A Study on the House Financing Facilities by Banks Compared with HBFC

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1.1 Introduction

Housing is one of the basic needs of every one and therefore almost all countries of the world take extra measures for promoting construction and ownership of houses. The importance of this sector in evolving the domestic economic activities can be identified from three points of view: (i) investment in this field is labour intensive; (ii) it can stimulate the production of local building materials; and (iii) it can act as an incentive to mobilize household savings by offering attractive investment opportunities. The market-oriented housing industry has great potential to serve as an engine of economic growth because it generates direct and indirect investment in almost 40 to 60 ancillary industries and 20 to 25% employment opportunities. In the process of housing finance, a variety of factors have combined to create window opportunity such as, macroeconomic stability and low interest rates environment, increased flow of remittances arid investment in the housing sector, rupee stability and appreciation and anti-money4ai assisting in the documentation of the economy. In the current economic scenario, the economic revival depends on investment in housing sector. In addition, housing can be a major avenue for bank financing and household investment that can play a leading role in long-term economic growth, a build up of strong foreign exchange reserve and a stable exchange rate.

The housing sector, despite its importance and recognition, remained neglected in Pakistan and has not been able to attract even a modest allocation of public sector resources. Housing is usually the largest single form of household wealth in Pakistan with an estimated worth of Rs. 1700 billion. The evidence shows that currently, the housing finance is estimated to be hardly 1% of the GDP because there is no vibrant system of housing finance. By contrast, it is 2.2% in Bangladesh, 3% in Sri Lanka and Iran, and 4-5% in Mexico, Brazil and Tunisia. In Thailand housing finance is 16% of the GDP and is 21% in Malaysia. In developed countries the average housing finance is 25% of the GDP but in USA. it is 53% and 36% in EU. The establishment of a sustainable housing finance market would ultimately mobilize substantial capital for housing finance and facilitate the long-term establishment of a strong mortgage-based collateral market to provide housing loans to all sections of the population.

1.1.1 Housing Finance and Its Impact on the Economy

There is no dispute that the development of a sustainable housing finance system is of critical importance for economic revival and growth. The economists and the policy makers have realized that the financing of housing plays a major role in the efficiency and stability of the whole economy and financial system. House ownership is a cornerstone of social stability. The importance of housing in the macroeconomy can be illustrated by a few key world statistics. The world investment in housing accounts for 15- 35% of aggregate investment or 3 to 9% of GDP annually. Personal residence accounts for 75-90% of household wealth, which is 3 to 6 times their annual income. Residential construction is a major employer often accounting for more than 5% of total employment, while real estate services (including housing finance) constitute 4% of labour force. Housing is an important economic sector with linkages to the real and financial parts of the economy. On average, households typically spend between 15% to 40% of their income on housing services. In USA over 60% of the household wealth is held in the form of housing and mortgages. The development and expansion of housing finance would provide opportunities for broadening of the capital market. Due to its low import contents, housing construction is regarded as an important domestic engine of economic growth. In most developing countries construction of low-income housing is labour intensive and housing construction in general has a high multiplier (with a value of' two or three); the latter reflects the large infrastructural investment (i.e. roads, electricity, sewerage and water) that may be generated with supporting housing policies. In all countries, the employment of one worker in the construction sector, including housing, will generate about two additional jobs in other sectors. Investment and employment provide a broad stimulus to the economy. Buckley (1996) argues that an organized housing sector is likely to have a favorable impact on saving mobilization for a number of reasons:

(i) return to housing is likely to reward saving by ensuring positive return, and such returns will probably remain high due to rapid urbanization (because of rapid population, housing markets have a large potential growth which could be tapped only with the development of mortgage markets); (ii) housing provides the best and more secure collateral against market fluctuations and other borrowings, and yields a positive rate of return in the long run; (iii) housing prices are less volatile than prices of other assets; (iv) availability of housing increases labour mobility, hence employment potential; and, (v) general subsidies could be better targeted through housing and mortgage markets. In all developing countries the share of housing investment financed through formal financial intermediaries is very small, and housing finance accounts for only a small fraction of financial assets (Buckley, 1994). The main reason is that, in these countries a home mortgage market is either non-existent or fails to serve the vast majority of home buyers. For example, the ratio of net new mortgage lending from the formal financial sector to the level of housing investment in a number of developed and developing countries indicates that in developing countries a much greater share of housing investments comes from internally generated funds. The average ratio of mortgage credit supplied by the formal sector to housing investment was less than 16% in developing countries (e.g. 10% in India, 8% in Turkey, 15% in Morocco, 11% in Pakistan, Kenya and Tunisia). By contrast, this ratio is about 126% in USA, 50% in Malaysia, 160% in Hong Kong and 85% for OECD.

