

Financial institutions suddenly discover the merits of financing houses

**W**hen Muhammad Mobin, 40, needed a loan to renovate his house, the only place he could go to was House Building Finance Corporation (HBFC). "It took me six months to obtain a loan of only Rs 75,000," he tells *TNS*.

That was seven years ago. "A lot of banking and other financial institutions have now started lending for buying, building, repairing and enlarging houses," says Nadim Rafi Khan, General Manager at HBFC's zonal office in Lahore. But, this according to him, has hardly effected his corporation. "In fact, most of these new entrants have not even started actual lending by now," he says.

A senior official at Pakistan Industrial Credit and Investment Corporation Limited (PICIC) strongly refutes the impression that new lending options have not encouraged new borrowers. "We launched our house financing scheme in April 2003, and during the last three months the customers' response has been overwhelming." He can claim that a single PICIC branch in Lahore has lent money to 54 people since the start of the scheme. "Those who are seeking house loans from PICIC are mostly people who had bitter stories of inordinate delays, corruption and coercion to tell about the HBFC and they are happy now that they have other options available," he tells *TNS* on the condition of anonymity.

Those responsible for lending at HBFC, a government-run financial institution working since 1952, say there is no truth in the allegations that the corporation is a tardy, corrupt body. "HBFC has effected a positive turnaround during the last five years or so. We have successfully shed the shabby look people usu-

what he has originally thought."

But seen in the context of these 'determining factors', even seemingly 'fixed' HBFC profit rates can assume a different nature, at least theoretically. "These profit rates can be revised downwards, if for some reason value of a property and consequently its rental value go down," the HBFC official says. What if the value of a property goes up? "An upwards revision can take place though normally this does not happen," the official observes. This, he says, is what the Islamic financing on the basis of a shared profit and loss stands for.

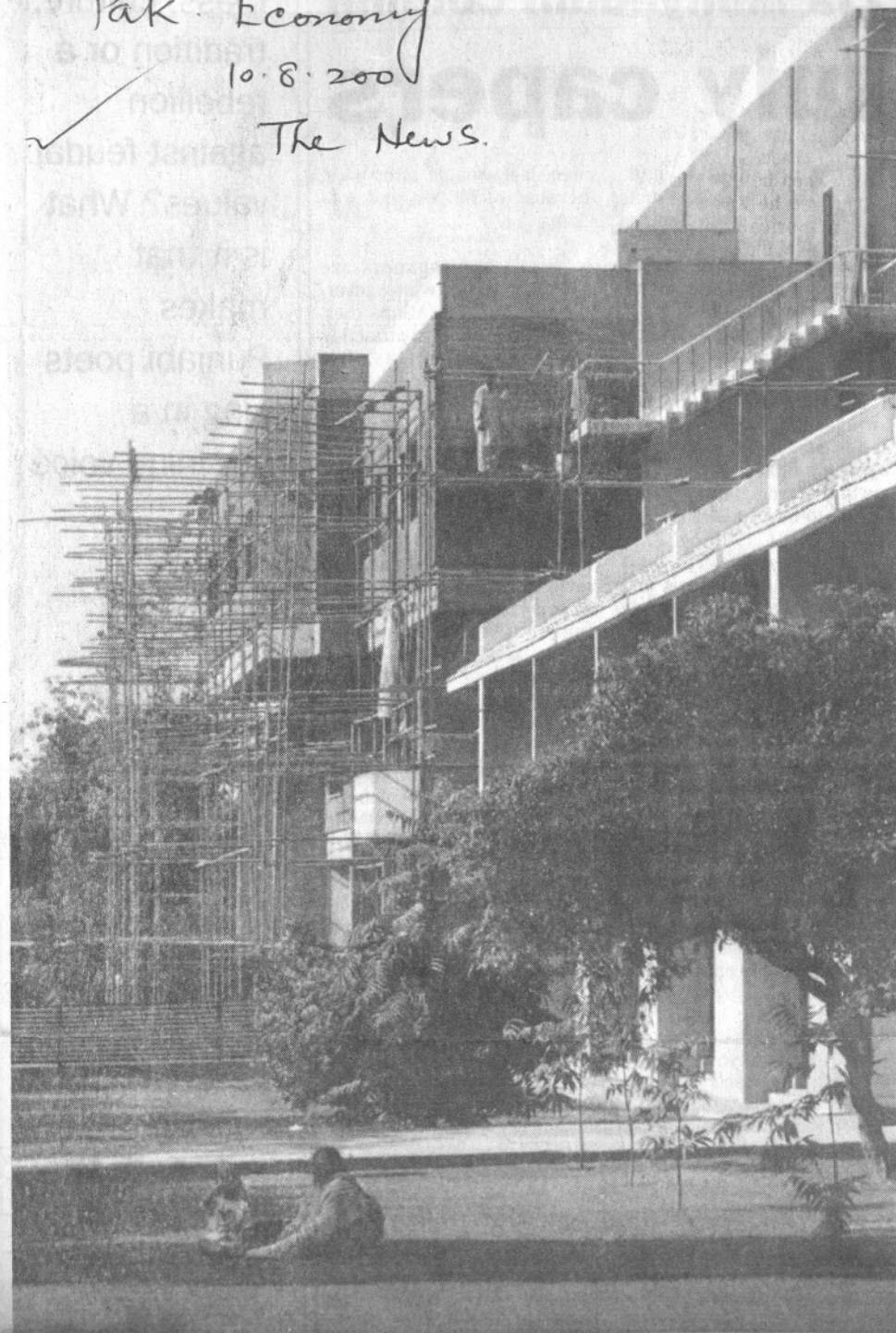
Now one word for these 'floating' rates. Officials at PICIC believe that keeping the interest rates floating will benefit the consumers rather than the financial institutions. "Interest rates are not expected to go up in the mid-term — that is, five to ten years — they are rather poised for further reduction," an official looking after PICIC's house financing operations in Lahore says.

