

HOUSING FINANCE: A STUDY ON PUBLIC AND PRIVATE HOUSING FINANCE INSTITUTIONS IN BANGLADESH

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Abstract

Bangladesh has embarked on a gradual transition from a system of directed credit in a highly segmented market toward an integrated market-driven housing finance system. This transition has included an increased role of private and public sector banks in the immediate term and a functioning secondary mortgage market in the long term. To nurture home mortgage markets, this ambitious agenda would require a stable macro economy, low inflation, and careful fiscal policies. An active system of housing finance provides real economic benefits and positively affects savings, investment, and household wealth. Housing finance enables households to accumulate assets that can provide the collateral for their investment needs, thus stimulating small business. Housing finance development boosts equitable economic growth and reduces poverty by improving living conditions, empowering the middle and lower-income population, and strengthening communities. The present housing finance system in Bangladesh is extremely small and highly segmented. Government subsidized housing finance through the Bangladesh Bank through few MFIs in rural area. House Building Finance Corporation (BHBFC) is most common, while the nationalized commercial banks (NCBs) are decreasing their housing loan portfolios. The private sector specialized banks (particularly DBH & NHFIL), PCBs and FCBS with few MFIs are playing vital role for the growth of housing sector. This paper provides the contribution of financial institutions' towards public and private sector housing and economic development in Bangladesh.

Keywords: Housing, Public and Private Sector, Housing Finance, Real Estate, Micro Finance

INTRODUCTION

Good housing is a pre-requisite for human development and welfare. It provides shelter, security, amenities and privacy to the human beings for decent living. Without good housing, people cannot realize their full potential and carry on the life they want to lead. Good housing reflects the general welfare of the community, whereas bad housing leads to serious consequences such as diseases, immorality, and juvenile delinquency. Deprivation of a decent housing, in fact, becomes a threat to social harmony and economic prosperity. Housing is also an investment activity and provides impetus to economic growth. It has both forward and backward linkages. Because of its forward and backward linkages, even a small initiative in housing will propel multiplier effect in the economy through the generation of employment and demand. Housing delivery system in Bangladesh is a combination of many interrelated components which include land, infrastructure, building materials, policies, building regulations and more importantly the finance component. Finance in housing delivery is very important because of the huge financial requirement for housing production. Housing is the one of the basic needs for every human being. It's an important component and a measure of socio-economic status of the people. It is regarded as a critical sector in terms of policy initiatives and interventions. Housing and building activity levels have significant macroeconomic effects - directly in terms of the consumer price index and interest rates, and indirectly in terms of the 'wealth' effect on spending levels and multiplier effects from employment in the sector. The emergence of a number of Housing Finance Institutions (HFI) in organized and unorganized sectors has brightened the economic scenario. The potential for the HFIs is vast. The success of HFIs depends on how effectively they can tap resources.

In recent years, housing finance in Bangladesh has undergone important structural changes as a result of macroeconomic stability and financial innovations. A stable macroeconomic environment, the increased availability of resources to finance the private sector, and the active role of public sector credit institutions explain the recent growing number of households with access to housing finance. However, housing gaps are still large; for instance, the ratio of real estate sector to GDP is low compared to other countries' indicators. Therefore, there is huge potential for the growth of the housing market in Bangladesh. This study describes and assesses the most relevant developments in housing finance in Bangladesh and the current structure of both the housing market and housing finance institutions, and shows the importance of public institutions in this market. In addition, it presents relevant innovations in: i) the financial system regulatory framework; ii) funding sources of housing finance in Bangladesh; and iii) housing finance products. The recent development in

housing sector and a brief assessment of private financial institutions' solvency, contribution, growth also presents with some conclusions.

Objectives of the Study

This study seeks to evaluate the performance of the public and private banks / institutions in Bangladesh in extending housing finance during the last decade. The innovations made by them to reach out to the needy borrowers in different parts of the country have been examined in detail. It was proposed to look into the problems faced by them in developing the linkages between the borrowers and suppliers. The deficiency in housing finance is a cause of concern to the borrowers, bankers as well as the regulator. This aspect has been examined in detail, subject to the availability of data pertaining to this sensitive area.

The basic objective of this study is to understand the sources of public and private housing finance and their contribution towards the economy in Bangladesh. To accomplish this objective, following specific objectives have been covered:

1. To make a macro assessment of the problem of housing, housing policy and housing finance in Bangladesh
2. To examine various formal and alternative sources of housing finance institutions in Bangladesh
3. To study the financial performance of public and private housing finance institutions and their contributions in various parameters.
4. To discuss some major issues and problems in expanding formal housing finance system in Bangladesh.
5. To observe and analyze the operational performance of public and private housing finance institutions / banks.

LITERATURE REVIEW OF THE STUDY

Housing Finance is a major factor determining the quality and tenure of housing consumption, the overall financial portfolio of the public and the stability and effectiveness of the financial system (Diamond and Lea 1992a). Considerable numbers of research have been undertaken in the field of housing finance companies. As some of them are directly or indirectly related to the present study of public and private sector housing finance institution, a review is made of such studies, which have greater relevance to the subject matter of the present study. Housing finance plays a critical role in the development process by supporting strong housing markets, while strengthening the financial sector and contributing to overall economic growth. Strong