International experience suggests that a wide-spread availability of house mortgages has a favourable impact on the quality of housing, infrastructure, urbanization, improving living standards and alleviating poverty. Furthermore, wide-spread availability of house mortgages may enhance savings, promote financial market development, stimulate investment in the housing sector, and upgrade the existing properties. At the same time, housing investment in most LDCs is labour intensive. Consequently, home mortgage availability for lower income groups can also potentially enhance employment through expansion of housing construction and related services, such as real estate brokerage and insurance.

1.1.2 Pakistan Scenario

1.1.2.1 Economy and Housing Sector Share in GDP

A look at the contribution of construction sector in the economic growth of Pakistan reveals that its share in GDP decreased from 4.2% in 1994-95 to 2.4% in 2003-04. Pakistan has over 19.3 million housing units in the country. About 24.8 million housing units for a population of 148.7 million people are required. Hence a short fall of 5.5 million homes was estimated as of end June 2004. On an annual basis we need 570,000 units against the actual supply of 300,000 units thus, there is an annual shortfall of 270,000 units. (Source: Journal of the Institute of Bankers Pakistan)

1.1.2.2 GDP/GNP Real Growth

The real growth rate of construction sector during the first two years of 90s i.e. 1991-92 and 1992-93 remained at 5.98% and 5.80% respectively, but from 1993-94 to 1998-99 it remained depressed and even touched a negative growth rate of -4.92% during 1998-99. During 1999-2000 construction sector showed good recovery by registering a growth rate of 5.15% due to start of construction activity on some big projects. However, during 2000-0 1 construction sector again followed a negative growth of -0.37% and according to the provisional figures of 2003-04 it shows a growth of 7.9%. (Source: Journal of the Institute of Bankers Pakistan)

1.1.2.3 Labour Force in Construction Sector

The employment in construction sector increased from 1.90 million in end June, 1992 to 2.32 million in 2004. The construction sector employed about 2.21 million people from the total employed labour force of 39.88 million in 2004, which represents about 5 of the employed labour force.

1.1.2.4 Foreign Direct Investment

The inflow of foreign direct investment in construction sector has been fluctuating over the years. During 1996-97 it was US$ 14.6 million that increased to US$ 21.5 million in 1997-98 before dropping to US$. 13.9 million in, 1998-99 but during 1999-2000 it again increased to US$ 21.1 million but dropped again to US$ 12.5 million in 2000-01. In the first ten months of 2001-02 foreign direct investment touched US$ 10.4 million.

(Million U.S.$)

Sector	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02 July-April	2002-03	2003-04
Construction	14.6	21.50	13.9	21.1	12.5	10.4	12.3	13.7

Housing Finance System: The Case of Pakistan

After 50 years of existence, Pakistan continues to face the problem of shortage of housing units. The cumulative shortfall in supply of housing equals 7.0 million units according to current estimates and is expected to reach the 10 million figure by the year 2020. This alarming situation basically stems from a widening gap between the demand for housing and the ability of the formal housing finance market to meet this demand. The formal market has so far met only 20% of the needs of the national housing finance market; the informal sector takes care of the rest.

While the growth rate in dwellings continues to be relatively lower in the rural areas, it has been showing an increasing trend in the urban areas thereby indicating greater tendencies of urbanization. The increased influx of population from the rural to urban areas led to the urbanized settlement due to which there has been a tremendous pressure on the existing infrastructure and services. The informal sector has taken over the task of providing for the housing needs of these migrants, the vast majority of whom are housed in slum dwellings or shantytowns called kutchi abadies. A comparison of the household pattern in Pakistan from 1980-98 shows that out of total houses, nearly 15.6 million were owned, 1.7 million rented and 2.0 million rent-free. The percentage of owned housing units was higher in the rural areas as compared to the urban areas. However, the percentage of rented houses was significantly higher at 23.3% in the urban as compared to only 2.3% in the rural areas.

