

Banks: FSV benefit on land extended to 4 years

In a circular issued by the SBP yesterday, the central bank has made slight changes to prudential regulations relating to FSV (Forced Sale Value) benefits for banks. The SBP has decided to extend FSV benefit of mortgaged residential/commercial/industrial land held as collateral against NPLs to four years (three years previously) from the date of classification of a particular loan. This would only be available in cases where FSV valuation of land is not more than four years old.

Currently, banks are allowed to take benefits of up to 40% of property (50% on consumer financing). The extra one year will give banks more time to restructure/resolve a particular NPL. For example, if a loan went bad in 2007 and the bank availed FSV benefit, no resolution till 2010 would have led the bank to reverse such a benefit. With this extension, now a bank could defer this for an additional year, allowing it more time to recover the loss.

Although it is difficult to calculate an exact impact, our discussions with various industry experts suggest earnings will witness a 3-4% boost, based on certain assumptions. However, the impact is likely to vary from bank to bank. Moreover, we believe this amendment could lead MCB bank to reconsider its decision of not recognizing any FSV benefit.

We flag UBL, MCB, ABL and NBP at current levels.

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