PD-AAP-296

PRIVATE SECTOR HOUSING FINANCE PROGRAM

INDIA

PROJECT PAPER

Project No. 386-HG-001

July, 1981

Unclassified

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: — DOCUMENT CODE: 3

2. COUNTRY/ENTITY:

3. PROJECT NUMBER: 386-HG-001

4. BUREAU/OFFICE: ASIA

5. PROJECT TITLE (maximum 40 characters): Private Sector Low Income Shelter Program

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 11 DD 01 YY 84

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 81 — B. Quarter 4 — C. Final FY 83

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 81 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant) PRE/H	(100)	( )	(100)	(100)	( )	(100)
(Loan)	(-)	( )	( )	( )	( )	( )
Other U.S. 1. HG Loan	20,000		20,000	30,000		30,000
Other U.S. 2.						
Host Country		50,000	50,000		110,000	110,000
Other Donor(s)						
TOTALS	20,100	50,000	70,100	30,100	110,000	140,100

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. ~~Loan~~ HG	F. LIFE OF PROJECT 1. Grant	F. 2. ~~Loan~~ HG
(1)	720	850	866	100	20,000	100	20,000	100	30,000
(2)									
(3)									
(4)									
TOTALS				—	—	100	20,000	100	30,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 30

11. SECONDARY PURPOSE CODE:

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BU	BR	LAB				
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

a. Expand operations of the HDFC and help establish it as the nucleus of an eventual private sector housing finance network serving all income strata, especially low income families.

b. Support GOI policy to distribute industrial development more widely in the country by financing workers housing through HDFC.

14. SCHEDULED EVALUATIONS
Interim MM 11 YY 82 | MM 11 YY 83 — Final MM 12 YY 84

15. SOURCE/ORIGIN OF GOODS AND SERVICES: ☐ 000 ☐ 941 ☐ Local ☐ Other (Specify) ______

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY
Signature: Peter Kimm
Title: Director, Office of Housing
Date Signed: MM 07 DD 24 YY 81

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

TABLE OF CONTENTS

TABLE OF CONTENTS (Cont'd)

EXCHANGE RATE

\$ 1.00 = Rupees (Rs) 8.00

-1-

I. SUMMARY AND RECOMMENDATIONS

A. INTRODUCTION AND PROGRAM HISTORY

The Housing Development Finance Corporation Ltd. (HDFC) is the first private housing finance institution in India. HDFC was incorporated in late 1977 and operations got underway in June, 1978. The impetus to form HDFC came from the Industrial Credit and Investment Croporation (ICICI) of India, a leading development bank which receives considerable support from the World Bank. The initial effort can be regarded as a significant initiative of the private sector in establishing a development finance institution for housing. It attracted foreign support from the International Finance Corporation (IFC) and the Aga Khan group, each of which subscribed to 5 percent of the equity along with the ICICI. The remainer of the shares were taken up by government-owned commercial banks and insurance companies, cooperative banks, private companies and individuals.

HDFC is off to a good start. Through FY 1981 (ending June 30), the Corporation will have approved loans covering 23,500 units amounting to some Rs 600 million ($75 million) and disbursed almost Rs 305 million ($38.1 million).

AID's initial contacts with HDFC go back to the time of its incorporation when HDFC approached AID's Office of Housing (PRE/H) concerning possible assitance. However, more formal discussion of possible AID assistance to India's housing sector was initiated by AID at the Joint U.S.-Indo Economic Subcommission meeting held in Washington in the spring of 1980. Subsequent discussions were held with the Government of India (GOI) Ministry of Finance (MOF), the Ministry of Works and Housing and the HDFC by the USAID and PRE/H's Asia Regional Housing and Urban Development Office (RHUDO) in August and October 1980.

In early February 1981, the MOF indicated its approval for AID to proceed with initial analysis of the HDFC operations for the purpose of project identification. U.S. consultants consisting of a housing generalist and a financial analyst, the latter from the Federal Home Loan Bank Board, spent three weeks in India in March reviewing HDFC's program and operations. Their analysis formed the basis of the project proposal contained in the PID.