housing finance system will give positive economic activity and social benefits, such as greater consumer savings, more social and labor mobility, and increased investment (s). In the real estate market, the buyer of a property is prepared to pay a price which he/she thinks is similar to the 'fundamental' values based on two criteria; the information on rental flows and the expected changes in the future price of the property (Xia & Tan, 2007). Therefore, people's expectation of future house prices changes during different economic conditions such as an expansion (boom) and recession (bust). In Europe, the emphasis has been on supply consideration since housing is held in short supply and it is consistent with the policy of housing provisions for its citizenry by the governments (Galster 1997; Yates and Whitehead 1998; Whitehead 2002; Fisher and Jaffe 2003). Kenya articulated its first housing policy in 1965/66 in Sessional Paper no. 5 with the long-term goal of ensuring that every household had access to a decent home. After more than 30 years, this policy thrust remains unchanged, although implementation has reflected prevailing realities and resources (Okonkwo, 1998). Doling et al. (2013) in their study entitled "Housing and Housing Finance- A Review of the Links to Economic Development and Poverty Reduction" observed that Problems in the housing sector upset the global economy through the important connection to the financial sector. A house (or apartment) is the most expensive asset that most families possess. Its purchase usually requires external financing in the form of a mortgage. The mortgage market, in turn, accounts for a significant portion of the funds intermediated by financial institutions. In the last decades, the housing stock in Mexico has changed in both quality and size. For instance, housing conditions such as dimension, regular features and availability of urban services, have improved in general. Nevertheless, rural housing conditions are still limited compared to their urban counterparts (Huerta et al., 2009). The housing real estate business's untapped potential is quite evident from the real estate apartment penetration in the neighboring countries of Bangladesh (Barua et al., 2010). In the last four decades private developers have supplied more than 100000 units of apartments to the nation and will be supplying 25000 more units in the next three years (Sheltech, 2011; Rahman, M., 2011). Bangladesh's housing market is characterized by a surplus of upper-echelon housing stock and an acute shortage of affordable housing for the great majority of middle and lower-income population groups. Estimates suggest a shortage of about 5 million houses in Bangladesh in 2009. In urban areas, the annual estimated demand amounts to 300,000–500,000 houses. In rural areas, with an assumed 2 percent new household formation annually, the new demand could be as much as 3.5 million a year. Of the larger cities and towns in Bangladesh, Dhaka is the hardest pressed in terms of unsatisfied housing demand (World Bank, 2010). In the coming decades the urban population in Bangladesh will continue to grow but the rate of growth of urban population may go down to some extent. However, it would still

be around 3.6% in the year 2015 (Islam, 2013). Sarker et al., 2008 in their article on “Real Estate Financing in Bangladesh: Problems, Programs, and Prospects” stated that Statistics show that Bangladesh will need to construct approximately 4 million new houses annually to meet the future demand of the next 20 years. Estimates for annual requirements for housing in urban areas vary from 0.3 million to 0.55 million units. In Bangladesh 25 per cent of the population (some 35 million people) now live in urban areas; this proportion will be 34 per cent (75 million) by the year 2015. Dhaka, with a total population of 10 million, is now the 22nd largest city in the world. By the year 2015 Dhaka is projected to rank as the 5th largest city in the world, where 19 million people will have to find their house (CPD, 2003). Haque, (2009) in his speech said that the residential housing sector of Bangladesh is characterized by a three-tier market. First are those households with the highest disposable income, able to afford high-quality housing in fully serviced neighborhoods, and able to utilize bank financing or specialized the second tier is the relatively narrow stratum of middle-income households that are the main users of specialized housing financial institutions such as the Bangladesh House Building Finance Corporation (BHBFC). This group is the major beneficiary of available public subsidies and is composed predominantly of public servants and wage/salary earners of large private companies and public sector corporations; it represents 12-15 per cent of the housing market. The housing finance market is characterized by weak competition, poor transparency, underdeveloped structure (such as second-tier lenders), and lack of a level playing field for financial institutions. Bangladesh’s ratio of housing finance to GDP is less than 3 percent, compared with 50–70 percent in developed countries and 7 percent in India. Mortgage lenders have to rely on short-term funding for financing the loans they make. As a result, formal mortgage finance from private banks and specialized lenders is available only to urban households with high incomes (more than Tk 25,000 a month). Government-subsidized housing finance through the Bangladesh House Building Finance Corporation (BHBFC) does not succeed in targeting lower- and lower-middle income groups either. That leaves a large lower-income housing market completely unaddressed, despite currently high growth rates of housing finance. Bangladesh best practice MFIs holds some promise for bridging the housing finance gaps; but there are many challenges, including affordability constraints and the need for new products, such as savings-for-housing instruments (World Bank, 2010).

METHODOLOGY OF THE STUDY

This study is based on secondary data and reviewed extensively the real estate financing issues. Information has been gathered from academic journals, annual reports of Bangladesh Bank, BHBFC, DBH, NHFIL and printed articles of World Bank, previous research papers on

real estate and housing sector, industry news and developments. The analysis has been presented first and then findings have been drawn.

Housing Finance Market

The housing finance market in Bangladesh is poorly developed, characterized by a weak structure (few second-tier lenders), poor transparency, and little competition to encourage efficiency. In addition, the ineffective governmental frameworks (legal, regulatory, taxation) in Bangladesh hold back development of the primary and secondary housing finance markets. The lack of infrastructure in Bangladesh also makes housing expansion into rural areas difficult. Bangladesh's ratio of housing finance to GDP is less than 3 percent - in comparison, developed countries have a ratio of 50-70 percent.

New property development is dominated by upper-income urban groups, with most new units being used as investment and rental vehicles, not primary residences. Estimates (2009) suggest a shortage of 5 million houses in Bangladesh, with annual estimated demand for new urban housing ranging from 300,000 to 500,000 units. Rural demand (using an annual growth rate of 2 percent) could be as much as 3.5 million units per year. Only 2 percent of rural housing is characterized as permanent.

Population

World population reached 7 billion in October 2008. Population will be 8 billion by 2025 and 9.3 billion by 2050. Growth of Population is high but not widespread everywhere and the influx taken places mostly in South Asia and Africa. There are 532 urban centers in Bangladesh including 11 are City Corporation and 318 Pourashava. About 34% of total population (166,280,712/ July 2014 est.) lives in urban areas and 66% of total population (166,280,712/ July 2014 est) lives in rural areas. Major cities – population: DHAKA (capital) 15.391 million; Chittagong 5.239 million; Khulna 1.781 million; Rajshahi 932,000 (2011). In urban areas population density is 4024 person/sq.km. The urbanization rate is about 2.85% as one of the fastest rate in the world. Population over 60% will live in Urban Areas by 2050. With imbalanced urban growth, Bangladesh is 4th largest cities of highest growth rate. The urbanization trend in 2015 is 29.6 million and in 2030 it will be 39.3 million. (World Urbanization Prospects, World Bank Report, 2014).

As population increases so housing shortage increases in every year. There are 5.5 million housing shortages in urban and rural areas. So this deficiency of housing shortage will address by public and private banks in Bangladesh.