According to the World Bank, the household size is 6.6 persons and the occupancy per room is 3.3 persons. The total number of housing units increased by about 57% over the 18-year period. From 1981 to 1998, the number of house- owners as a percentage of the total units went up by 8.62%. The total number of housing units required in the country was about 24.3 million by the end of June, 2002, based on the 146 million populations. The housing backlog according to the current estimates is about 5.38 to 6.0 million units. In order to make up for the backlog and to meet the shortfall in the next 20 years, an estimated 570,000 units would have to be built every year from the present 300,000. It is not possible for the government to achieve this target because of its ballooning budget deficit and debt servicing. Hence private sector housing finance companies, commercial banks and other financiers will have to play a major role in meeting this shortfall. The floor area of urban and rural houses indicates that urban dwellings are larger on average than village dwellings. However, for the large number of city dwellers living in semi-pucca or kutcha houses, the covered area is smaller than that in the villages.

HBFC

House Building Finance Corporation is the government entity for providing loans to customer for the house purposes. Its Mission Statement is to be the leader in the field providing affordable housing finance in differences modes to suit the needs of the people. HBFC is offering now *"Shandar Ghar Scheme"* and *"Ghar Asan Scheme"*.

Banks

Almost all the banks and financial institutions are offering home finance schemes with a little difference. Prominent among them are Prime Bank, Citibank and Union Bank's "My Home", MCB's Pyara Ghar Scheme, ABN AMRO Bank, House Building Finance Corporation's "Ghar Aasan Scheme" and "Shandar Ghar Scheme", etc.

They are offering three home financing options. i.e. obtain the financing to purchase a house/apartment, b) construct a house or c) renovate an existing house immediately. These banks and financial institutions are offering responsive service and multiple real estate loan options.

Statement of Problem

There are many financial institutions which are giving home loans. People don't have the idea that where they should go and take the loan. In this report I will compare the financial institution (Bank and HBFC) that whether HBFC is the right source or bank is the right choice. My comparison will be based on policies procedures costs and various facilities (which institutions are providing) for consumer.

Significance of the study

The study will be beneficial for the customers of banks and HBFC. The main objective of this report would be to compare the sources of House financing which are banks and HBFC and on the basis of the result of the comparison report will suggest the best way of house financing.

Scope

The study is limited to Karachi only and the data collected is of ten years.

Definitions

HBFC: House Building Finance Corporation

It is a government institute for proving house financing facility

HFC: Housing Finance Companies

It is a private sector of house financing

LCD's: Less developed countries

Exchange rate: An exchange rate specifies the number of units of a given currency that can be purchased with one unit of another currency

GDP: The market value of a country's output attributable to factors of production located in the country's territory.

GNP: The market value of all the final goods and services produced by a national economy.

Mortgage: Loans on residential, commercial and industrial real estate and on farmland.

Chapter 02

2.1 Research Design

This is basically a comparative report. The detail of the study is as follows:

- This is an applied research
- The purpose of the study is explorative
- The unit of analysis are individuals and organizations

2.2 Research Method

The methods used are:

- The extent of interference in minimal
- The study setting is non-contrived
- The time horizon is one shot or cross-sectional
- The data collection includes the primary as well as secondary source

2.3 Respondents of the Study

The respondents of the study are the personnel of the following organizations:

- House Building Finance Corporation (HBFC)
- Banks (Faysal Bank)
- Clients of HBFC and Banks

2.4 Research Instruments

Both primary and the secondary data are will be used to collect the information for the thesis. The different instruments that will be used in the making of the thesis include:

Primary Data

Interviews: The interviews are conducted with officials mentioned above. The interviews can be structured or unstructured in nature.

Secondary Data

Newspaper and Magazines: Different articles related with the topic in the newspapers and magazines are viewed in order to get the current scenario, latest development in the field and possible actions taken by the government and other institutes that can directly or indirectly affect our findings.

Internet: These sources are useful in collecting other related data.

2.5 Treatment of Data/Information/Analysis

From the findings we have compared the House financing products of HBFC and Banks and recommend the best offer.

2.6 Presentation Analysis

The presentations of the analysis are in the form of tables, figures and flow charts.

Chapter three:

Summary of the literature

The House Building Finance Corporation (HBFC) as a major policy shift would now focus on lower and middle income groups, which constitute 95 per cent of the total housing clientele. The corporation will also enter into retail and wholesale housing projects to meet annual demands housing units.

