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SBP Raises Microfinance Housing Limit to Rs. 5 Million

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The State Bank of Pakistan (SBP) has officially raised the housing finance ceiling for microfinance bank (MFB) customers to Rs. 5 million, a move effective from August 1. The initiative is part of a broader push to expand access to affordable housing across both urban and rural regions.

This change builds upon revised guidelines introduced in May 2025, which enabled microfinance banks to offer home loans of up to Rs. 5 million to individuals earning an annual income of no more than Rs. 1.5 million, net of business expenses. The increase

marks a substantial shift from the previous Rs. 3 million limit, aiming to improve living standards for lower and middle-income households.

However, the loan usage is strictly regulated. The financing must be directed toward constructing or upgrading existing homes. Funds cannot be used exclusively for purchasing plots or land. In cases where land is included in the loan, the financing allocated for its purchase must not exceed 90% of its market value, and land expenses must be capped at 50% of the total loan amount. The remaining funds must be utilized for construction.

This revision supports the ongoing national strategy to address Pakistan's growing housing needs without compromising financial discipline.

In a related policy development, the Economic Coordination Committee (ECC) has recently approved a subsidy to lower interest rates on 50,000 housing units. The plan, developed in coordination with the SBP, includes a Rs. 72 billion allocation for the current fiscal year. Following cabinet approval, the scheme will be rolled out through commercial banks.

To encourage home ownership, authorities have also reinstated tax deductions on mortgage loans for the 2025–2026 tax year, a move expected to benefit salaried and self-employed borrowers alike.

Meanwhile, the SBP's decision to cut its policy rate by 1,100 basis points since June 2024, bringing it down to 11%, has created a more favorable environment for home financing. With inflation now easing, industry observers expect a boost in housing loan uptake.

These policy shifts align with the government's broader economic goals: encouraging responsible borrowing, promoting infrastructure development, and improving access to secure housing without relying on foreign aid or unsustainable subsidies.