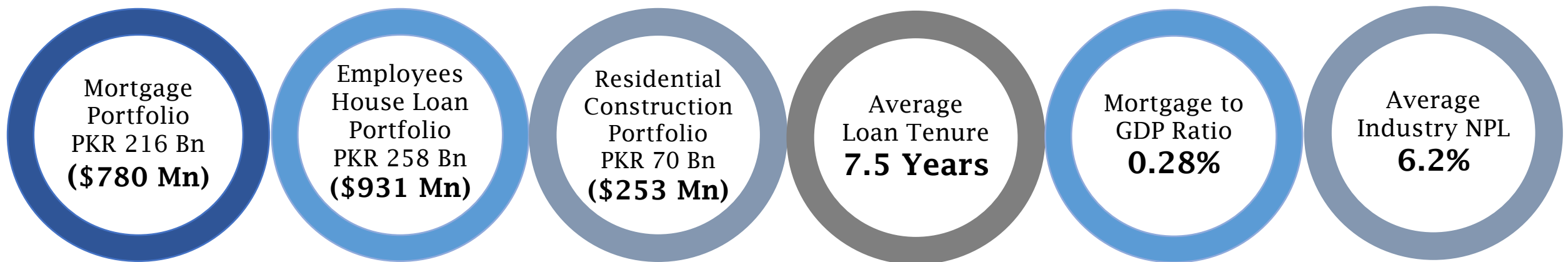
Factors affecting mortgage in Pakistan:

- Lack of accessibility to mortgage lending institutions
- Affordability given high real estate prices and interest rates

## Mortgage as a Percentage of GDP



# Mortgage Landscape



# Key Challenges

## Affordability & Accessibility

Availability of  
Low-Cost  
Funding

High Lending  
Rates

Lack of Risk  
Coverage

Traditional  
Lending  
Products

Complex Legal  
Procedures

Limited  
Technical Skills

Regulatory  
Support

Insurance  
Products

# Key Interventions

## Low-Cost Funding

- The foremost challenge is to make affordable fund available
- PMRC was able to secure **USD 130 million** subsidized long term credit line from World Bank – on lent via Govt. of Pakistan
- Market borrowings of **PKR 24 billion/ USD 120 million**
- On-lent **PKR 56.5 billion / USD 283 million** to Financial Institutions, which resulted in launch of fixed rate/ hybrid rate mortgages

## Lending Rates

- High and variable lending rates to low & middle-income housing left limited lending to this segment
- PMRC lending at fixed and below market rates to partner financial institutions, ensuring rate benefit reached the end borrower
- Our funding enabled the lenders to switch from variable rate financing to fixed / hybrid rate financing

# Key Interventions

## Lending Products

- No one size fits all - that's the very reason PMRC tailored its financial solutions
- Launched tailored products for Green/Solar Homes, Developer Finance, Pensioners, Govt. Employees, Women Home-Owners, Low-Middle Income group
- PMRC entered into tripartite agreements with Banks and Developers for affordable housing projects

## Risk Coverage

- Commercial lending institutions strict credit policies do not provide the room to take exposure on low-income credit profile
- PMRC introduced a Risk Sharing Facility for low-income housing, providing credit risk coverage up to 50%
- Currently the portfolio under coverage stands at **PKR 41 billion / USD 205 million**



# Key Interventions

## Technical Skills

- Microfinance Banks (deposit taking) in Pakistan were only doing incremental housing. PMRC provided specialized trainings for mortgage financing and provided incentivized funding of **PKR 5.6 billion / USD 28 million**
- Enabled Non-Bank Financial Institutions (MFIs; non deposit taking) to launch housing loans. Provided skills trainings and assistance in designing loan documentation along with funding support to the tune of **PKR 1.2 billion / USD 6 million**
- Strengthening the Microfinance sector will promote inclusion and will help deliver the impact and benefit till the bottom of the pyramid

## Legal & Regulatory Amendments

- Proposed recommendations to the Securities and Exchange Commission helped creation of 4 Housing Finance Companies. Out of which **3 have been supported by PMRC**
- Central Bank revised regulations for Developer Finance to facilitate bank lending
- Advocated the required changes in Foreclosure law which brought ease to lenders in recovery through the court process