At the conclusion of the team's work and based on preliminary findings, USAID and RHUDO staff met with MOF staff to brief them on the proposed program. MOF subsequently provided approval to proceed with program design. A design team consisting of a PRE/H Housing Officer, a housing generalist and an architect planner, utilizing detailed financial analysis done in March, completed the program design in June with the resulting Project Paper.

B. THE PROBLEM TO BE ADDRESSED

The 1980-85 Five Year Plan recognized that recent performance in the shelter sector, both public and private, makes it impossible to come even close to solving the country's housing problem during the Plan period. The Plan does, however, suggest that the problem can be addressed over a twenty year period and allocates an investment in shelter over the Plan period of RS 129 billion ($16.1 billion). The Plan calls for 18.7 million units, with 13 million in rural areas and 5.7 million in urban areas, although the investment in urban areas is much higher.

The GOI's strategy, however, is to allot to the private sector the financing and implementation of some 85 percent of the total investment in housing in the Plan. It is clear that over the long run the shelter needs of India are so immense that if these needs are to be met the private sector will have to play the major role. Government, whether it be the Central Government and its agencies, or state governments and their agencies, will not have resources to do this job. Yet at this time, the Government needs to do more to induce or encourage the private sector to adequately fill this role. Certain legislation, such as the Rent Control Act and the Urban Land Ceiling Act, have actually discouraged private sector initiatives.

Government can be a catalyst, introducing new programs, assisting the most disadvantaged groups, chanelling some resources from the public sector, etc., but the private sector will have to pick up at this point. While government planning envisions a major role for Government in addressing the shelter needs of the very poor in urban areas and assumes that much of the rural housing needs will be met on a self-help basis (the "private sector") there remain substantial requirements for housing among the middle and lower middle income people (poor by any standards, themselves) in urban areas. Unless mechanisms can be found within private sector initiatives to provide housing for these families, they often wind up in housing intended for poorer people which defeats the purposes of these programs.

One of the most important ingredients if the private sector is to play a role is the availability of long-term finance for housing. Except for the relatively few government programs for the poorer people and lending by organizations such as the Life Insurance Corporation for its policy holders, long-term housing finance doesn't exist. It is to serve this need that HDFC was formed.

C. SUMMARY PROGRAM DESCRIPTION

1. The Program

The proposed program is for Housing Guaranty (HG) loans of $20 million in FY 1981 and $10 million in FY 1982 to the HDFC to finance low income housing as part of its expanding program to provide long-term financing of homes on a non-subsidized basis at market rates of interest. The program would include up to an estimated $100,000 in grant financing for short-term technical assistance and training from Central Funds administered by the Office of Housing.

In order for the program to reach a target group consistent with the legislation governing the Housing Guaranty Program, i.e., below the median urban family income, given the current interest rates under the Program, the first $20 million will be utilized by HDFC for its corporate or institutional program. This program provides financing to, or through, corporations for worker housing, with the corporation providing the housing or some contribution toward it.

The HG loan will enable the HDFC to continue to expand its operations and firmly establish itself in the market as a source of mortgage financing. It will help HDFC to meet the growing number of loan applications while it seeks additional funds from domestic sources, both institutional loans and depositors. In addition it will include short-term technical assistance for such things as improved operating procedures and development of standardized mortgage instruments and advanced professional training in the U.S.

2. Program Strategy

The strategy underlying the proposed program is, with a relatively large infusion of capital supplemented by some technical assistance, to increase the resource availability of the HDFC and to help broaden its exposure to potential lenders and depositors, thus enabling it to expand the overall scope of its operations.

The first will be achieved in two ways: by increasing earnings absolutely through the magnitude to the HG even though the spread will be small and by increasing the effectiveness of HDFC through specialized short-term technical assistance and training. The second should result from the increased level of HDFC's lending, particularly to corporations where HDFC will be dealing with individuals and companies who have wide contacts in the financial sector. This should generate both loans and deposits.

The longer term strategy grows out of the continuing relationship which will be developed between AID and the HDFC through the series of loans, selected technical assistance, and training and dialogue. This dialogue would result in policy on means to reach lower income people through more imaginative ways of providing finance to different types of shelter. And finally, through helping to expand this system on a country-wide basis.

