

## Press Release

### **Changes in Prudential Regulations for NBFCs dealing in Housing Finance**

**Islamabad – October 28, 2005:** The Securities and Exchange Commission of Pakistan (SEC) has announced major changes in the Prudential Regulations for Non-banking Finance Companies (NBFCs) that are licensed to conduct housing finance, by modifying the part dealing with housing finance for individual borrowers.

Under a significant revision, the maximum limit of loan has been raised from Rs.7.5 million to Rs.20 million. In order to benefit customers, the NBFCs are allowed to advance loans to customers where all the instalments of consumer loans obtained by any customer can go up to 60 percent of that customer's net disposable income. Furthermore, loans can be advanced for the purchase of new piece of land, construction of houses or renovation of an existing house against the security of land/plot, already owned by their customer. The maximum tenure of such loans is set to 20 years at a debt-to-equity ratio of 85:15.

Simultaneously, the SEC has required the NBFCs to either engage professional expertise or arrange sufficient training for their concerned officials to evaluate the property and assess the genuineness and integrity of the title documents. The NBFCs are also encouraged to develop floating rate products for better interest rate management and to stress test their portfolio for adverse changes in interest rates.

The SEC has also directed NBFCs' management to put in place a mechanism to monitor conditions in the real estate market, at least on a quarterly basis, to ensure that their policies are aligned to current market conditions.

It is expected that the new changes would not only benefit NBFCs dealing in housing finance, but would also channel customer savings into creating a productive asset for themselves. The decision would help in the development of housing finance sector.