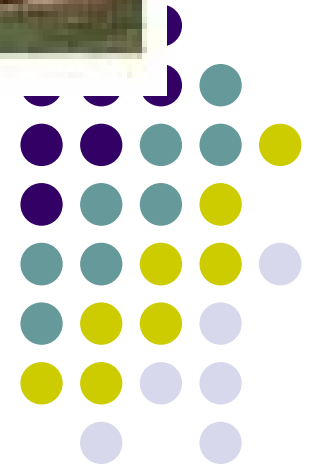
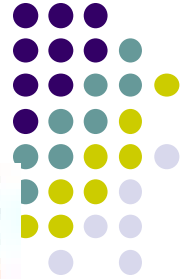
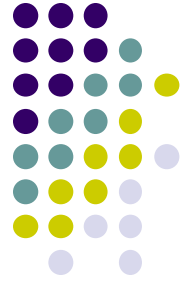


# Housing Finance Market in Bangladesh

Mohammad Abul Quasem  
Executive Director and Project Director,  
CBSP  
Bangladesh Bank  
[abul.quasem@bangladeshbank.org.bd](mailto:abul.quasem@bangladeshbank.org.bd)

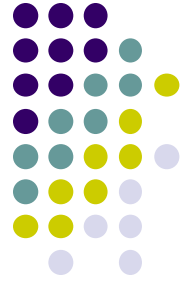




# Introduction

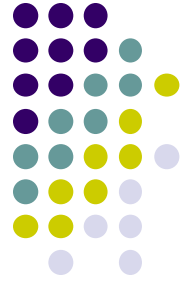
- Housing is one of the basic needs of human being. Bangladesh faces a major housing problem . With a GNP per capita(\$599);very high population 142 million ; the standard of shelter is correspondingly low.
- Approximately 77 percent of urban dwelling and over 98 percent of rural dwelling are earthen. Overcrowding and minimal or no infrastructural support services are further problem.
- Housing Finance market developing at a fast pace, albeit from a very small initial scale,
- Booming construction sector and effective housing and mortgage demand.
- Legal ,institutional and regulatory framework not in line with the potential market development and the creditworthy demand for housing.

# Aim



The aim of this brief is to give an overview of housing finance market in Bangladesh.

# Scope



**The brief will cover:**

**i. importance of the housing sector**

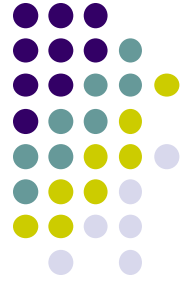
**ii. Housing market - Bangladesh scenario**

**iii. Major players of housing market**

**iv. Source and cost of funding of the major players**

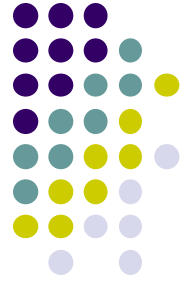
**Vii. Major reasons of default in housing**

**viii. Loan Recovery process & protection of creditors rights**



- Market –based housing finance frees public resources spent in the housing or saving sector with little social efficiency.
- Complement market resources for large-scale finance system towards lower-income household.

# Housing conditions in Bangladesh



- Poverty is reflected in the housing conditions of Bangladesh . Close to half of the all housing units are made of temporary materials.
- High cost of housing in relation to income (particularly) in urban areas where land prices are high.
- One third of houses in urban areas constructed outside of the formal regulatory system.



- Exorbitant housing price forces moderate income household out of the city while most employment opportunities are still located in inner city area.
- Only a small proportion of all required house is built in the formal sector.
- High land prices in urban areas caused multi family units to become the predominant house type.

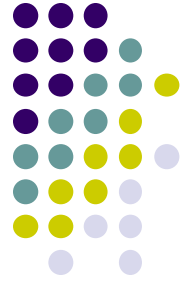


## Characteristics of the housing market

- Housing is heterogeneous and prices hard to measure.
- Housing markets have traditionally been quantity clearing markets.
- Housing market performance depends on credit markets and monetary policy:



- market concentrated mostly in Dhaka city (80-90%) .
- other regions have less demand
- annual demand for new housing (at least 300000 units )far exceed the formal sector supply.



# Urban and Rural population trends and housing requirement

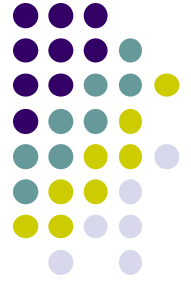
- number of urban dwelling is around 4.0 million units,
- population estimated at 30 million which is around 20% of the total population .
- economic factors compel rural population to migrate to the urban center for employment, living .
- requirement of housing in urban area vary from 550000 units to 300000 annually for the next twenty years.
- rural housing requirement for new houses is of 3.5 million annually if a two percent of housed formation is assumed.