# Key Interventions

## Regulatory Support

- PMRC was a Knowledge Partner for National Housing Development Authority and the Central Bank for designing the low-cost affordable housing scheme, namely MPMG, which resulted in creation of **affordable mortgages worth PKR 140 billion / USD 700 million** across the country
- Central Bank waived General Reserve, Cash Reserve, and Statutory Reserve requirements of participating banks, on mortgage portfolios refinanced by PMRC
- Further to support the housing market, the Central Bank also allowed Off-Plan financing

## Innovative Insurance Products

- PMRC facilitated insurers and lenders to design a **‘temporary income loss’** product to safeguard lenders interest and improve accessibility

Bringing **Accessibility**  
and **Affordability**  
to Housing Finance Market



# Key Challenges

## Informal Housing

**Informal  
Income  
Assessment**

**Lack of Initial  
Equity**

**Title/ Loan  
Documents**

**Standardized  
Documentation**

**Inadequate  
Private  
Developments**

**Financial  
Literacy**

**Calamity  
Challenges**

**Insurance  
Products**

# Key Interventions

## Informal Income Assessment

- Informal and undocumented income sources were never catered by formal financial institutions. Nearly 50% of urban population lives in informal settlements
- PMRC assisted in design of the informal income assessment model, suggested income surrogates and alternate methods for income estimations and provided trainings
- Provided support to authorities in development of subsidy models for low-income housing (MPMG Scheme)

## Deficiency of Initial Equity

- Low-income borrowers do not have sufficient savings for downpayments ranging from twenty to thirty percent
- Central Bank allowed up to 90% of the property value for loan amount i.e. 90% LTV for this income segment
- PMRC designed a 100% LTV product to encourage lending to this segment with central bank support

# Key Interventions

## Title/ Loan Documents

- Assisted the regulator in developing loan formalities for informal income group
- Central Bank reduced cumbersome documentation requirements allowing documents necessary for perfection of mortgage. Helped in disbursements and lowered associated costs
- Advocated creation of Real Estate Regulatory Authority - established but not operational

## Standardized Documentation

- Promoted standardized documents across the country reducing costs and ease of processing for borrowers
- Banks introduced colored forms for different categories of financing e.g. constructions loan, built up property, etc.

# Key Interventions

## Inadequate Private Developments

- PMRC carried out a comprehensive housing market survey across the country to better understand the housing challenge with a shortage of 2.1 million units and 15 - 25 million housing deficit
- Advocated for making environment conducive for developer finance catering to low-cost housing developments
- Facilitated financial institutions with credit lines for onward lending to developers with provisions for low-middle income housing

## Financial literacy

- Beneficiaries of low-cost housing were from lower strata in far flung areas. Educating and informing them about availability of housing finance was a challenge
- The industry developed a centralized call center in multiple local languages to assist and address queries/ complaints
- Banking Ombudsman office was tasked to review cases of loan application being delayed or rejected

# Key Interventions

## Reconstruction Post Floods

- Pakistan received flash floods in 2022, causing destruction of over 2 million housing units. As a result of climate change despite Pakistan being one of the lowest contributors (0.9%) to GHG emissions
- Support initiative for reconstruction post floods SPHF - nearly half million under construction with 200 thousand completed
- Support through MFIs. Regular seminars and trainings to promote green and climate-resilient housing



## Innovative Insurance Products

- Facilitated insurance industry and lenders to design a '**temporary income loss**' product to safeguard borrowers and protecting lenders interest
- Collaborated with Insurance Cos. & Reinsurers for design of a '**climate risk insurance product**'





