

UTILIZATION OF PENSION BENEFITS IN HOUSING FINANCE

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ABSTRACT

The policy issue regarding pension benefits if modified to accommodate the housing loan most of the 1 to 14 grade pay scale holders are found to be able to afford the aspired flat housing.

A institution based Co-operative organization can effectively contribute to materialize such housing ventures.

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INTRODUCTION

Housing is a durable asset that involves purchase of land, construction of dwelling units and provision of related physical and social services. The increasing gap between the housing cost and income level has created much interest in flat ownership in the recent years. The purpose of this paper is to investigate whether loan from pension benefits of fixed income group along with house building loans can produce a economically viable proposition in housing. The target group is considered to be the lower middle, middle and higher middle income group (Grade 1 to 14). It is assumed that land will be available from public sources like RAJUK or Housing and Settlement Directorate along with utility services. The price of land is considered to be Tk 10,00,000/- per 33 decimal (one Bigha/20 katha),

It is also assumed that the building will be of brick masonry constructin and will follow PWD rate of construction that may come to Tk 450/sqft including all services, boundary walls etc.

Five types of flats of 550, 800, 1000 and 1200 & 1500 sqft including stair are considered for project evaluation.

THE NATURE OF EXISTING HOUSING FINANCE

The main financing institution in the domain of housing construction is the House Building Finance Corporation (HBFC). It was established during 1973 by the Government of Bangladesh, previously it

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was setup in East Pakistan in 1954. It is founded by the sale of debentures to the nationalised banks and insurance company. The objective of the HBFC to encourage house building in the private sector and grants the mortgage finance for the construction of new dwelling units. The loan is granted against the land that is kept as mortgage security. The HBFC generally does not extend loan for the purchase of already built dwelling units. The HBFC grants loan on the approved plans of the dwelling units by compitant authority like RAJUK, KDA, CDA etc. and the cost of the building is assessed according to prior stipulation which is much lower than the existing market rate. According to 1983 HBFC notification maximum limit, under general loan scheme a loan of Tk 4,00,000 is advanced with 13% interest rates. The amortization period is considered to be 25 years. At present HBFC follow the 1983 loan disbursment rate of Tk 236 per sft for ground floor and Tk 188 per sft for upper floors. A special rate is given for a higher standard of construction. The rate is assessed as Tk 300 for ground floor and Tk 252 for upper floors the extra Tk 2,00,000 is available on top of Tk 4,00,000 with different interest rates. For the latter amount interest is fixed at 16% repayable within 25 years. The ongoing construction rate is reached almost double the amount received from HBFC.

A multistory loan scheme is introduced in 1977 to encourage higher density residential developments. The schme includes 4 story (in Dhaka and Narayangonj) and 3 story dwelling in other urban areas. The loan upto Tk 8,00,000 are granted fro multistory project. The loan restricts the dwelling unit size not more than 1000 sqft. The amortization period for such project is extended to 30 years with $10\frac{1}{2}\%$ interest rate.

LOANS FROM NATIONALISED BANKS

A limited amount of housing loan is available from the commercial banks. Selectively Banks authorise loan for housing construction upto Tk 5,00,000 for a period of 15 years with 16% interest rate.

COST OF LAND

In recent years the price of land have observed to rise rapidly to a level that only the wealthiest families can afford to procure it. RAJUK is the main supplier of developed urban residential plots in Dhaka city. The receiver of such plots are very fortunate few. RAJUK leases plots for detached and independent residences. It is observed that majority plot recipients have planned or built partly or completed construction of 4 to 5 story flats on those plots. The growing popularity of flats have encouraged many housing companies on sale of built flats in Dhaka city. Multiownership flat have the opportunities of sharing cost of land, construction, services and management.

The land cost of residential plots in good neighbourhood like, Dhanmondi, Banani, Gulshan and Baridhara has reached Tk 4,00,000 to Tk 5,00,000 per katha in open market. However RAJUK price of land in those areas is Tk 60,000 per katha, RAJUK's price of land in Uttara Model town is fixed at Tk 50,000 per katha.

LAND REQUIREMENT FOR FLATS

We have selected five sizes of flat types they are 550, 800, 1000, 1200 and 1500 sqft flats. The stair space is included in the flat size. These flats are 5 story walkup buildings. Land requirement for different sizes of flats are calculated providing 75' gape in between the buildings along with number of units per floor are shown in the Table-(1). After keeping appropriate setbacks and gapes between the buildings the total land requirement for each type of units are calculated in the Table-(1). It is assumed that the land will be developed and located within the city infrastructure providing utilities and services.