# House prices and housing production



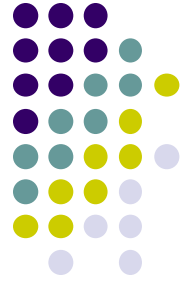
- Excess demand in the middle income sector and a tightening of demand for high cost housing;
- Developer builds houses aiming more profit at less risk.
- Situation is changing with decreasing demand; private developers have begun to produce smaller and cheaper units.
- Respond to the existing demand for middle income housing mortgage finance required at efficient rates.

# Rural Housing Supply Condition



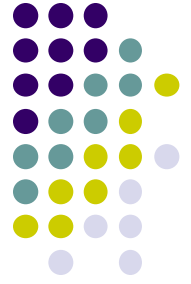
- Rural housing mostly produced by owner household in an incremental way.
- Most owners build their own house.
- Grameen bank pioneered a housing loan program providing basic building material for a simple new house repayment being over 15 year period.
- Other NGOs followed this housing example.
- The government initiated construction program for the rural areas called ASRAYAN providing low income barrack type houses.
- Rural housing finance scheme by Bangladesh Bank.

# Urban housing

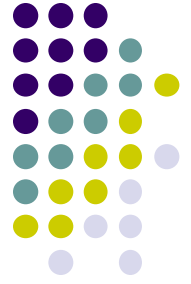


- Most new formal sector residential construction in Dhaka and some other large urban areas
- form of multi family units. In small towns single family units prevail.

# Agencies in public sector

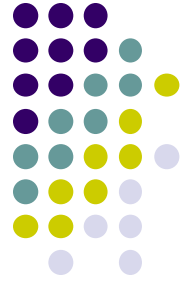


- The housing and settlement Directorate
- Public works department of the ministry of housing and public works,
- The local govt engineering department of the LGRD
- The city corporations of the four larger cities.



# Non-governmental sector (NGO)

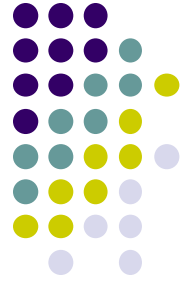
- Marginally involved in urban housing.
- Some involved through Grihayan Tahbil of PM's office, managed by Bangladesh Bank
- NGOs' donor fund may be invested for long term investment in social housing.



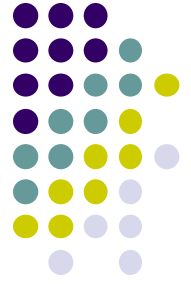
# Formal sector

- Private developers important players in the urban and land & housing market , particularly in apartment building
- 3 percent of houses built by them nearly all for the higher income segment

# Suppliers

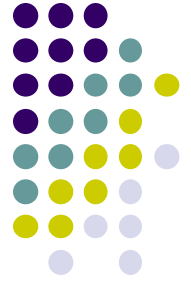


- **The formal or semi formal individual homeowner construction sector:** housing supply mostly on a free hold basis
- a small proportion of household access housing finance.



# Informal private rental housing sector

- Land owner in urban areas construct high density low rise housing units for rental without adequate service either for individual household or for group living.
- **Squatting:** People building makeshift houses on public or private land or squatting in building.

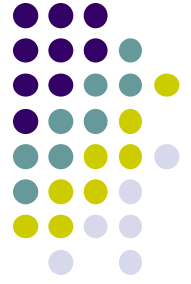


# Factors behind the mismatch

Concentration of building and financial activity at the upper end of the housing market, that ended up by a fall of rentals and several vacant units.

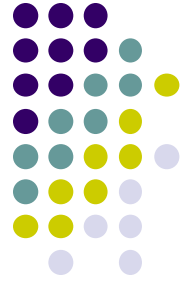


- Many view new housing as an investment good, and buy new house not for dwelling purpose but to rent out to others.
- Different apartment of different sizes considered spacious in different cities.
- Rent per square foot for small units is higher than for large units.

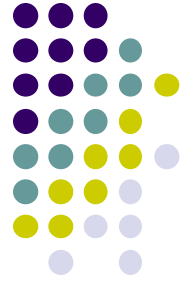


- Investors indifferent about cash flow of rental property
- Intrinsic value of real estate in Dhaka will continue to rise.
- Affordable housing remains scarce.
- Majority lender ignores the middle and upper income categories and instead target upper income groups, particularly investors in rental housing.

