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**PAPER ON**

**IN-COUNTRY HOUSING FINANCE TRAINING**

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## In-Country Housing Finance Training

No regulation or technique is an adequate substitute for competent management of financial institution. Competence in this context not only covers technical qualifications but also qualities of character as the funds managed are those of other people, it is a trust. The organisation must be imbued with qualities of honesty and integrity. And management sets these standards. Another essential quality is the sound un-biased judgement. Loan underwriting guidelines and procedures can be laid down but intuitive judgement has to be used about individual borrowers, and about the quality of loan advanced in an uncertain future economic environment. Judgement is a critical qualification for the job which is not taught in a class room.

2. There is no or little experience of running an Housing Finance Company (HFC) in Pakistan and hence training and exposure to an effective Housing Finance System (HFS) and working of an HFC is needed at almost all levels of the officials. Training in fact should be conceived as 'continuing education', and 'continuing achievement' of competence. Given the present environment of lack of knowledge and appreciation of the need and importance of HFS, the training programmes needs concentration on:

- (a) research, policy formulation and development of instruments, procedures and guidelines;
- (b) development of training capacities; training of trainers;

(c) implementation of policies and programmes i.e. operation of HFCs; and

(d) education of new cadre of housing finance professionals at university level and institutes of research and business management.

3. Different categories of participants would need different training activities as discussed below:

- (i) For policy and system/procedural development in both training and research activities: executives and senior management of HFCs and HBFC; senior teaching/research faculty of selected training institutions.
  - (ii) For the development of training capacities in the different priority aspects of housing finance: teaching faculty of selected training institutions.
  - (iii) For implementation of policies and procedures at the HFC level: upper management of relevant departments of HFCs and HBFC, including their training staff.
  - (iv) For implementation of operational systems at the HFC level: operational officers and staff of HFCs and HBFC at senior, middle and junior (Front line) level.
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(v) For general professional training in housing finance and real estate appraisal: aspiring MBA/M.Phil. and/or BBA students.

4. To provide necessary skills in housing finance in the short term, priorities for training would need to be assigned in the following fields.

(1) Financial Management:

There is little experience with long-term lending in liberal financial and inflationary environment. Failures particularly in the initial stage can not be afforded. There are two major parts to this subject. One involves training in risk control within the financial firm, the other involves supervision and regulation in controlling solvency exposure of the HFCs. This defines at once the clientele for training in this area: which would include executives and senior managers of HFCs, including HBFC. The first stage will be research/training related to policy and procedural development, and the development of training capacities in this field. After these components are in place, the next stage will be recurring training for executives and senior management of HFCs and HBFC.

(ii) Design and Use of Alternative Mortgage and Savings Instruments which Comply with Islamic Law:

Well-designed mortgage and savings instruments which comply with Islamic law and are adaptable to the volatile financial market. These need to be in place before the HFCs can take off. After development of the instruments at designated institutes, HFCs and HBFC could acquire the software and their managerial and technical staff could be trained in the conceptual underpinnings of the instruments and in the handling of computer software.

(iii) Development of and Training in Primary Mortgage Market Infrastructure:

Primary lending infrastructure will be required by all HFCs. In view of future secondary mortgage market development, it may be efficient to develop standardized systems of mortgage documentation, processing, underwriting, appraisal and credit reporting. Once, this infrastructure has been developed, training of HFC and HBFC staff can be organized at different managerial and operational levels at different centres in the country.

(iv) Property Appraisal and Financial and Economic Evaluation of Real Estate/Housing Projects:

There are few official property appraisers in Pakistan. Most real property appraisals are done by untrained real-estate brokers and agents. Executive training courses will need to be developed for staff

of HFCs and HBFC and for a core of independent real property appraisers in the private sector. Ultimately a series of training modules will have to be developed which will lead to professional certification.

5. In the longer term perspective, there would be need for:

(a) undertaking research and adjust training packages/ courses in the light of feed back received at the designated institutes;

(b) supporting a turn out of a cadre of professionals at BBA/MBA/M.Phill. level in the fields of real estate and housing finance to run and supervise the operation of HFCs; and (c) educate housing/real estate economists/ financiers who can undertake research on impact of various policies, regulations and programmes of land and housing markets, provide policy guidelines to Federal Provincial and Local governments and design new savings and primary and secondary mortgage instruments.