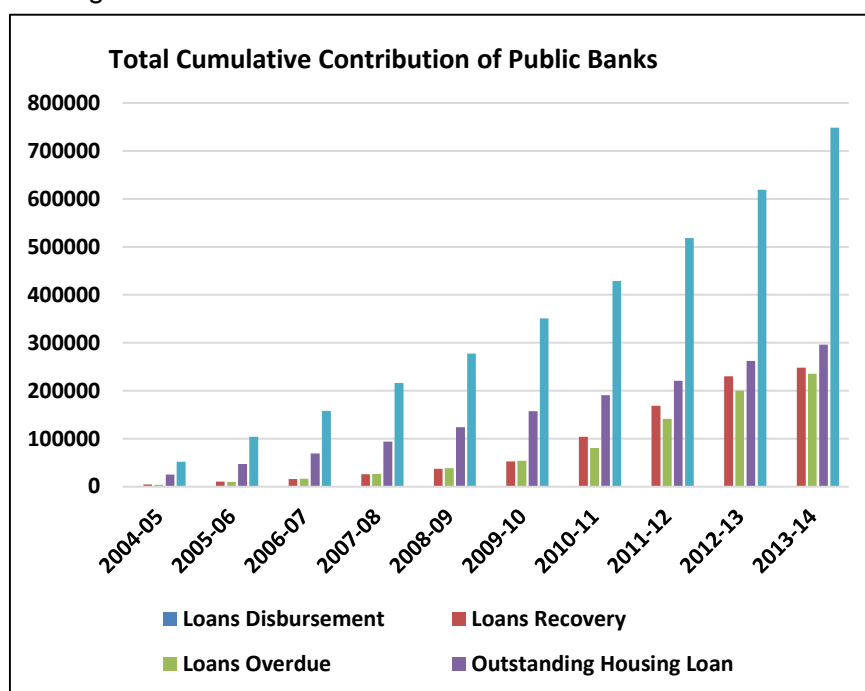
Public and Private Housing Financing Banks in Bangladesh

As per annual report 2015 of Bangladesh Bank the public sector and private sector banks are shown below.

Public Banks

Bangladesh House Building Finance Corporation (BHBFC), Four State-owned Commercial Banks (SCBs), Sonali Bank Limited, Janata Bank Limited, Agrani Bank Limited, Rupali Bank Limited, and four specialized banks: Bangladesh Krishi Bank, Bangladesh Development Bank Limited, Rajshahi Krishi Unnayan Bank, Bangladesh Small Industries and Commerce Bank Limited; and GrihayonTahabil (GT).

Figure 1: Total Cumulative Contribution of Public Banks

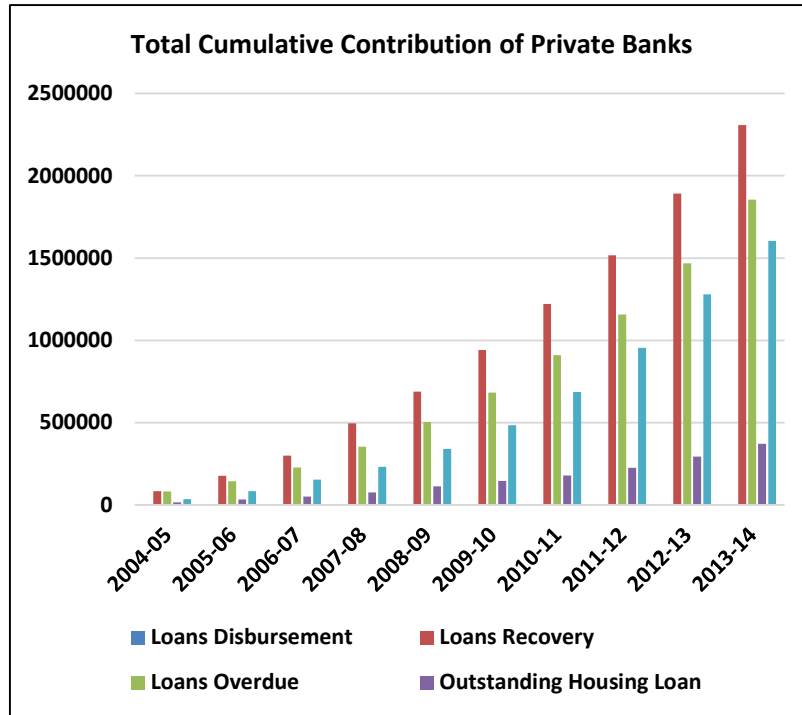


Source: Bangladesh Bank Annual Report (See Table: 3)

Private Banks

Thirty nine (39) Private commercial banks (PCBs), Nine (9) Foreign Commercial Banks (FCBs), Thirty one (31) Other Financial Institutions (OFIs) including Delta Brac Housing (DBH), National Housing Finance & Investment Limited (NHFIL), and Micro Credit Lenders' Grameen Bank (GB).

Figure 2: Total Cumulative Contribution of Private Banks



Source: Bangladesh Bank Annual Report (See Table 3)

ANALYSIS AND RESULTS

The performance of public and private housing finance institutions can be measured on many parameters. The key operational and financial indicators were analyzed and presented in following Figures.

Operational Parameters

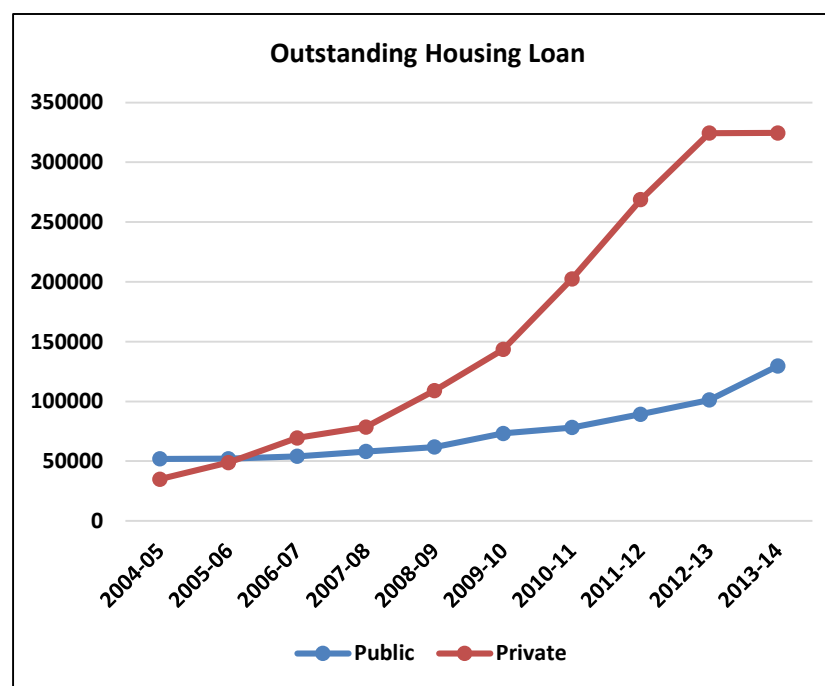
Outstanding Housing Loan

The outstanding housing loans of public and private institutions' FY 2005-1014 years shown in Figure 3, where 749,100 million BDT of total credit to the public sector and 1604,530 million BDT of total credit to the private sector. In recent years, significant changes have taken place in total housing loan portfolios. Of the total, private banks with ample deposit resources have been expanding their housing loan portfolios, and now have dominant market position.