## Constraints on housing supply side:



- High cost in relation to income
- Land prices high
- gap between cost of new construction and incomes has some major consequences:
  - new development for moderate income household further out of the centre
  - most employment opportunities located in inner city areas.
  - small portion of all houses built in the formal sector.

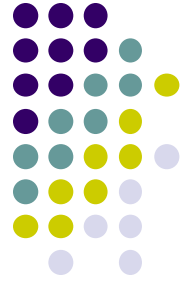


- High land prices in urban areas have caused multi family units to become the predominant house type.
- Lack of formal financing exacerbates the problem
- Without access to finance a down market move in formal housing sector impossible,.
- Finding accessible & affordable land:



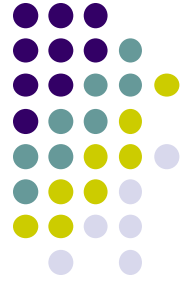
- Sufficient land available for foreseeable future
- Lack of long term financing for middle income household would prevent from expanding a middle income line of housing production
- Long time necessary for utility infrastructure

# Key bottlenecks in the land development process



In Bangladesh a number of things are striking...

- Local planning largely controlled from Dhaka
- Only functioning regional planning agency RAJUK, is for Dhaka
- Few planning professionals working in the public sector in Bangladesh



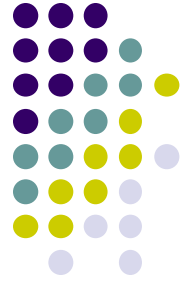
## Land acquisition, development and construction finance

The land acquisition process departs from the standards model on several fronts:

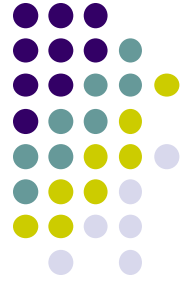
- Developer begins by identifying a single parcel and buys other plots around
- Developer does not acquire the property rather he receives a power of attorney from the owner to build the property



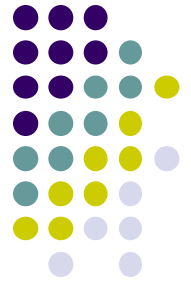
- Real estate only reliable investment assets
- Dearth of real estate broker and appraisers.
- Absence of intermediary between buyers and sellers for exchange of information



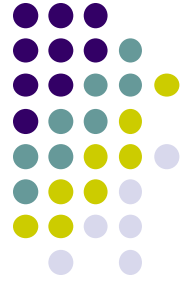
- 800 developers now working in Bangladesh
- Many focus on small apartments for the middle income group
- Price of apartment increased in recent years



- **BHBFC:** BHBFC pioneered the house building finance in the country.
- Until recently, the principal source of housing
- The main source of fund is subsidized debentures.
- Outstanding debentures are Tk. 12.2 bn at an average cost of around 6%. They are subsidized 75% by Bangladesh Bank and 25% by financial institutions.
- No active secondary market for these debentures.



- Bangladesh Bank as a part of its treasury operation has started issuing long term bonds: 10 -year in 2004, 15-20- year in 2007.
- The present yield on long term bond is around 12% which would be the minimum possible cost for BHBFC for any future issue.
- Apart from the fixed rate, maturity would be another issue for long term instrument of BHBFC.



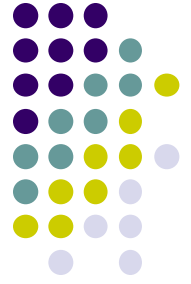
Six types of loans are by BHBFC:

- General loan
- Group loan
- Flat/ Apartment loan
- Adjusted loan
- Loan for semi-pucca house and
- Loan for middle and low-income groups.

# Features of BHBFC

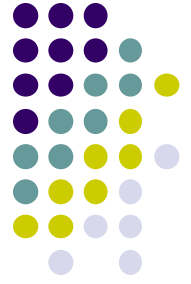


- Ministry of Finance holds of its share and runs in a manner that is more administrative than financial.
- Enjoys various privileges regarding tax, prudential obligation and capital raising.
- Main privilege is govt- support for funding.
- Inefficiency in loan processing
- Govt. reluctant to authorize new guaranteed issues and none has taken place in the couple of years.



- poor ability to maintain the payment discipline among borrowers.
- ill targeted government subsidized mechanism.
- despite a Tk.250000 lending limit , it tends to lend to the higher income house buyer; in particular, 76% of the borrower are land owner who builds multifamily house for rental purpose.