6. Centralised training and education function is critical for the development and growth of housing finance education, training and research. The Trade Association/Trade Group of HFCs should perform this function until such time that an Apex institution for HFCs is set up. In the light of facilities available and the environment prevailing, IBA and LUMS can play the role of lead training agencies for the development of (i) executive training programmes and courses for different level of

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officials of HFCs, HBFC, and the regulatory/licensing agencies (ii) MBA-level courses to train a new cadre of professional managers/economists in housing and real-estate finance; and (iii) design short term workshops and seminars. All of these training activities should focus on the same high-priority areas identified above for the industry as a whole for training activities and trainees. With the appropriate technical assistance by way of visiting faculty, computer software and books, such approach could create a centre of knowledge in the housing finance field within a short period of time. The computer science department of these institutions in collaboration with their finance department can develop mortgage and savings instruments and related software for housing finance. It should also experiment with different available software packages for financial management of HFC's particularly in the area of credit rate risk analysis and for operational informational systems covering loan processing, servicing, regulatory reporting etc. Once expertise is build up in substantive areas, computer technology, and training systems, IBA faculty could assist the Institute of Bankers in Pakistan (IBP) with the development of course modules, which can start serving, on a national scale, the growing numbers of managers and officers employed in the industry. The Institute of Bankers could also play an important role in the development of standardized documentation and procedures, which will facilitate not only the management/supervision of the industry but will prepare it for eventual secondary mortgage operations.

7. In the long term, the AERC Karachi and PIDE Islamabad could become excellent centres to educate applied economics to students interested in theoretical and research aspects of real estate markets/housing finance. A draft course outline for an introductory course is already available with AERC and with some input from visiting faculty, seconded to IBA, and assistance in the form of books and computer software, AERC and PIDE could built up its teaching and research strength in this growth sector of the economy. In addition to the above, HBFC has a training wing which needs complete re-orientation. If properly restructured and assisted it could also provide training to junior level officials of other HFCs.

8. To begin at the beginning it would be prudent to start with only few priority areas, i.e., risk management of financial firms and solvency regulation/ supervision, and, the development of appropriate and efficient mortgage and 'savings for housing' instruments. These are core requirements for a well-functioning housing finance system. Moreover, considerable policy and procedural work must be undertaken in these areas, and instruments and software must be developed. The primary lending infrastructure, although extremely important, can be worked out gradually. Most newly formed HFCs will concentrate their initial lending activities on loans to employees of large firms. Under those conditions, the underwriting and servicing aspects of mortgage lending will be relatively straight-forward. Training in real property appraisal techniques, another priority area, does not require policy development work and developing the skills and tools of the appraisal trade will be relatively straight-forward compared to the other priority areas. The training strategy has

to demonstrate how these different research and training areas can be translated into a set of well coordinated activities over the next one to two years. The development of detailed plans for each priority area would be a necessary starting point.

09. Once the training plans for each subject area have been worked out in detail, the activities can be combined into a strategy for action. In order to keep the structure simple, the training strategy can be divided in three stages; the first stage concentrates on training and research activities required for policy development and development of training capacities, and the second stage focuses on in-service training activities for HBFC and HFCs. All training and research activities proposed for the first stage are one-time events, while during the second stage a system is put in place to provide regular in-service training for the housing finance institutions. The third stage introduces academic professional training and education in the long-term.

10. Two Housing Finance Companies have started operations, one in December 1992 and the other in October 1993. It is hoped that two more HFCs would be operative early next year. Issuance of licence to HFCs is a continuous process and it is hoped that during 1994, about ten to twelve HFCs would be in the field. As all these HFCs would be new and expertise in the field of housing finance is not available each official would require training. The total number of officials requiring training in the new HFCs during 1994 - is estimated to be 200. If we add the number of officials requiring training in the HBFC which is 300; the total need of training in housing finance would go upto 500 as shown in the following table:

Total Number of Officials (estimated) Requiring  
Training during 1994

	In 10 HFCs	In HBFC	Total
Senior Level Staff	30	20	50
Middle Level Staff	60	90	150
Junior Level Staff	<u>110</u>	190	300
Total	200 ===	300 ===	500 ===

11. It is estimated that cost of training of one trainee for 15 days would be Rs. 10,000/- on the following assumptions.

**Assumptions**

- Each Course will accommodate 20 participants from HFCs or HBFC.
- Salary of the trainees; transportation from place of posting to place of training and back, boarding and lodging and local cost shall be borne by the employer.
- The course will be for two weeks.
- The course will be held at the Institute of Bankers of Pakistan/IBA.

**Local Cost:**

a. Daily Tea and Snacks to Participants Rs. 50 per head for 13 days for 30 persons. (50 x 13 x 30) = Rs.	19,500/-
b. Cost of material to be provided to participants Rs. 1,000/- per participant for 25 persons. (1,000 x 25) = Rs.	25,000/-
c. Cost of Local Transport for 14 days @ 3,000 per day (14 x 3,000) = Rs.	42,000/-
d. Honoraria to Supporting Staff @ Rs. 10,000/- for five persons. (05 x 10,000) = Rs.	<u>50,000/-</u>
	Total Cost: Rs. <u>136,500/-</u>
e. 30% overheads of IBP/IBA	Rs. 45,500/-
f. Contingencies 10%	Rs. <u>18,000/-</u>
	Total Rs. 200,000/- =====

(Or Rs. 10,000/- per trainee per course of 15 days)