The housing loans given by all banks, including specialized housing finance providers, State-owned Commercial Banks (SCBs), Private Commercial Banks (PCBs), Foreign Commercial Banks (FCBs), Specialized Banks (SBs), Other Financial Institutions (OFIs) and micro-credit lenders of the total loans, private commercial banks expanding their housing loan portfolios as they have huge deposits sources. Besides, two private sector specialized housing

finance companies also provide a significant amount of loan. They supply fund for their operations by taking long term deposits including some contractual deposit schemes. Here it is shown that private sector housing loan contribution has increased gradually last five years. Private Commercial Banks (PCBs) dominates most of market share with taka 1108,300 million in outstanding housing loans in 2005-2014. The second position holds by SCBs with Taka 486,900 million loans. The state owned Bangladesh House Building Finance Corporation (BHBFC) has the third largest market share with TK262.200million in outstanding housing loans in 2005- 2014.

Figure 3: Outstanding Housing Loan

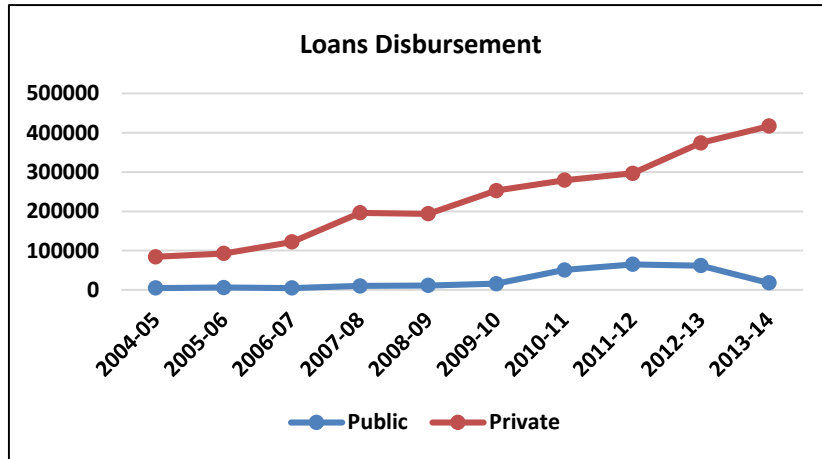


Source: Bangladesh Bank Annual Report (See Table 12.3)

Loans Disbursement

The loan disbursements indicate the actual outflow of cash from the companies. The actual disbursements reveal contribution made by the housing companies for increasing the dwelling units in the country. Figure 4 gives the description of loans disbursed by the public and private financial institutions during the period 2004-05 to 2013-14. Where the private institutions' curve goes up and the public institutions' curve goes down.

Figure 4: Loans Disbursement

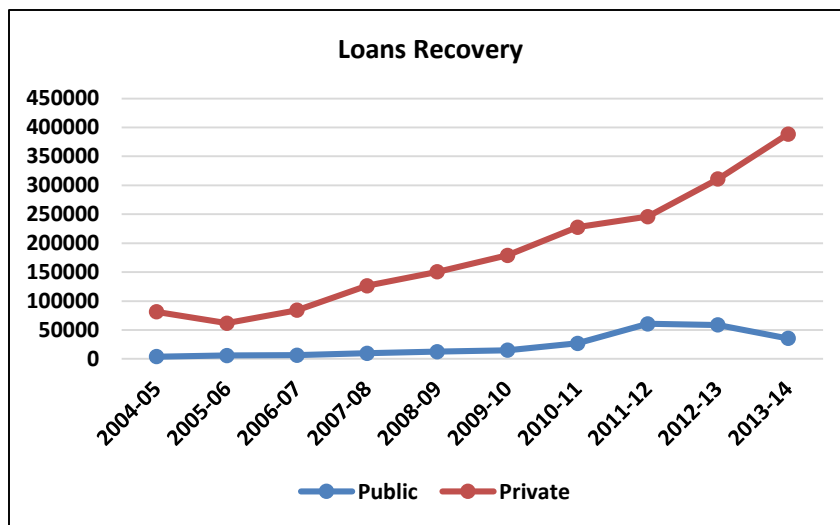


Source: Bangladesh Bank Annual Report (See Table: 2)

Loans Recovery

The graph (Fig: 5) shows basically loans recovery of public and private institutions in last ten years from 2005 to 2014. It also be seen that overall changes in loans recovery of two sectors over time and we have found that private sectors’ loan recovery increased dramatically compared with public sector. From the graph we see that loan recovery of public sectors’ in 2005 was 4000 million BDT and steadily increased to 35379 million in 2014. On the other side, loan recovery of private sectors’ increased from 81400 million BDT in 2005 to 388400 million BDT in 2014.

Figure 5: Loans Recovery

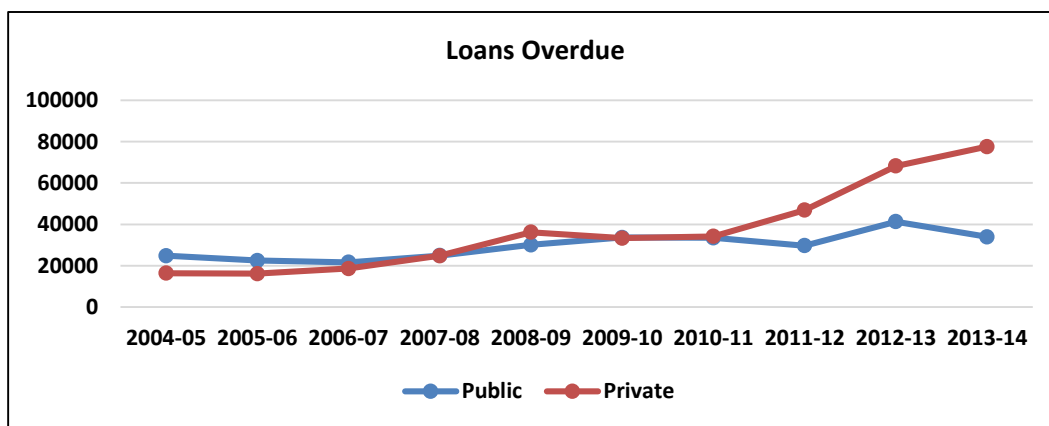


Source: Bangladesh Bank Annual Report (See Table: 2)

Loans Overdue

Here this line chart named Fig 6 illustrates Loans Overdue of public and private sector financial institutions. The private sectors' including Private Commercial Banks, Foreign Commercial Banks, Specialized Banks, and Foreign Institutions make the curve gradually increased in last five years. In FY 2004-05 it was 16330 million BDT and 77600 million BDT in FY 2013-14. The loans overdue of public sectors' have decreased in last two years. In FY 2004-05 it was 24800 million BDT and 33900 million BDT in 2013-14. So far, private sector financial institutions are doing fine in due to smooth operation and decision making process.