# Nationalized commercial banks



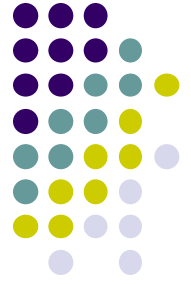
- Second important source of housing finance
- 3 to 6 percent of their outstanding portfolio in Housing Finance.
- Priority to short term corporate lending than long term housing financing.
- Part of their mortgage portfolio.
- Staff housing scheme

# Private & foreign commercial banks



- Providers of finance increasing.
- NCB's less handicapped by delinquencies.
- Housing loans make up between 5 to 10% of their loan portfolio.
- FCB's are newcomer with marginal impact; they target only upper-middle class borrower.

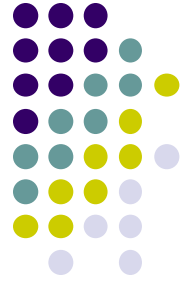
# Non-bank financial institutions



- Private sector institutions specialized in housing finance taking substantial business away from the other institutions.

Reasons are:

- transparency
- streamlined method for making loan decisions
- Keep careful track of delinquencies
- communicate borrower at the first sign of trouble.

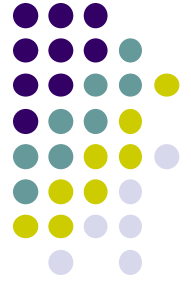


- **Bangladesh Bank:**

- Bangladesh Bank introduced a refinance scheme for the housing sector of Tk.300 crore ;already been raised up to Tk.500 crore
- Banks & non-bank financial institutions eligible to participate in the scheme .
- Bangladesh Bank provide 100% refinance to bank and non bank financial institutions for the housing loan which has been disbursed at 9% interest rate.

**Salient features of this scheme:**

- Apartments having 1250 sq. ft.
- Maximum loan limit for a single person Tk. 20 lac .



- Monthly income of applicant not more than Tk.50,000
- Employees who do not have any housing loan scheme in their organization and who do not have any house /apartment in his /her own name or in the name of their spouse
- Loan tenure 20 years with a grace period of 1 year from the date of disbursement.

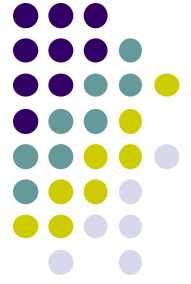


- Bank & non-bank financial institutions get refinance at 5% interest rate from Bangladesh Bank.
- Up to March 2009, 12 Banks and 20 Non bank financial institutions signed participation agreement with Bangladesh Bank under the scheme and Tk.243 cr disbursed

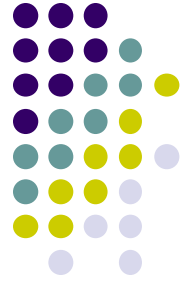


- **Grihayyan Tahabil:**

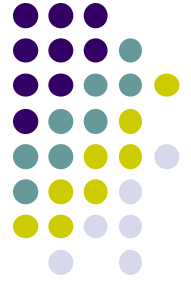
- To provide house to the homeless, poor & lower income group, Bangladesh Government in 1998 started a housing fund of Tk.50.00 crore named Grihayyan Tahabil.
- Operating in 400 upazilla of 64 District, through the NGOs.
- Up to march, 2009 Govt. has allocated Tk.160 crore for this fund and Tk.114.46 crore has been disbursed so far.



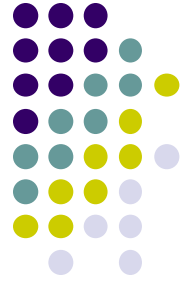
- NGOs disbursed loan to the client at 1% simple interest rate and repaid to the Grihayan Tahabil at 5% interest rate for a period of 10 years.
- Total 46128 houses constructed under this scheme.
- 404 NGOs participate



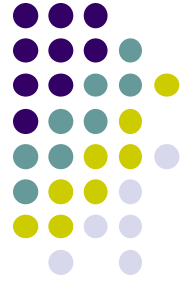
- **Delta Brac Housing Finance Corporation (DBH):**
- Licensed as a non-bank financial by the Bangladesh Bank and started its operation in 1997/98.
- Initial capital , Tk.200 million subscribed by both national and international sponsors:
- Delta life insurance co. ltd.                      25%
- BRAC    25%
- Green Delta life insurance co. ltd      20%
- Housing Development Finance corporation ltd. From India 15% and
- International Finance Corporation.      15%



- Difficult to find local investors since the housing sector in the country dominated by the BHBFC
- BHBFC has access to lower cost fund allowing to have lending rates below market
- Government saving schemes do not provide a substantial proportion of the working capital.