Table-1 Land requirement for flats

Type of flats in sqft	Number of flats in the row per floor	Average length and width of flats in ft. L W		Share of land required after including setbacks in katha	Cost of land per unit in Tk
550	12	22	25	.75	37,500
880	8	33	24	1.10	55,000
1000	8	33	30	1.20	60,000
1200	8	40	30	1.40	70,000
1500	8	47	32	1.63	81,500

COST OF FLATS

The table-2 summarises the cost of the flats including land considering ongoing market rate of material. Here the labour rate is calculated according to PWD specified rates.

Table-2 Total cost of the flats including land and services.

Flat type in Sqft	Land cost in Tk	Cost of flats @ Tk 450/sft	Total in Tk
550	37,500	2,47,500	2,85,000
800	55,000	3,60,000	4,15,000
1000	60,000	4,50,000	5,10,000
1200	70,000	5,40,000	6,10,000
1500	81,500	6,75,000	7,57,000

To reduce the cost of the flats steel windows, steel frame with veneered flash doors, doors, patent stone finish in floors, mosaic works in bathrooms and kitchen are specified. There may be optional items like mosaic works in floors, plastic paint inside, glazed tiles on bathroom and part of kitchen walls etc. The prospective owners if desired can pay extra cost for those optional items and that will further raise the cost of the flats to Tk 525 per sqft.

THE RETIREMENT BENEFITS AS ALTERNATIVE SOURCE OF FINANCE

Government have provided retirement benefits to the employees, employed both in the Government and autonomous bodies. The benefits are usually realised after fulfilment of certain length of services. The full benefit of pension which is 70 percent of last basic pay may be claimed after a minimum 25 years of services. There are provisions of 50% surrender of the pension fund at a rate varying from Tk 180 to Tk 210 depending on the length of the services.

According to the pension rules these fund cannot be used in any form before the retirement. The fund unquestionably is a security in old age but its benefits after 25 to 35 years may not be effective in terms of real value.

The object of this paper is to see whether early utilization of pension fund (PF) as loan for housing can produce a economically feasible project.

In a case study comprising of BUET employees (Salary scale 1 to 14 grade Table-3) it is found that there are bright prospects for housing when some part of pension benefits are granted as loan for housing construction. At the end of 20 years service the pension benefit deposit amount if allowed as loan can constitute along with HBFC loan around 80% of the cost of housing (Table-4). The remaining 20% of the cost is expected to be invested as equity by the aspirant employees. The loan from pension fund and major part of HBFC loan are assessed to be repayed within 15 years from the rent return (@ Tk 4.33 per sqft average) (Table-5).

Table 6 shows the mode of repayment of loan in a chart form. Here at the beginning 5 years the rent return from the flat is considered to be low (@ Tk 3.33 per sqft). The rents are expected to increase in the next 5 years periods. The table-5 gives the average of rents during 15 years periods. However it could be inferred that from the rent return from the flats the BBFC loan and the loan from PF could be reimbursed without any difficulty. Although HBFC loan amortization period is 25 years, but if desired the loan could be returned within 15 years along with the PF loan.

The table-3 shows the existing salary scale of BUET employees. The present service lengths of the employees are considered to calculate the total amount of retirement benefits. As because pay scale changes with the promotion of the employee the average of pension benefits are worked-out for reference. The pay scale is further divided into three groups - the lower middle (11-14 grade), middle (6 to 10 grade) and higher middle (1 to 5 grade).

Table 3. Bangladesh University of Engineering and Technology The pension benefit of different pay scale of the end of 35 year of service.