Figure 6: Loans Overdue

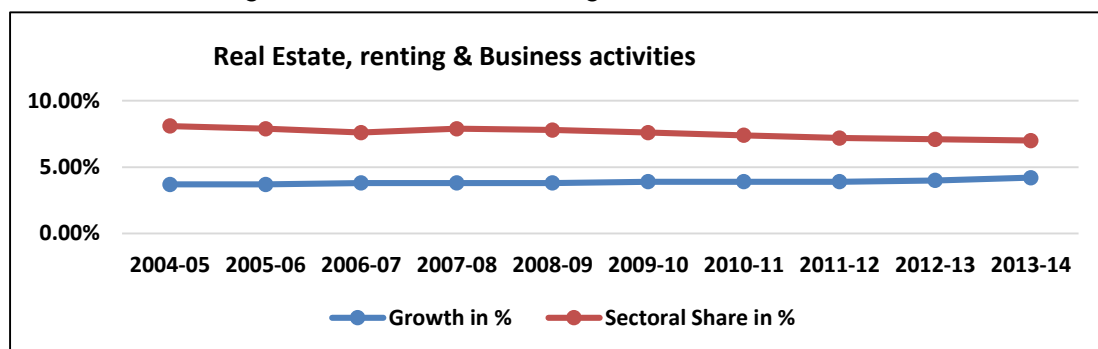


Source: Bangladesh Bank Annual Report (See Table: 2)

Real Estate Sector

Bangladesh has achieved a consistent growth rate of about 7.0% in the last ten years (See Fig 7). The real estate and housing sector growth rate, albeit positive, has lacked the GDP growth rate at around 4.2%.

Figure 7: Real Estate, renting & Business activities



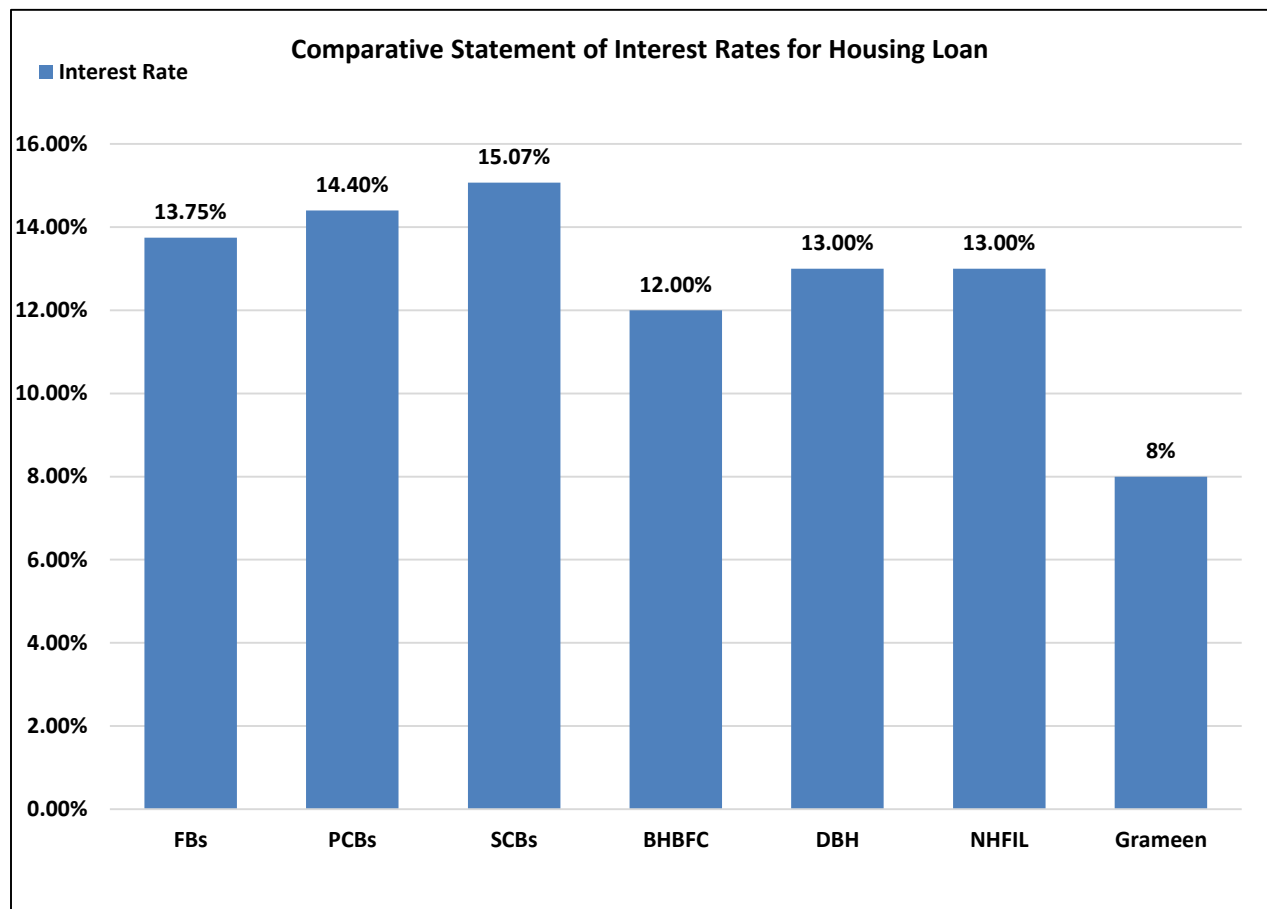
Source: Bangladesh Bank Annual Report (See Table: 12.3)

This implies that even though there is high demand in the market for new accommodations, the supply side has lacked demand. There simply isn't enough supply of the real estate and housing. This in turn indicates the lack of good institutions in the housing and real estate value chain, from land developers to builders to financiers. This also indicates the bright prospect for the few good institutions in public and private sector.