This would mean that the HBFC would now concentrate on such income groups having monthly income between Rs3500 to 5000 and could afford to pay back the instalments and also meet their monthly expenditure of basic necessities.

Presently 24 scheduled banks are also extending housing finance and their targeted clients are mostly of high income groups having name lending because of posh localities or known people in their respective fields such as businessmen or professionals.

These banks have approached the government to enhance the housing finance limit from Rs10 million as the rising cost of living have pushed prices of construction material sky high. However, the question is that how many people in this country could afford to pay back a monthly installment which may come around Rs100,000 to Rs150,000 per month for a period of 15 to 20 years.

However, HBFC has to cater to the needs of such people who have meagre means and striving hard to have at least a shelter of their own in their life time. These people are those who have no name lending or a label to support their social status so that they could pay back loans.

HBFC had a place and a reason to operate even if there were as many as 24 commercial banks in the housing finance business. The simple reason was that these banks were not catering to the needs of SMH (small and medium housing) finance and their targeted clients were of high profile areas and people only.

Consequently, the HBFC immediately changed its slogan "The Housing Bank for SMH Financing" and also adopted a new strategy for ensuring the success of its policy. Under the new vision, HBFC would work as socially responsible and commercially sustainable housing finance institution. It would meet the housing finance of low income and middle income groups of populations.

Above all, the HBFC, unlike commercial banks, did not carry any negative lists of areas or people but would extend housing loans on merits and after meeting legal requirements.

85 per cent of clientele who mostly seek housing loans below Rs100,000 and have monthly income between Rs3500 to Rs5000 and could only afford to pay an instalment of Rs1000 to Rs1200 per month in 15 to 20 years.

Chapter 04

4.1 Technical

PAKISTAN SCENARIO

A look at the contribution of construction sector in the economic growth of Pakistan reveals that its share - in GDP decreased from 4.2% in 1992-93 to 3.3% in 2001-02. However, owners of dwellings (housing) increased from 5.5% in 1992-93 to 6.2% in 2001-02. Overall construction decreased from 9.7% in 1992-93 to 9.5% in 2001-02.

Share of Construction in GDP (in %)

Description	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Construction	4.0	3.9	3.8	3.7	3.4	3.5	3.4	3.3	2.4	2.4

GDP/GNP Real Growth

The real growth rate of construction sector during the first two years of 90s i.e. 1991-92 and 1992-93 remained at 5.98% and 5.80% respectively, but from 1993-94 to 1998-99 it remained depressed and even touched a negative growth rate of -4.92% during 1998-99. During 1999-2000 construction sector showed good recovery by registering a growth rate of 5.15% due to start of construction activity on some big projects. However, during 2000-01 construction sector again followed a negative growth of -0.37% and according to the provisional figures of 2001-02 it shows a growth of 0.93%.

Labour Force in Construction Sector

The employment in construction sector increased from 1.93 million in end June, 1990 to 2.21 million in 2002. The construction sector employed about 2.21 million people from the total employed labour force of 38.29 million in 2002, which represents about 5.77% of the employed labour force.

Employment in Construction Sector (millions)

Mid Year (End June)	Employed Labour Force	Construction	% age Construction to Total Employment
1992	30.07	1.90	6.32
1993	30.92	2.14	6.92
1994	31.68	2.06	6.50
1994	31.80	2.29	7.20
1996	32.58	2.35	7.21
1997	34.59	2.33	6.74
1998	36.36	2.28	6.27
1999	37.19	2.33	6.27
2000	36.72	2.12	5.77
2001	37.50	2.17	5.79
2002	38.29	3.9	5.77
2003	40.48	2.1	5.75
2004	41.32	2.52	6.1

Foreign Direct Investment

The inflow of foreign direct investment in construction sector has been fluctuating over the years. During 1996-97 it was US$ 14.6 million that increased to US$ 21.5 million in 1997-98 before dropping to US$ 13.9 million in - 1998-99 but during 1999-2000 it again increased to US$ 21.1 million but dropped again to US$ 12.5 million in 2000-01. In the first ten months of 2001-02 foreign direct investment touched US$ 10.4 million.