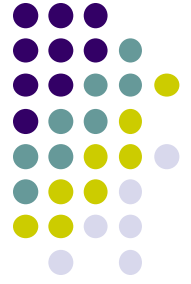
- Makes loan for the construction of houses , acquisition of flats and houses.
- Extension and improvement of existing housing
- Purchase of housing plots for middle & lower income household
- Both construction finance and long-term mortgage finance.



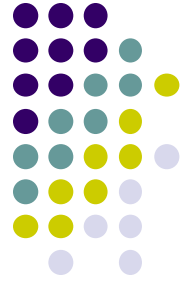
- National housing and Finance corporation (NHFC)

NHFC started operation in 1998 and being regulated as non bank financial institutions by Bangladesh Bank. It has two licenses:

Operate as a finance company  
operate as a lease company.



- Main sources of funding is various deposit schemes
- Very effective loan surveillance system.

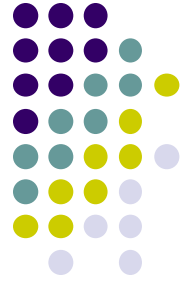


## **RAJUK( RAJDHANI UNNAYAN Kartipakkha):**

RAJUK a statutory body

initiate and implement urban development plan

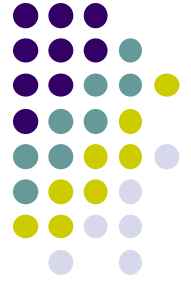
mandate to get land at prices that are artificially lowered  
thus hampering the activity of the other developers and  
globally restricting the land supply.



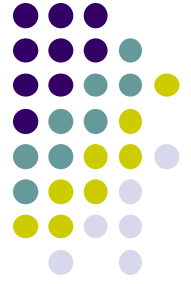
Main factors that enable RAJUK to achieve such prices are:

- Ability to impose the sale of land upon its owner
- Absence of responsibility in the cost of trunk infrastructure that is born by municipalities contrarily to private development projects
- Plays an important role in providing service land but in a way that constrains the contribution of private developers and the widening of the supply.

# REHAB

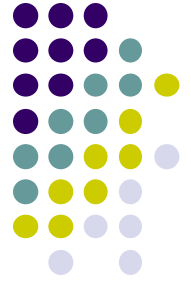


- only trade organization of Real Estate Developers
- 453 members
- played a very significant role in apartment building
- members consider high cost housing most profitable
- activities limited in urban are mainly in Dhaka City.
- upper level of the society is their target.
- housing need of the middle income sector not met by REHAB members

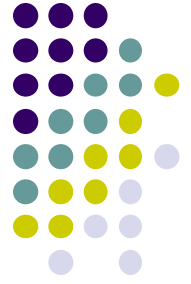


# Source and cost of funding of the major players

- Source of funds of HBFC is equity, borrowing from Government
- sale proceeds of debentures to Bangladesh Bank and commercial banks. The average cost of fund is 6.41% .These are long term fund and naturally do not pose any risk of asset liability maturity mismatch.
- Commercial banks face maturity mismatch in their assets and liabilities in the long run.



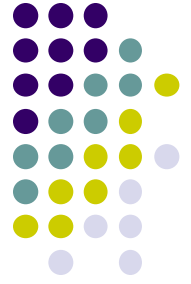
- NCBs have low cost fund.
- receive bulk of deposit from Govt. entities which are statutory required to deposit at least 75% of their funds with the NCBs.
- PCBs don't have particular privileges, yet attract saving through their improved service quality, product options and extended branch networks. Their weighted average rate on deposit in june was 6.85% against a weighted average lending rate of 12.09% .
- FCBs are even better off in this regard with a weighted average deposit rate of 3.75% against weighted average lending rate of 11.29%



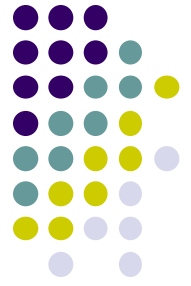
# Mortgage finance

- **Housing finance sector both underdeveloped and highly segregated.**
- **Banks require proof of land ownership or leasehold deeds and deposit of title document as collateral**
- **Banks' presence very small in housing finance**
- **New product to be developed**

