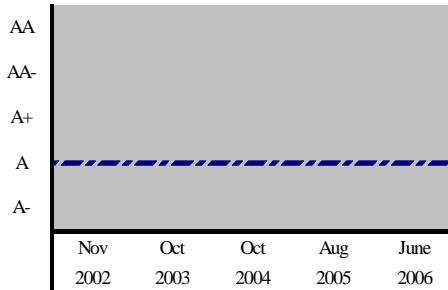


House Building Finance Corporation (HBFC)

Ratings (June 2006)

House Building Finance Corporation

Entity	New	Previous
Long Term	A	A
Short Term	A1	A1



Financial Data

PKR (mln)

	31/12/05	31/12/04
Total Assets	16,975.4	18,596.2
Equity	3,473.1	3,850.8
Profit / (Loss) after Tax	(377.7)	(694.6)
Equity /Assets %	20.46	20.71
Liquid Assets /	27.62	35.75
Borrowings %		

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Rating Rationale Assessment

- HBFC's ratings reflect the Corporation's sound equity base signifying high-risk absorption capacity and strong underlying security against loans. While in the medium-term, the Corporation will continue to retain strong capacity to service its obligations, the long-term sustainability of operations is faced with a degree of uncertainty, on account of continued repayments of SBP's credit lines. Considering the significance of HBFC's pivotal role in GOP's commitment in expanding the housing stock in the country, the government is likely to provide adequate financial support for continued operations through rescheduling of these lines, for which negotiations are already in hand. The outcome of these negotiations will remain critical for future prospects of the Corporation.
- Due to concentration on meeting the government directed budgetary disbursement targets, recovery of outstanding rentals, till the initiation of the restructuring process in 2002, was never considered a priority at HBFC. This together with weak transaction recording and loan monitoring systems resulted in substantial proportion of overdue rentals, mainly in more than three years category. As the ongoing reform process for improvement in systems and processes is at an initial stage, the trend of infection in respect of the newly launched schemes is also higher than expected. Although there is continuing reluctance to resort to strict recovery actions like auctions mainly due to socio-political pressures, the high property to value ratio and risk of dispossession of personal dwelling for the borrowers, provide a reasonable cushion against loan loss. Meanwhile, the management, as a matter of prudence, intends to make additional general provisioning against the loan portfolio in the next couple of years.
- The core operations of HBFC are entirely financed by the funds provided in the form of credit lines by SBP, whereby return on the borrowed funds is based on the net profit earned by the Corporation on its housing finance portfolio. Resultantly, the onus of inconsistent performance has been borne by SBP in the form of very low return on its investment. Following the SBP's decision to stop further roll over of these lines, HBFC made repayments of over PKR 6bln since 2002. The remaining credit lines amounting to PKR 10bln at present are to be repaid over the next six years, with an average annual repayment of PKR 1.7bln. Considering the current recovery levels and comfortable liquidity position, the Corporation has strong capacity to service its obligations in the medium-term. However, the increasing portfolio of the newly launched *Ghar Asasan Scheme*, where the loan repayment period is upto 20 years, is likely to lead to a sizeable maturity mis-match in the long run, under the present funding arrangements. Meanwhile, the continuing repayment of SBP's lines is also expected to have an adverse impact on the level of fresh disbursements, thereby affecting the Corporation's overall operations. As the reform process is at the initial stage, it is not financially viable for the entity to mobilize sizeable alternative funding from open markets at competitive rates. Realizing this situation, the management is already in negotiations with SBP for restructuring its loan repayment schedule, which is considered essential to the long-term sustainability of the Corporation's operations.
- The deep-rooted weaknesses inherent in the organizational structure and systems and processes led to weak performance over the years, though its impact on the financial profile of the entity was partially insulated due to the nature of financing arrangements with SBP. The restructuring efforts were again revitalized with the appointment of the new MD of the Corporation in Jan05. Since then, a comprehensive reform process has been initiated encompassing every sphere of the Corporation's activity. Meanwhile, the management made sizeable provisions against major disputed balances, mainly with GoP on account of remissions to the loanees on behalf of a previous government, and long outstanding unreconciled differences in respect of housing finance portfolio, resulting in losses for the last two years.

Background

- The House Building Finance Corporation (HBFC) was established in 1952 under the HBFC Act, to provide financial facilities for the construction, re-construction, repair and purchase of houses, particularly to the low and middle-income groups of the economy. The Government of Pakistan (GOP) and the State Bank of Pakistan (SBP) jointly hold the share capital of the Corporation.
- The general direction and administration of the Corporation and its affairs is vested in the Board of Directors appointed by the GOP. HBFC has a large network of 60 offices spanning across the country, managed through 12 zones with headquarters at Karachi. Meanwhile, for expanding the outreach in a cost effective manner, the management has established more than 25 *representative offices* in different cities during the year, through appointment of service agents on commission basis. The Corporation employs more than 1300 personnel.
- Unlike other financial institutions engaged in housing finance, the bulk of the loan disbursements of HBFC are to low-income groups, and for construction of houses, as against outright purchase and renovation. Under its new mission, the HBFC aims to be the housing bank for Small & Medium Housing (SMH) finance.