Foreign Direct Investment in Construction

Sector	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Construction	13.9	21.1	12.5	10.4	11.3	13.5

4.2 Marketing

Housing need in Pakistan

According to 98 population and 4 housing census of Pakistan, there were over 19.3 million housing units in the country as compared to 12.6 million in 1980, indicating an increase of 53.2%. The total number of required housing units in Pakistan, calculated on World Bank' recommended occupancy rate of 6 people per house and considering the present total population of 146 million, was about 24.3 million housing units up to June 2002. The public and private sectors construct about 0.3 million new houses every year and about 10% houses are depleted/destroyed every year. The housing backlog increased to 4.3 million housing units by 1998. The annual additional requirement of housing is estimated at 570,000 units. Thus the annual shortfall of the requirement is estimated at 270,000 housing units. The estimated backlog as of today stands at 5.38 million housing units. In order to make up the backlog and meet the shortfall in the next 20 years, the overall housing construction has to be raised to 500,000 housing units per annum. This is the extent of annual housing market in Pakistan.

The demand for housing finance in the country is enormous. There is a huge backlog of housing units in the country. If we take a very conservative average cost of Rs. 500,000 and 50% self financing ratio, the total demand for housing finance for 270,000 housing units is close to Rs. 68 billion and to clear the backlog for 500,000 housing units it is close to Rs. 125 billion. The current supply is close to Rs. 3-4 billion. Therefore, there is vast scope for a quantum leap in the housing finance business,

It provides enormous opportunities to the commercial banks and HBFC to devise products to finance construction of at least 270,000 housing units per annum. A very attractive feature of the housing sector is that private sector is its main contributor and possesses the required expertise to develop this sector. Therefore, acceleration in growth of this sector will be beneficial for all concerned.

Historical development of housing finance system in Pakistan

* In 1990, the government invited applications from the private sector for setting up house finance companies.

* Out of the 24 applicants, seven were granted licenses to start a housing finance company. Of these, three started operations. These are: Citibank Housing Finance Company Limited, International House Finance Limited and the LTV Housing Finance Limited. Two have been closed down and the JHFC is expected to be merged with a commercial bank. Other four companies that got the license did not start operations because of credit risk, non-availability of funds, ineffective repossession law/foreclosure law, high cost of funds and mortgage rate and lack of expertise.

* Two foreign banks, ABN-AMRO and the Citibank, initially offered housing finance to their clients and then extended it to the employees of selected multinational organizations.

* MCB launched its housing finance in April 2001 as a consumer banking product in Karachi only.

* First Women Bank also introduced house improvement loan for women In April 2001.

* Prime Bank and Union Bank have also launched housing finance.

* Other sources of house financing are as follows: Loans against provident fund for construction/purchase of house. Banks and some other organizations extend housing loans to their employees at low rates ranging from 3-10 per cent.

Present Role of HBFC and Banks

Almost all the banks and financial institutions are offering home finance schemes with a little difference. Prominent among them are Prime Bank, Citibank and Union Bank's "My Home", MCB's Pyara Ghar Scheme, ABN AMRO Bank, House -Building Finance Corporation's "Ghar Aasan Scheme" and "Shandar Ghar Scheme", etc. They are offering three home financing - options. i.e.

a)obtain the financing to purchase a house/apartment,

b) construct a house or

c) renovate an existing house immediately. -

These banks and financial institutions are offering responsive service and multiple real-estate loan options.

4.3 Finance

Importance of housing finance in banking in HBFC and Banks

In many countries, especially in most of the developed economies, hope for recovery from recession is pinned on new housing sector starts, followed by automobile and then by inventory orders for major consumer items. Moreover, an international strategic consensus has emerged among policy-makers and bankers that the focus of housing finance development should be the mainstream of the banking system and financial system who have the capacity to significantly enlarge asset backed mortgage financing both in the primary and secondary markets. In the current economic scenario, a good part of economic revival depends on investment in housing sector. Housing can be a major avenue for financing and household investment and a lead factor in long-term economic growth. Policy makers are of the opinion that the excess liquidity in banks needs to be channeled into productive sectors of the economy. Policy makers are striving to turn marginalized housing finance into the mainstream banking activity. Banks, awash with liquidity and declining return on government papers, need new areas of business and housing offers an unmatched potential. It is the best time to launch the process of housing finance on priority basis in Pakistan. A variety of factors have combined to create a window of opportunity. Some of them are: macro-economic stability and low interest rate environment, reduced debt burden, low inflation, increased flow of remittances and investment in the housing sector, rupee stability and appreciation and anti-money laundering efforts assisting in the documentation of the economy and strong foreign ‘exchange reserves. Presently, housing finance is estimated at Rs.2 billion per annum that accounts for around one per cent of the total volume of bank lending.