# PROJECT STATISTICS



Labor **895,838 (~48%)**



Farmer Tenant  
**628,806 (~33%)**



Farmers (Land holders)  
**57,452 (~3%)**

## OCCUPATION



## INCOME

Average Monthly Salary

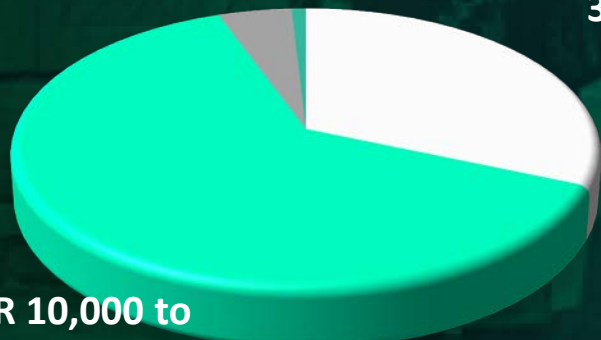
PKR 20,000 to  
PKR 30,000  
5%

PKR 30,000 to  
PKR 50,000  
1%

Less than PKR  
10,000  
31%

PKR 10,000 to  
PKR 20,000  
63%

~94% people earning less than \$70 and 31% even less than \$30 /month



## VULNERABILITY

Widows

**127,606**

Unaccompanied Women Elders

**34,382**

Women with disabled husbands

**6,455**

Divorced/ abandoned women/ unmarried older women dependent on others

**5,853**



## DIFFERENTLY ABLE



### MALE

- Adult ~ **36,545**
- Child ~ **28,869**



### FEMALE

- Adult ~ **25,901**
- Child ~ **20,351**

Every 20<sup>th</sup> house has a person with special needs





# PROJECT PROGRESS

VALIDATIONS  
COMPLETED

200,000

BANK  
ACCOUNTS  
OPENED

809,000

DISBURSEMENTS  
MADE

600,000

PLINTH  
COMPLETED

450,000

HOUSES  
COMPLETED

200,000



# Lessons for **Affordable & Accessibility** in Housing

## **Funding Subsidy**

Government support is necessary for increasing lending through subsidies with availability of land, housing price or financing rates

## **Targeted Products**

Specialized products for low- and middle-income segment that cater to their needs

## **Risk Coverage**

Lowering risk for lending to this segment has proven to be more prudent and allows for leveraging and greater impact

## **Training & Capacity Building**

Skills/ capacity development is essential for effective lending and adequate use of available resources

## **Regulatory Support**

Regulators and other stakeholder support is necessary to ensure that the funds are channeled to the targeted segment and the results are monitored

## **Insurance**

Innovative insurance products are required that cater to challenges such temporary income loss of borrower and climate vulnerabilities

# Lessons for **Informal** Housing

## **Income Assessment**

Income assessment through use of income proxies and other surrogates is key to proper estimation for lending and managing credit risk

## **Legal Documentation**

Streamlined document requirements which ensure protection of legal rights of borrowers and creditors

## **Credit Application & Forms**

Standardized credit application forms for simplified processing and ease of use ensure better uptake and accurate data

## **Training & Capacity Building**

Training and capacity-building programs not only for borrowers but also for lenders to ensure good lending practices