The question arises: Why is there suddenly a new-found enthusiasm among a dozen or so financial institutions for house financing? Given their past reluctance to enter the housing sector and the fact that at least one of them had no happy memories of an earlier experience in this regard, their excitement hardly appears to be well-founded. Bankers, though, like to believe that comparison with what had been, are ill-suited to analyse the present trends.

"Banks are flushed with money like they never had been, though they have few options to invest it profitably. One avenue still available for investing this money is the government's treasury bills and securities. But during the last two years or so the rate of return on this investment has dwindled from 9 per cent to 2.5 per cent. It, therefore, makes sense to look for investments

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By Muhammad  
Badar Alam

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in the allegations that the corporation is a tardy, corrupt body. "HBFC has effected a positive turnaround during the last five years or so. We have successfully shed the shabby look people usually attach to government offices. Now you don't need to bribe or wait long for obtaining a loan," claims a high-ranking Lahore-based HBFC official, wanting not to be named.

Mobin, who works in Lahore Development Authority, can verify in spite of his personal experience to the contrary. "If you possess all the original documents concerning your property, there is no reason that you face any difficulty in obtaining the loan," he tells *TNS*.

Other borrowers are irked by the complex nature of lending at HBFC which involves a partnership as well as a mortgage. As you pay the money back, you are

also required to pay rent for the house you have built

with HBFC money. "Ours is an Islamic financing mode. We don't charge any interest on the loans we extend. But still the corporation needs to run profitably and for that its investment must result in some return which we gather in the form of rent," the HBFC official explains to *TNS*.

He says what the corporation charges as profit on its investment is 'fixed' whereas what other banks are offering are loans with 'floating' interest rates. "It means interests on loans from other banks may increase if the factors determining them change. A borrower, therefore, may end up paying more than

surety bills and securities. But during the last two years or so the rate of return on this investment has dwindled from 9 per cent to 2.5 per cent. It, therefore, makes sense to look for investments offering higher returns. Considering that industrial and business financing have shown lacklustre performance, there are hopes that house financing will do better. Already we are witnessing a banking sector success story emerging in the shape of car financing," says Syed Shabbar Ali Naqvi, manager with a National Bank of Pakistan branch in Lahore's Garhi Shahu neighbourhood. His bank is all set to launch a house finance scheme of its own from August

PICIC's house financing official says the State Bank of Pakistan has asked all financial institutions "to allocate some money" for financing house loans. "This in fact is in line with the government's housing policy announced in 2001 and its attempt to make the construction industry an engine for economic growth," he says.

Has the construction of houses picked up as a result of these increased loan offers? Not so far, says the HBFC official. "We are witnessing a boom in the real estate sector, though none in the construction sector." But he is optimistic that improvement in one sector is certain to give boost to the other. "We are seeing some signs of construction picking up. For instance, we used to receive applications for Rs 140,000,000 in a year on average but figures for the last six months show that we have already crossed this figure by a wide margin by receiving loan

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application for Rs 220,000,000 since January 2003."

Most of this extra money is still to make it to the market and there are fears that all this excitement about house loans may turn out to be misplaced. Those dealing in house financing at leading banks claim they have enough safeguards against their money meeting the fate the investment in yellow cabs had suffered.

"We are ensuring proper documentation and a careful processing before the loan is given," says Shiraz Waheed, selection officer with Citibank's house finance department. Citibank had made its first forays into the housing sector ten years ago, producing only disastrous results. Sheraz attributes that failure to a lack of discretion in lending and an absence of proper documentation. "This time round we are focussing on a

'niche' market of a select group of individuals — businessman and salaried people — instead of lending recklessly to all and sundry," he tells *TNS*.

Shabbar Ali Naqvi firmly believes that people don't usually default on small loans. "Though under the government's advice, the financial institutions have raised the upper limit of the house financing to 10 million rupees, the amount still appears to be small in comparison to what banks have been losing in huge loans extended to inefficient businesspeople."

He says there always have been some black sheep in all fields of life and banking and loaning have been no exceptions. But he also cites auto loans as an example which loans for the housing sector can easily emulate. "One lesson from the experience of lending money for buying cars has been an exceptional

low rate of default. The fact that houses are immovable assets prone to easy take over by the lenders in the case of default makes default all the more unlikely," Naqvi observes.

The HBFC official says his corporation does not prefer exercising the possibility of take over. "We instead want people to pay up because we are here to let people have their own houses."

Fakhra Tehreem, a senior journalist working at an Urdu daily in Lahore, agrees that an HBFC loan she obtained in 1999 had meant so much to her. "I borrowed Rs 300,000 from HBFC and in a 20 years time I will end up paying back Rs 1,000,000 but still I feel satisfied. If I hadn't taken this decision, I would have been paying almost the same amount of money as rent as I am paying now as the monthly instalment on the loan."