Growth Rate of Construction Sector

Description	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Construction	1.01	2.5	1.09	1.26	-4.92	5.19	-0.37	0.93	3.1	7.9

Growth rate of ownership of housing has remained constant at 5.28% for 10 years

Role model of housing finance

a. Features of a well Functioning Housing Finance System:

A well-functioning housing finance system:

* offers incentives for households to save
* provides investors with opportunities to gain stable, long term returns
* creates large number of jobs for skilled and unskilled workers in construction and ancillary industries
* enables home owners to leverage their physical assets into financial assets for investment
* provides credit to households
* adds specialized new institutions and creates new financial instruments to enable longer-term investments and stabilize loan portfolios.

b. Restructuring and Development of Housing Finance

The development of housing finance will play a major role in the maintenance of the banking sector and capital market.

Banks are seeking a more positive enabling environment for development of housing finance. The major issues are national housing policies, priorities, programmes, legal and regulatory framework including titles of land and repossession, tax benefits enabling infrastructure for housing such as roads, water and electricity. Whereas the State Bank is expected to play the role of a catalyst, the governance of the housing sector rests with federal and provincial governments.

4.4 Others

Role of Government In Accelerating The Pace Of Housing Finance In The Country

National Housing Policy: The Government of Pakistan on June 23, 2001 announced a National Housing Policy 2001, outlining the government's role as of a facilitator and a regulator to stimulate economic activity and employment generation. The policy outlines inputs required for revitalizing the housing sector including financial and legal measures, indigenous production and use of building materials and construction techniques. It also specifies policy guidelines for low-cost housing, slums and katchi abadis, rural housing and institutional and legal framework with clearly defined roles of the federal, provincial and local governments in the housing sector. The main features of the policy are:

* Mark-up on housing loans has been made tax deductible up to 25 per cent of income tax.

* The State Bank has allowed Housing Finance Institutions (HFIs)' to float longterm bonds for housing finance.

* The State Bank has issued revised instructions to commercial banks allowing them to provide mortgage financing construction of houses to the extent Rs. 5 million for a maximum period of 15 years. The HBFC has been authorized undertake activities for raising fund through commercial papers, redeema1 capital.

* The banks have been allowed to have exposure under housing finance to the extent of 5 per cent of their net advance which is a substantial amount keeping in view net advances of Rs. 886 billion of commercial banks as on 31-12-2000.

* The State Bank has conveyed no objection to the promotion of Housing Finance Institutions to encourage savings and provide credit from community-based finance and other sources. Further, the banks/HFC's are being advised to devise procedure for the same.

* The State Bank has also conveyed its no objection to increase in the annual disbursement of HBFC loans from the present Rs. 1.2 billion to Rs. 7 billion over the next 5 years, provided the HBFC is able to raise resources enabling It to disburse the amount to the extent of desired level without any credit line from the State Bank.

* The HBFC has informed that since the State Bank's credit line to HBFC is stopped since 1994, it will have to raise funds from the market to enhance its annual disbursement to Rs. 7 billion for which the restructuring of the corporation is a pre-requisite. They have taken up the issue with the Finance Ministry.

* The State Bank has conveyed its no objection to the reintroduction of bridge financing and bulk financing of housing projects through escrow accounting together with appropriate safeguards by the HBFC, subjects to the condition that the corporation is able to raise resources enabling it to disburse the amount to the extent of desired level without any credit line from State Bank.

On overall basis, the NHP is a commendable job. It incorporates better land availability; finances for construction; land registry fees and other charges; along with streamlining other procedures.

Findings

Findings for HBFC

Criteria for loan

Non taxable & taxable income:

Income from Salary	33.3% of monthly income (including rent ceiling and bonus)
Self employed and business group	33.3% of monthly income:

Finance Limit

Construction and purchase

Amount – Minimum 200,000

Maximum 7,500,000

Renovation

- Period - upto 10 years
- Amount - Minimum Rs. 25,000/=

  Maximum Rs.500,000/=

Schemes

HBFC offer two schemes one for Renovation (Shandar Ghar Shceme) and one for construct or purchase house or flat (Ghar Asan Scheme).