Interest Rate for Housing Loan

The bar chart (Fig 8) illustrates the interest rate of various financial institutions for housing loan. Here, it shows that Foreign banks (FBs) interest rate is avg. 13.75%, Private Commercial Banks' (PCBs) is 14.40%, State-owned Commercial banks' (SCBs) is 15.07%, BHBFC's (12%), Delta Brac Housing's (DBH) 13%, National Housing Finance and Investment Limited's (NHFIL) 13% and Micro credit lenders' Grameen banks' 8%. However, this interest rate varies based on different types of loan and clients in BHBFC, DBH, NHFIL and Grameen Bank.

Figure 8: Comparative Statement of Interest Rates for Housing Loan



Source: Bangladesh Bank Annual Report

Table 1. Comparative Statement of Public and Private Housing Finance
Institutions in Bangladesh

	Title Points	Public Institutions/Banks	Private Institutions/Banks
1	Outstanding Balance	749,100 million BDT for 10 last years	1604,530 million BDT for 10 last years
2	Interest Rate	13.81 % avg.	13 % avg.
3	Loan Tenure	5 – 20yrs 1. General Loan 2. Group Loan (Each) 3. Extension Loan 4. Mid & Lower mid Scheme 5. Flat Loan 6. Short term Special Loan 7. Semi-pacca Loan	5 to 15yrs 1. Apartment Loan 2. Home Construction Loan 3. Housing Plot Loan 4. Home Extension Loan 5. Home Improvement Loan 6. Home Owner's Loan 7. Flexi plus Home Loan
4	Loan to Value Ratio	The local loan-to-value ratio is 60% except for group loans, which have a loan-to-value ratio of 80%	Up to 70%
5	Overdue	295,900 million BDT for 10 years	372,230 million BDT for 10 years
6	Processing Fees	Required fees for getting General loan: (1) Loan application fee: Taka 3.00 per thousand taka for general loan. (2) Inspection fee : Taka 3.00 per thousand taka for general loan. (3) Fee for transfer of House/Flat :Taka 7500.00 (4) Loan separation fee : Taka 3000.00 (5) Price of loan application form : Taka 500.00 (6) Transfer application form : Taka 250.00 Required fees for getting Flat loan: (1) Loan application fee: 1000 for (Form) and Taka 5.00 per 1000.00 taka for Flat loan. (2) Inspection fee: Taka 5.00 per 1000.00 taka for general loan. N.B.: Ceiling of loan, rate of interest and other fees will be changeable in time to time.	Receipt of loan processing/servicing fees and other fees are recognized as income on the date of receipt while the refund there against, if applicable, are set off with income during the year of refund.
7	Rural Contribution	Public sector banks are giving loan in urban areas	Only urban areas, private sectors banks are providing loan
8	No. of Branches	56 banks with 8794 branches (Urban 3772 or 42.89% and Rural 5022 57.11%)	
9	Loan Taking Time	20 days for Zonal office (in case of Government/ Private plot). 25 days for Regional office (in case of Government/ Private plot).	4 weeks
10	Required Documents	Original allotment letter (If there). Possession transfer letter (If there).. Original lease deed along with a photo copy of the deed (duly attested by a class one	Employment Certificate Latest Salary Slip/Salary Certificate showing all documents.

		<p>gazetted officer). If original lease deed is not available from the sub-registrar's office then original receipt (given by the sub-registrar's office) and a certified copy of this lease deed is required.</p> <p>No objection certificate (N.O.C)/Mortgage permission letter in favor of the Corporation is required.</p> <p>Land owner's original title deed (Sub kabla/ gift/ partition deed)</p> <p>Certified copy of C.S, S.A& R.S khatian. Mutation Khatian, D.C.R, Recent Rent payment Receipt.</p> <p>Attested copy of chain of documents from S.A/R.S record for gradual ownership.</p> <p>Non encumbrance certificate (including 12 years search) issued by district registrar's office is needed.</p> <p>Three copies of attested passport size photograph and two copies of attested specimen signature of the applicant.</p> <p>Applicant's income certificate, Income tax identification number and certificate of income tax payment (in case of taxpayer).</p>	<p>Bio-Data/C.V.</p> <p>Bank statements for last 12 months.</p> <p>Trade License of the business</p> <p>Copies of individual income-tax returns and assessment orders for the last three years along with the statement of income.</p> <p>Profit and Loss Account and Balance Sheet of your business for last three years.</p> <p>A note giving information on the nature of your business/profession, form of organization, clients, suppliers etc.</p> <p>Bank statements for last 12 months.</p> <p>Copies of Ownership Document & Rental Agreement, if you have rental income</p> <p>Copies of Savings Instrument (if any) Similar proof of other income.</p>
11	Prepayment Rebate	Public sector banks are giving prepayment rebate in most of the cases.	Private sector banks have options for prepayment rebate system.
12	Decadal Growth	Decreasing	Increasing
14	Management Skill	The management skill is not strong and efficient	The management skill is very strong& efficient.
15	Specialization	There are three (3) specialized housing providers in public and private sector. These are: BHBFC, DBH, NHF	
16	Sources of Fund	The main sources of funds are dedicated government bonds issues specially floated for their programs.	Deposits, long term loans, equity & retain earnings
17	Cost of Fund	8.12 %	11.32 %
18	Property Appraisal System	They are maintaining the appraisal system	Private banks follow the property appraisal system professionally.
19	Govt. Support		
20	Application & loan Sanction Ratio	4:1	3.2 : 1
21	Loan Disbursement	248,227 million BDT for 10 years	2309,360 million BDT for 10 years
22	Loan Recovery	235,279 million BDT for 10 years	1855,530 million BDT for 10 years

RECOMMENDATIONS

Housing finance market has, no doubt, undergone recently rapid and fundamental changes. The banking Sector proved to be the driving force for this change. With higher economic growth and increasing purchasing power, the housing finance market was booming till recently. In spite of the on-going global recession, there is a huge opportunity for banks in the housing sector due to high demand and supply gap. The demand for housing investment is expected to grow at the rate of 15-30 per cent per annum in the near future as declining interest rate, falling property prices and fiscal incentives continue to make housing more affordable. Moreover, the housing finance in Bangladesh constitutes only 3 per cent to Gross Domestic Product (GDP) as against 30-50 per cent to GDP in developed countries. Thus, the market potential for home loans remains very large. The full potential of the housing finance sector can be realized only if all efforts are made to develop the housing finance market on sustainable and sound footing.