Sl		Present	G. P. Fund			Average
No	Salary Scale	service length	contribution	Pension return with 50% option	Total	of the Total
1	6000 (Fixed)	32	360,257	360,000	720,257	
2	6000 (Fixed)	27	724,235	360,000	1084,235	
3	5700 (Fixed)	24	787,325	359,100	1146,425	901,000
4	4750-150-5500	25	501,695	346,500	848,195	
5	3700-125-4825	25	404,088	303,975	707,883	
6	2800-125-4425	22	513,898	278,775	792,673	
7	2400-120-3600	24	286,911	226,800	513,711	535,000
8	1850-110-3220	20	280,997	209,160	490,157	
9	1650-100-2250					
	-110-3020	20	267,793	190,260	458,053	
10.	1350-90-2250					
	-100-2750	20	249,313	173,250	422,563	
11.	1000-70-1560					
	-90-2280	20	197,027	143,640	340,667	
12.	900-65-1550					
	-75-2075	20	183,996	130,725	314,721	290,000
13.	850-55-1400					
	-60-1700	20	160,617	107,100	267,717	
14.	800-50-1300					
	-55-1630	20	137,827	102,690	240,517	

From the above tables it could be observed that even the 14th grade pay scale holder with proper equity amount can afford a flat. However it is not intended to level that flats for higher or lower income group. Any one from any income group will be allowed to select his flat size according to his 'demand'. Further there will be no restriction in changing the smaller flats for a larger ones or vice-versa when desired.

The unrefunded loan amount may be deducted from the due pension benefits at the end of the service of the respective employee.

Table 4. Distribution of loan from BBFC and Pension Fund

Housing Type	HBFC loan in Tk	Loan from Pension fund in Tk	Equity amount 20% of the cost	Total in Tk
550	110,000	118,000	57,000	285,000
800	160,000	172,000	83,000	415,000
1000	200,000	208,000	102,000	510,000
1200	240,000	248,000	122,000	610,000
1500	300,000	307,000	150,000	757,000

Table 5. Mode of Repayment of loan

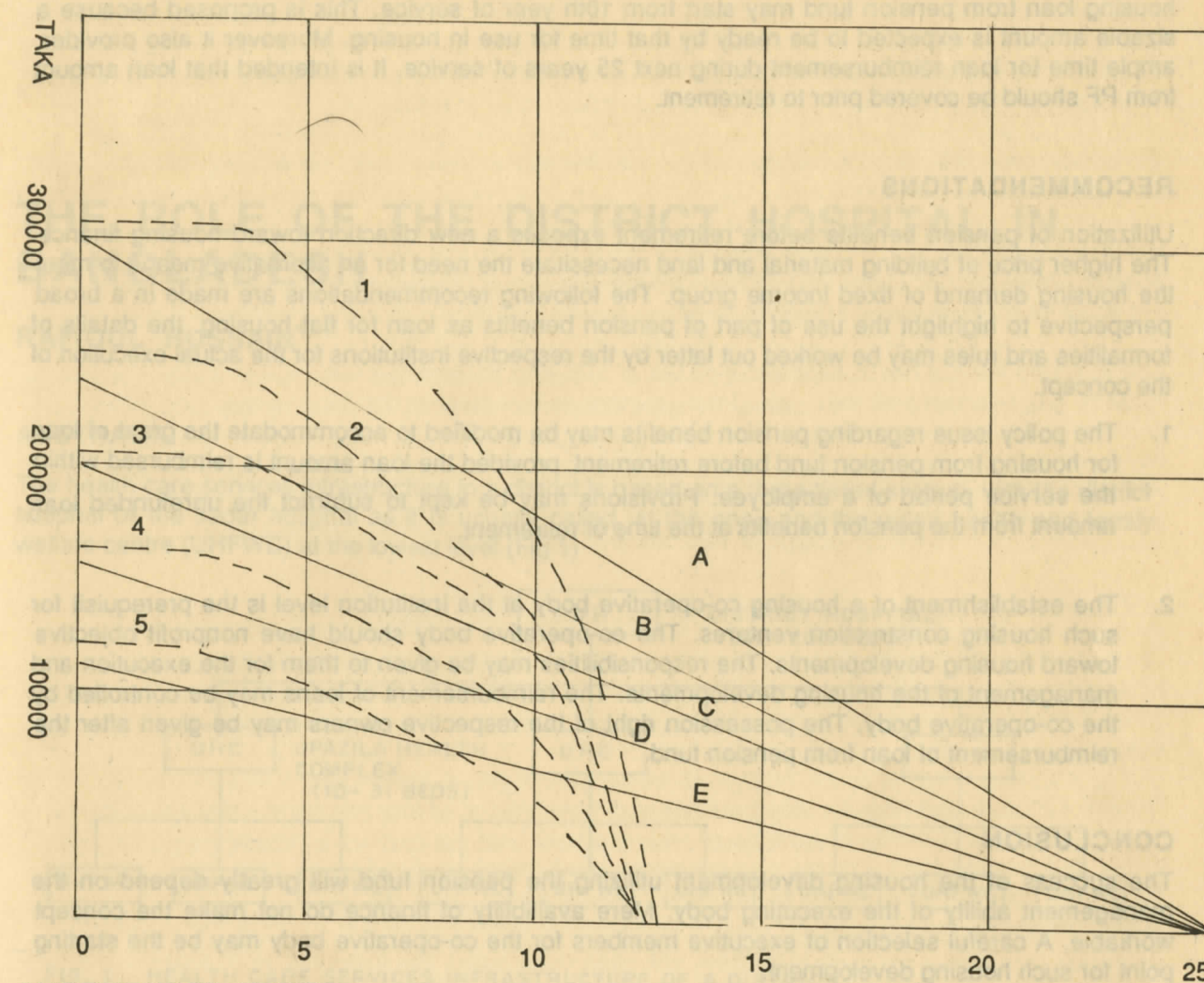
Housing Type	Monthly average rent return @ 4.33 taka per sqft	HBFC monthly due amount in Tk	Monthly savings	No. of years required for PF loan return
550	2381	1558	823	12
800	3464	2266	1198	12
1000	4330	2833	1497	12
1200	5196	3400	1796	12
1500	6495	4250	2245	12