Rates

HBFC is currently charging fixed rate on home loan both for salaried and businessmen.
For Urban Areas: 12.5%
For Rural Areas: 10%

Installment

The formula of installment =

$$\frac{\text{Rent + Appreciation + Insurance + Principal Amount}}{\text{No. of Months}}$$

Rent = Rate
Appreciation = Incremental profit given on the increase in the price of the property.
Insurance = 50 paisas per thousand

Categories of loan

There are three types of loan, which HBFC is providing

- loan for the purchase of House, Apartment (70:30 ratio)
- Loan for the construction of house – (80:20 ratio)
- Renovation of the house – (60:40 ratio)

Duration

Minimum

Minimum criteria for paying back loan is that borrower can give it at any time.

Maximum

There are two conditions:

- A borrower should pay loan within 25 years.
- Loan should be pay back before the borrower get the age of 68

Renovation

Up to ten (10) years

Security Deposit

- Equitable mortgage of the property/or;
- Government Securities;
- Shares of companies listed in the Central Depository system.

Findings of Bank (Faysal Bank)

Criteria for loan

- A Pakistani National or Non-Resident Pakistani holding a CNIC
- Aged between 25 to 60 years if you are a salaried person and of 65 years if you are in business
- In continuous employment for 3 years and more
- In business with at least 5 years of business or professional experience
- Earning a net monthly income of Rs.30,000/- or more [spouse's income can also be combined with yours].

Businessmen criteria for loan are as follows:

- Should have good bank statement
- Good reputation of a company
- Average balance should be maintained

Rate

Faysal Bank is charging floating rate (KIBOR) on the home loan. The KIBOR is combination of two things, one is fixed rate which is mentioned by SBP and the other is spread. There are three types of KIBOR:

- Daily
- Monthly
- Yearly

Faysal Bank deals on daily KIBOR.

Installment

$$\frac{\text{Rate} + \text{Principal Amount}}{\text{No. of Months}}$$

Rate	= Internal Rate of Return
Principal Amount	= Total amount of loan
No. of months	= Total duration

Categories of loan

- loan for the purchase of House, Apartment (70:30 ratio)
- Loan for the construction of house – (80:20 ratio)
- Renovation of the house – (60:40 ratio)

Duration

For building or purchasing of house.

Minimum duration is 3 years
Maximum 20 years

Renovation

Minimum duration 1 years.
Maximum duration 10 years.

Finance Limit

Minimum limit is 1,000.000
Maximum limit is 1Crore

Security Deposit

Faysal Bank works on mortgage criteria.

Conclusion

Housing is one of the basic needs of every one and therefore almost all countries of the world take extra measures for promoting construction and ownership of houses. The importance of this sector in evolving the domestic economic activities can be identified from these points; investment in this field is labour intensive; second it can stimulate the production of local building materials; and thirdly it can act as an incentive to mobilize household savings by offering attractive investment opportunities.

The market-oriented housing industry has great potential to serve as an engine of economic growth because it generates direct and indirect investment in almost 40 to 60 ancillary industries and 20 to 25% employment opportunities.

In the housing sector despite its importance and recognition remained neglected in Pakistan and hasn't been able to attract even modest allocation of public sector resources. Housing is usually the largest single form of household wealth in Pakistan. Housing Finance is estimated to be less than 1% of the GDP because there is no vibrant system of housing finance.

Now there have been a number of favourable developments in the smooth functioning of housing finance like the broad-based financial system reforms which involve restructuring of the financial institutions, liberalization of financial markets, introduction of financial engineering and new products and services, improvement in the quality of assets, provisioning of bad loans, mergers and acquisitions and a new model of non-bank financial companies which have led to a partial cleansing up of the system. Although there is much to be achieved, the financial system has acquired strength and some space to diversify and branch into new areas of business.
It is suggested that the financial institutions should offer versatile solutions to help provide loans that are designed for different customers. For building a house the most flexible terms and conditions should be offered. The conditions for availing the home finance facility are limited. Moreover the banks are putting, dream home within some special person but their ultimate target must be the ordinary and middle class income person.