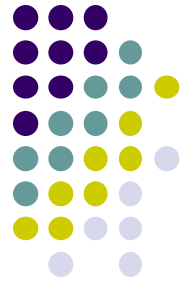
# Major reasons of default in housing loan



- Weak enforceability of the related laws encourage default tendency among a section of borrowers.
- high interest rate and long tenure of 15 years term result in large installments,
- high property price compared to the income of the prospective buyer
- borrowers ignorant of the impact of actual financial burden.
- Loans sanctioned on the basis of the valuation of the property instead of giving due weight on the repayment capacity of the Borrowers



- Cumbersome process of repossession and weak demand of repossessed property makes the defaulter less worried on loan default.
- Lower rent than expected result in default situation
- Over supply of the apartments result in a decline in rent.
- Sudden and prolonged illness or death of the main earner of the family also results in default

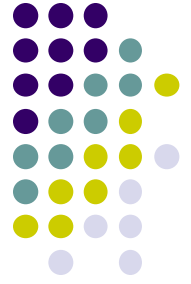


- Income of the self employed individual sometimes becomes unstable due to factors beyond their control.
- Social and family needs cause diversion of fund .
- Manipulated valuation of property, weak end use supervision cause diversion of fund and subsequent default.
- Sudden increase in the cost of construction material cause unexpected financial burden for borrowers and eventually end up in default situation
- willful defaulter just do not pay in spite of their adequate capacity to pay.



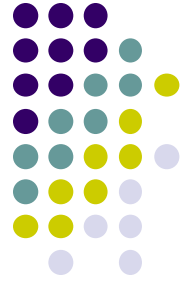
# Loan Recovery process & protection of creditors rights

- Usually BHBFC and the FIs extend loan for 15 to 20 years.
- BHBFC realizes repayment of the loan through deposit into designated bank account whereas the other FIs realize payment through post dated cheque.



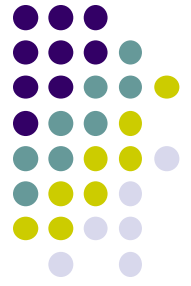
- Issues relating to creditors' rights
- freehold or lease hold can be registered in favor of the lender.
- Bank returning cheques for “insufficient fund “ should facilitate legal action against the defaulter.
- defaulters' scope to hinder legal process should be minimized
- handing over the vacant possession must be quick
- In case of leasehold properties banks and FIs may be waived from obtaining mortgage permission from the lessor

# Conclusion & Recommendation



Bangladesh evidence a rather nascent housing finance market structure compared to other countries in the region .  
Some recommended actions are :

- Expanding financial resources available to the private housing finance sectors.
- Leveling the housing finance playing field.
- Increasing access to formal mortgage finance by middle –income household
- Improving the efficiency of the primary mortgage market.



- Tax systems flawed by impediments to the lack of incentives
- Reduce fiscal cost of transferring properties
- Tax relief on mortgage payments
- Creation of secondary mortgage market
- Housing finance companies need to properly market their products & develop new products as well



- Improving the sustainability of the micro-finance housing program
- Improving efficiency of the mortgage finance market & mobilizing additional resources for housing.



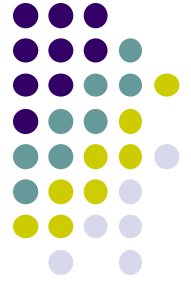
- Mortgage based securitization

By discounting mortgage loan of one institution by another institution the liquidity of the housing finance market can be increased. Thereby bank/financial institutions will be encouraged to finance in the sector.

To enhance the financing power of the housing companies the premium deposit of the insurance companies can be invested in this sector. Thus the fund shortage of the housing companies can be met.



- Housing finance market plays a role in boosting equitable economic growth and reducing poverty
- build assets, improve living conditions
- empower middle and lower income population ,strengthen communities.
- government recognizes importance of housing sector
- Boosting and further developing the market based housing system now looks very timely
- steps are in place to address present weaknesses and encourage the development of a more stable and vibrant housing finance market.



- At the time of construction of community housing, following issues need to be addressed:
- Fire fighting, security
- Utility, waste disposal, greenery, walkway
- Community facilities e.g. laundry, grocery, pharmacy, open space for religious/recreation purpose



# Thanks!

## Questions?

**Mohammad Abul Quasem**  
**Executive Director and Project Director, CBSP**  
**Bangladesh Bank**  
**[abul.quasem@bangladeshbank.org.bd](mailto:abul.quasem@bangladeshbank.org.bd)**