The findings of the study are quite revealing and have policy implications for both the bankers and the regulators. They could be used for policy inputs for the development of sound housing finance market as well as for making portfolio choices; risk based pricing decisions, product design choices and design risk management process. Broadly, based on the findings, the following recommendations are made:

Longer-Term Focus Areas for Policy Makers

Further improving the legal and regulatory environment for mortgage markets

- i. Efficient registration and transfer of title deeds is an ongoing policy goal, and the current Bangladesh Survey and land registry work should be pressed on. Records and filing procedures should be computerized in registry offices. Consider non judicial options for property dispute resolution.
- ii. Improve the realization of collateral security and the eviction process. The use of parate powers should be extended to all loans (not just large ones) and all housing finance lenders to ensure a level playing field between institutions and fair competition.
- iii. Review sale taxes on financial mortgage-related instruments to avoid discouraging the development of a secondary market.
- iv. Create Property and House Price Indexes, following up on the initial preparatory work ongoing at mortgage market.
- v. Further improve the functioning of the Credit Information Bureau to protect consumers and avoid lengthy disputes in court involving finance companies. The Asian Development Bank Financial Sector Assessment suggests CRIB privatization.

- vi. Facilitate further the environment for multifamily development, including titling issues with buyer preconstruction financing and a professional property management regulatory environment.
- vii. Foster affordable land use and enabling urban development rules. Improve urban land use. Examine land development rules for excessive restrictiveness.

Policy makers should consider the Following:

- i. The introduction of a less distorting tax in place of the property sale stamp tax.
- ii. A government promotion or sponsorship of risk-sharing to make title insurance more universally available as an interim "second-best" solution to the current lack of a government title registry evidencing unambiguous ownership.
- iii. A nationwide savings-for-housing scheme.

Strengthening the Enabling Role of the State

- i. Commercialization and privatization can help government banks improve efficiency and performance. Special privileges and funding harm commercialization, whereas separating good bank and bad bank helps.
- ii. Credit-linked subsidies to borrowers can be designed to be nondistortionary. Some examples include the following:
- iii. Subsidies on savings for down-payment: an upfront subsidy, avoiding subsidized savings and lending rates
- iv. Pledge default account: a required deposit to be used in case of late payment
- v. Buy-down-mortgage: initial subsidy on part of the monthly payment on a market rate loan
- vi. Upfront grants/allowances as part of a housing financing package, toward deposit or closing costs or the loan
- vii. Payment for mortgage insurance or guarantee premiums to ensure the top part of the loan or other risks
- viii. Payments for community mobilization and household counseling programs
- ix. Appropriate subsidy for each country would depend on expected inflation, growth, and income distribution, expected house value movements, prevailing borrower constraints, and the budgetary requirements of the state
- x. The government can provide an enabling environment for housing finance by ensuring regulatory, institutional, or financial support to decrease risks and costs of down-market lending.

- xi. A review of tax and regulatory policy regarding the financial sector, especially those affecting the development of a secondary market for mortgage finance, should be conducted from the perspective that every approach is legal and encouraged unless specifically prohibited.
- xii. Liberalize further the portfolio composition of key long-term investments, to lower their dependency on Treasury paper.
- xiii. Sharpen and crystallize the mission and direction of each implementing institution for the government housing policy, in view of changing market conditions. Refocusing attention on the lowest-income population is one alternative, another is a goal of commercial viability and profitability.

These Alternative Objectives are Mutually Exclusive

- i. Improve governance of housing policy implementing institutions, depoliticize boards of directors, and make management accountable. Improve internal controls.
- ii. Improve management and efficiency, upgrade human resources, and modernize operations.
- iii. Invest in the further modernization of the state-owned housing banks, including computerization, full branch networking, and electronic transactions.
- iv. Improve operational efficiency, market discipline, operating costs, credit loss indicators, and risk management.

Encouraging Mortgage Market Deepening

- i. Policies should facilitate the establishment of a competitive and competing mortgage lending market. This in turn will encourage the following:
- ii. The development of new credit products (term, rates, amortization) to better suit client needs.
- iii. Training and innovation with a view of adoption of better risk management practices. Broader distribution channels
- iv. More transparency and comparability of products, and better consumer ability to make informed housing finance choices.
- v. The issue of home financing for lower-income groups should be addressed. The general strategy, as defined by the government, is to focus on home upkeep as opposed to new construction. In this case, it becomes particularly relevant to enable and encourage micro lending for house financing purposes.

- vi. A further initiative of importance is to continue working on cheaper housing technologies to produce low-cost affordable housing.

CONCLUSION

Considering the huge housing backlog, the demand for housing will persist for the years to come. However, access to formal finance sector for housing remains a challenge. The troubles facing the financial sector are not insurmountable. Each can be addressed with deliberate and consistent public sector reforms at the national levels. An inefficient legal framework; fragmented ownership and titling procedures; inefficient land information systems; inaccessible, unused government land; high stamp duties and registration fees; weak tax frameworks; and ineffective land dispute mechanisms dampen the willingness of banks to increase their mortgage portfolios. Poor master planning, multiple housing administrative institutions and procedures, problematic zoning restrictions, restrictive building codes, and unreliable utility connections further hinder the property development process; and a fragmented building industry, unorganized real estate agencies, the lack of developer finance, and skewed tenant laws also limit the interest and capacity of the private sector to increase the supply of affordable housing (Housing finance review, 2012). The formal private and public sector housing finance institutions have abnormal requirements and realities most of which are largely reasonable. Their reluctance to lend to low-income householders for the purchase and construction of housing is understandable. It has been noted that the attitude is changing.

On the whole, this study finds a very promising and positive tone of growth, provided this sector is given proper attention and facilities. It has certainly become very necessary to satisfy the increasing housing demand and minimize the supply gap in the country. Further research in this area can be conducted to improvise more on this field and to assist other financial institutions' goal to establish a proper housing policy.

LIMITATIONS OF THE STUDY

The outcome of a research might be dependent on various factors include the choice of an appropriate research methodology, how reliable the data collected are and the application of appropriate statistical tools, if relevant. Firstly, embarking on this type of research is considered to be capital-intensive in nature and there is a time limit, within which the article must be submitted. Therefore, funds and time-limit have been the major limitation to the output of this study.