<u>Recommendation</u>

Role of Government

The government policy should be geared to encourage and facilitate housing finance by:

i) Creating an enabling environment for setting up of housing finance companies (l-IFCs) in private sector covering all the geographical areas of Pakistan.

ii) Encouraging housing finance institutions to finance purchase of land, borrow from banks, international markets, and domestic markets by developing various savings instruments for different income groups. .

iii) Setting up 'of an efficient and speedy debt enforcement, mechanism by making banking tribunals efficient in the short term and' "by' making the foreclosure laws effective in 'the 'long term.'

iv) Streamlining and removing the risks of borrowers in the working of the HFCs and other financial institutions, particularly by 'introducing deposit insurance, refinancing of mortgage loans,' simplifying and standardizing ownership and transfer documents.

v) Providing liquidity to the HFCs and enabling setting up of mortgage secondary

market.

To meet the annual target of 500,000 new houses, action on priority basis is required in the following areas:

a. Local 'governments should identify state and other lands in and around urban and rural settlements at reasonable rates.

b. The government should allocate funding for infrastructure, amenities and other developments and to direct, for the .,provision of trunk infrastructure, utilities like Wapda, PTCL, SNGPL, SSGCL and KESC, etc.

c. The government needs to reduce stamp duties and registration fees.

d. The foreclosure laws may be reviewed and improved for earlier relief to the creditors.

At present it is cumbersome and lengthy.

e. Rationalization and reduction of duties and taxes on 'major materials should be reduced for making the construction more affordable.

f. The government should review rent laws. Non-payment of rent by the tenant should result into his ejection from the rented houses. At present the process is cumbersome and the landlords may have to fight, the legal battle for years.

g. Property registration process may be simplified ensuring its completion in a few days. As most of the people are not educated, people may be protected against frauds and cheating.

h. The fees for property transfer registration may be reduced substantially. In many places, the civic authorities collect their own fees in addition to fees levied by the revenue authorities. All fees combined should not be more than one per cent of the cost of property involved.

Desirable Role of Banks and Finance Companies in Housing Finance

a. The banks, with a view to become customer friendly, should revise their loaning procedures, guidelines and format of different documents. They should also train and motivate their personnel for customer service.

b. HBFC may, with a view to become customer friendly, revise its loaning procedures, guidelines and format of different legal and other documents. HBFC may also train and motivate its personnel for customer service.

c. HBFC determines the construction cost of the house and monthly rental value in its sole discretion. There are chances that the investment of the owners is shown at lower level and the monthly rental at a higher level. Both these measures can put the house owner at a disadvantage vis-a-vis the HBFC, when it comes to determining the investment of each party and the share in the- monthly rent. However, the practice of fixing customer upper age limit at 55 years and the collection of cheques for future payments are cause of concern for the customers. These and similar other practices may be changed for transparency and fairness.

d. SBP may allocate separate credit lines to the HBFC for the bulk financing and for the individual house owners. The SBP may also consider such credit lines to the commercial banks, from its own resources, or the credit lines obtained for the purpose for the multilateral agencies. In each case, the margin allowed to HBFC or the commercial banks and the DFIs should be commensurate with the credit risk profile of Pakistani customers. The existing SBP practice of allowing 1.5 to 2.0 % margin is not adequate and may not promote housing construction.

e. The lenders should be lending on merit. The borrowers have to be credit worthy with capacity to repay on time. The government and the State Bank of Pakistan may emphasize compliance with lending guidelines. Foreclosure is good as a threat to defaulters but is not an effective tool for effecting full recovery. Capacity for good loaning has to be developed in the lending institutions.

f. Housing loans secured by property should also include commercial property. Presently the financing is only provided against residential property.

g The banks should have uniform documentation in the process of transaction of all major societies and associations in order to bring much needed transparency and customer convenience/ease of transaction for customers.

h. Tax on the mark-up portion of loan taken from a housing finance company for housing purpose should be exempted.

OTHER SUGGESTIONS

* Stamp duty should either be abolished nationwide if the property is bought through mortgage financing or it should be lowered. Documentation be made at real market value.

* Since the private banks involved in mortgage loans cannot play an effective role in increasing the number of home ownership without having access to low cost long term funds, deposit of pension funds and provident funds of private companies and government departments should be allowed.

* Loan tenor should be increased to a maximum 30 years in order to help the customer to afford the instalment payments so that debt burden is distributed over a longer period.

* Income from deposits in the housing finance companies should be exempt from withholding tax and zakat deduction.