This opportunities for housing will certainly discourage taking loan from pension fund for household needs which is found to be common practice at present. This may generate a large savings for productive investment in housing.

THE PROPOSED SYSTEM OF HOUSING DELIVERY

A institution based housing co-operative with non-profit objective is proposed for the execution as well as management of the housing schemes. The basic responsibilities of the co-operative may include procurement of land from public sources, finance from HBFC, finance from respective institution and equity amount from individual members. The responsibilities of selection of consultants, contractors and management of the housing estate may also lie on the co-operative body.

Table 6. Loan Repayments



- Note :
-(1) Reimbursement curb for pension loan (1500 Unit)
 -(2) Reimbursement curb for pension loan (1200 Unit)
 -(3) Reimbursement curb for pension loan (1000 Unit)
 -(4) Reimbursement curb for pension loan (800 Unit)
 -(5) Reimbursement curb for pension loan (550 Unit)
 -(A) HBFC loan Reimbursement (1500 Unit)
 -(B) HBFC loan Reimbursement (1200 Unit)
 -(C) HBFC loan Reimbursement (1000 Unit)
 -(D) HBFC loan Reimbursement (800 Unit)
 -(E) HBFC loan Reimbursement (550 Unit)

The service length of a employee is considered to be 35 years and it is proposed that entitlement for housing loan from pension fund may start from 10th year of service. This is proposed because a sizable amount is expected to be ready by that time for use in housing. Moreover it also provides ample time for loan reimbursement during next 25 years of service. It is intended that loan amount from PF should be covered prior to retirement.

RECOMMENDATIONS

Utilization of pension benefits before retirement exposes a new direction toward housing finance. The higher price of building material and land necessitate the need for an alternative means to meet the housing demand of fixed income group. The following recommendations are made in a broad perspective to highlight the use of part of pension benefits as loan for flat housing. the details of formalities and rules may be worked out latter by the respective institutions for the actual execution of the concept.

1. The policy issue regarding pension benefits may be modified to accommodate the grant of loan for housing from pension fund before retirement, provided the loan **amount** is reimbursed within the service period of a employee. Provisions may be kept to subtract the unrefunded loan amount from the pension benefits at the time of retirement.
2. The establishment of a housing co-operative body at the institution level is the prerequisite for such housing construction ventures. The co-operative body should have nonprofit objective toward housing developments. The responsibilities may be given to them for the execution and management of the housing developments. The reimbursement of loans may be controlled by the co-operative body. The possession right of the respective owners may be given after the reimbursement of loan from pension fund.

CONCLUSION

The success of the housing development utilizing the pension fund will greatly depend on the management ability of the executing body. Mere availability of finance do not make the concept workable. A careful selection of executive members for the co-operative body may be the starting point for such housing development.

When housing is seen as security, object of pride possession and durable asset its investment becomes safe with secured return. Although the economic return is low compared with other lucrative investment but its social impact is much more valuable than the economic aspect. The efficiency and moral values of the employees will be greatly enhanced with the prospect of owning a long aspired housing, which under the present situation seems unattainable.

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