Secondly, the study used Bangladesh as the case study country. In the developed economies, there are database where data could be extracted for research purposes, but in the

emerging world, having access to data are always difficult. Data were extracted from the annual report of the Bangladesh bank as well as some financial institutions, which is considered to be the best source for housing finance data now. However, we had experienced instances where limited liability institutions were producing more than an annual report in one financial year, which might make the extraction of data from this source not so reliable.

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APPENDICES

Table 2: Total Contribution of Public & Private Banks (Tk. in Million)

Year	Outstanding Housing Loans		Loans Disbursement		Loans Recovery		Loans Overdue	
	Public	Private	Public	Private	Public	Private	Public	Private
2004-05	51,900	34,900	4,670	84,200	4,000	81,400	24,800	16,330
2005-06	52,000	48,800	6,070	92,600	5,900	61,700	22,500	16,100
2006-07	54,100	69,500	4,970	122,100	6,500	84,200	21,600	18,600
2007-08	58,000	78,500	9,970	196,300	9,900	126,300	24,900	24,800
2008-09	61,800	109,100	11,273	193,860	12,500	150,400	30,100	36,200
2009-10	73,200	143,500	15,741	252,900	14,900	178,900	33,600	33,300
2010-11	78,100	202,490	50,945	279,200	26,800	227,500	33,500	34,200
2011-12	89,200	268,760	65,006	296,800	60,600	245,830	29,700	46,900
2012-13	101,100	324,440	61,730	374,300	58,800	310,900	41,300	68,200
2013-14	129,700	324,540	17,852	417,100	35,379	388,400	33,900	77,600
Total	749,100	1604,530	248,227	2309,360	235,279	1855,530	295,900	372,230

Table 3: Total Cumulative Contribution of Public & Private Banks (Tk. in Million)

Year	Outstanding Housing Loans		Loans Disbursement		Loans Recovery		Loans Overdue	
	Public	Private	Public	Private	Public	Private	Public	Private
2004-05	51,900	34,900	4,670	84,200	4,000	81,400	24,800	16,330
2005-06	103,900	83,700	10,740	176,800	9,900	143,100	47,300	32,430
2006-07	158,000	153,200	15,710	298,900	16,400	227,300	68,900	51,030

2007-08	216,000	231,700	25,680	495,200	26,300	353,600	93,800	75,830
2008-09	277,800	340,800	36,953	689,060	38,800	504,000	123,900	112,030
2009-10	351,000	484,300	52,694	941,960	53,700	682,900	157,500	145,330
2010-11	429,100	686,790	103,639	1221,160	80,500	910,400	191,000	179,530
2011-12	518,300	955,550	168,645	1517,960	141,100	1156,230	220,700	226,430
2012-13	619,400	1279,990	230,375	1892,260	199,900	1467,130	262,000	294,630
2013-14	749,100	1604,530	248,227	2309,360	235,279	1855,530	295,900	372,230

Table 4: Real Estate, Renting & Business activities

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014^P
Real Estate, renting & Business activities (GDP, investment & savings) in billion	208.0	215.7	393.8	408.8	424.4	440.8	457.9	457.9	495.1	516.1
Real Estate, renting & Business activities (Growth in %)	3.7	3.7	3.8	3.8	3.8	3.9	3.9	3.9	4.0	4.2
Real Estate, renting & Business activities (Sectoral share GDP in %)	8.1	7.9	7.6	7.9	7.8	7.6	7.4	7.2	7.1	7.0

Table 5: Interest Rate for Housing Loans

Financial Institution	Name of Institutions	Interest Rate	AVG %
SCBs	AGRANI SC1	15.00	15.07
	BASIC SC1	15.00	
	BASIC SC2	15.00	
	BDBL SC1	15.00	
	JANATA SC1	14.75	
	RUPALI SC1	15.50	
	SONALI SC1	15.25	
	SONALI SC2	00	
	TOTAL	105.5/7	

Table 6: Showing Interest Rate for Housing Loans

Financial Institution	Name of Institutions	Interest Rate	AVG %
	TOTAL	105.5/7	
FBs	AL FALAH SC1	0.00	13.75
	CITI N.A. SC1	0.00	
	CITI N.A. SC2	0.00	
	COMMERCIALB SC1	13.50	
	HABIB SC1	0.00	
	HSBC SC1	13.50	
	NBP SC1	18	
	SBI SC1	14	
	STAN.CHART SC1	11.50	
	STAN.CHART SC2	0.00	
	WOORI SC1	11.98	
		TOTAL	
BHBFC	Bangladesh House Building Finance Corporation		12
DBH	Delta Brac Housing Finance Corporation Limited		13
NHFIL	National Housing Finance and Investment Limited		13
Grameen	Micro Credit Lenders Grameen Bank		8

Table 7: Showing Interest Rate for Housing Loans

Financial Institution	Name of Institutions	Interest Rate	AVG %
PCBs	AB-BANK SC1	14.50	14.40
	AB-BANK SC2	0.00	
	AL-ARAFAH SC1	15.50	
	BANK ASIA SC1	14	
	BCBL SC1	17	
	BRAC SC1	13	
	BRAC SC2	0.00	
	DHAKA SC1	13.50	
	DUTCH- BANGLA SC1	13.50	
	DUTCH- BANGLA SC2	0.00	
	EBL SC1	13	
	EXIM SC1	16.50	
	FBL SC1	14.25	
	FBL SC2	0.00	

FIRST SECU SC1	14
ICB SC1	14.25
IFIC SC1	13.45
ISLAMI SC1	14.50
JAMUNA SC1	15
JAMUNA SC2	0.00
MDBL SC1	15
MERCANTILE SC1	15
MGBL SC1	13
MMBL SC1	14
MMBL SC2	0.00
MUTUAL TRUST SC1	14.50
NBL SC1	14.75
NCCBL SC1	14.75
NRBBL SC1	14
NRBBL SC2	0.00
NRBCBL SC1	14.50
NRGBL SC1	0.00
ONE BANK SC1	13
ONE BANK SC2	14
PREMIER SC1	14.50
PREMIER SC2	14.75
PRIME SC1	14
PUBALI SC1	15.50
SBACBL SC1	14.50
SHAHJALAL SC1	14.50
SHAHJALA SC2	0.00
SIBL SC1	15.50
SOUTHEAST SC1	13.50
SOUTHEAST SC2	13.50
STANDARD SC1	14.50
THE CITY SC1	16
THE CITY SC2	13
TRUST BANK SC1	14.50
TRUST BANK SC2	12.99
UCBL SC1	14

UNBL SC1	16
UNBL SC2	0.00
UTTARA SC1	15.50
TOTAL	619.19/43