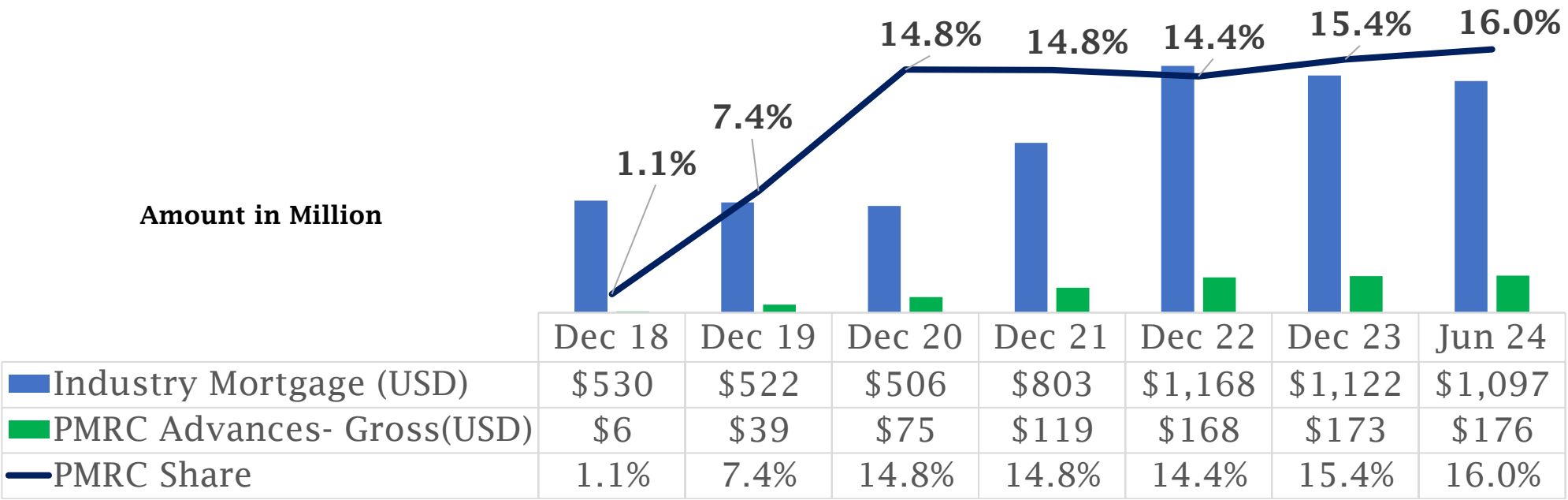
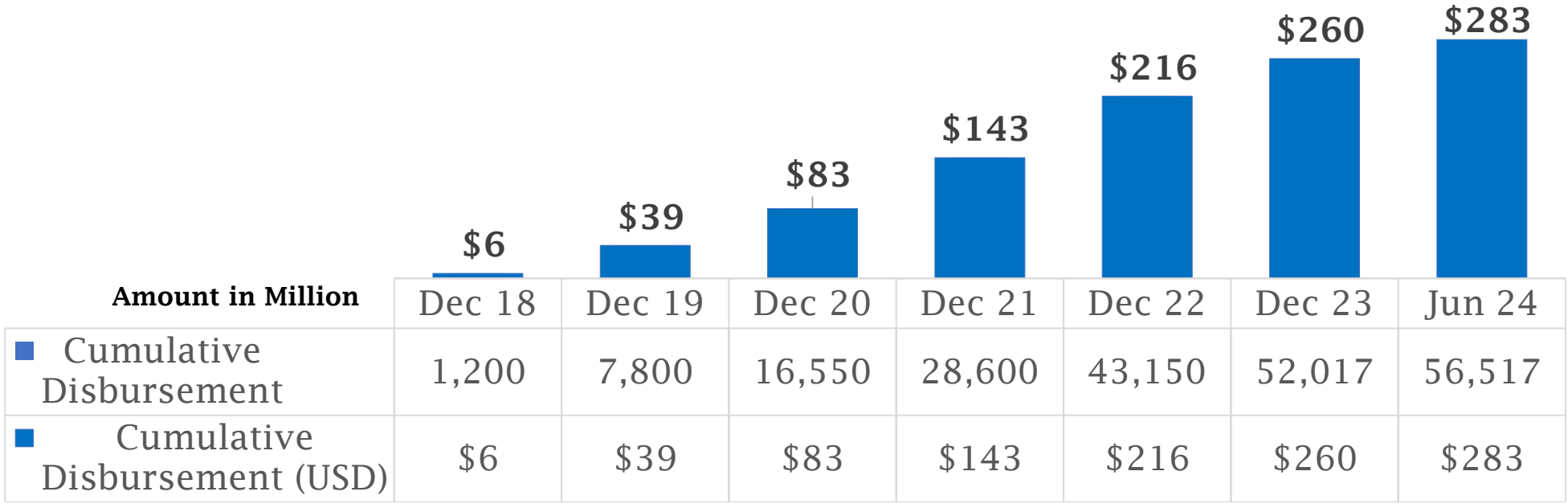
## **Adequate Housing Developments**

Developments must cater for the needs of low-income avoiding pitfalls and catering for community housing

## **Support Microfinance**

Strengthen and support MFIs for better targeting and trainings, to promote inclusion and higher impact

# PMRC Growth



# Areas of Collaboration

- PMRC has hosted and trained many Mortgage Liquidity Facilities from various continents and has also provided them assessment models and tools to assist with their business operations, e.g.
  - ❑ Finance, Treasury & Risk management
  - ❑ Credit Operation, Monitoring and Evaluations
  - ❑ Business planning and Product Development
  - ❑ Credit Guarantee and Trust operations
- PMRC would welcome any synergies via investments (debt/equity)
- PMRC would also welcome support for risk mitigation and guarantee support funds

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Thank You  
Questions?