3. Program Outputs

The first year's authorization will directly finance $20 million of housing units, all for families at or below RS 1,200 per month income. Since HDFC policy is to finance no more than 50 percent of corporate housing projects, and additional $20 million of housing units will be constructed as part of the overall financing package of which some portion would be for lower income workers. Using the average cost of housing units financed under corporate loans in FY 1981 of RS 46,000 ($5,750) and allowing for an inflation factor of 15 percent, an estimated 6,000 units will be constructed as a result of the first $20 million HG.

In FY 1982, it is possible that some individual units will be included for financing under the HG. If so, and with a 30 percent downpayment, the number of units financed may be somewhat smaller.

The short-term technical assistance and training will result in increased capability of HDFC staff.

The institutional output will be an expanded HDFC, operating more effectively, with an increased level of lending and with the reputation and capacity to attract and absorb higher levels of borrowing and deposits.

4. Program Inputs

The program inputs envisioned in this PP will be Housing Guaranty loans of $20 million in FY 1981 and $10 million in FY 1982. Funds will come from the U.S. private capital market and repayment will be guaranteed by the U.S. Government.

Technical assistance and training amounting up to $100,000 will be financed by grant from central funds administered by PRE/H.

The HG funds represent approximately 25 percent of the total funds which HDFC expected to lend during this period.

5. Beneficiaries

The direct beneficiaries of the first $20 million loan will be workers and their families with monthly incomes of RS 1,200 or less. These workers will be employees of industrial and agricultural enterprises. The enterprises either provide housing directly as part of the workers' remuneration package, or provide some contribution toward the cost or financing of the house.

The RS 1,200 cut off is applied as a conservative estimate of median urban family income (see Section V, Social Soundness Analysis). Where subprojects are located in more rural areas, they usually employ workers who have come from the cities and the wages in these enterprises tend to be comparable by urban wages.

For the FY 1982 loan, the beneficiaries may include some individuals but the median income criteria will continue to apply except for adjustments growing out of overall wage increases.

6. Location

HDFC now has, in addition to its headquarters office and a branch in Bombay, six regional offices, each in a separate state. But with its growing reputation, corporations or enterprises from any part of the country might seek housing finanace for their workers. Currently, HDFC has loans to the Tata Finlay Ltd. Tea Company and the Tata Iron and Steel Company for its mining workers, both located outside the areas normally covered by the branches. Thus, the HG loan could be utilized almost anywhere in the country.

7. Issues and Contraints

a. Income Levels of Beneficiaries: This issue takes two forms: whether the cut-off point for eligible beneficiaries under the program in terms of family income per month is too high and to what degree AID should impose conditions directing HDFC toward lower income clientele. Related to the former is whether loans to enterprises located in more rural areas can include HG financing for beneficiaries earning up to Rs 1,000 per month. During the APAC meeting, the view was expressed that the preliminary estimate of median urban family income of Rs 1,000 per month seemed high.

However, based on additional information contained in a study done for the World Bank, both the USAID and PRE/H believe that the preliminary estimate of Rs 1,000 was rather low and in fact Rs 1,200 per month represents a more reasonable estimate of the median family income per month in urban areas (in Greater Bombay it is estimated to be Rs 1,500).

More detail on HDFC beneficiaries, proposed and actual, and the underlying analysis is contained in Sections II.H and V.

With regard to inclusion of a condition in the loan directing HDFC to increased its share of lending to lower income families, it is intended to include a condition in the Implementation Agreement asking for a clear policy statement to this effect (see Section VII.D, Conditions). Since this would entail careful analysis and drafting drafting, it is not considered feasible to require such a statement as a condition to loan effectiveness. Top HDFC staff, including the Chairman, support this long-term goal and have indicated their willingness to seek such a statement.

With regard to setting specific requirements of progress in this regard prior to approving the second $10 million, it is believed that the analysis of HDFC operations (Section III) clearly demonstrates that HDFC has already made major efforts to reach low income families.

b. Interest Rate: The interest rate which HDFC will have to charge any ultimate borrower with the funds borrowed under the HG program represents a definite constraint. Since what is being proposed is an institution building loan to a private borrower, HDFC must cover its costs plus some small spread. Given current long-term rates in the U.S. capital market plus fees and charges, it is possible that rates to a corporate borrower by HDFC might be between 15-16 percent. HDFC feels, given the cost of money in India at present, this rate would be acceptable to corporations on a long-term basis. Alternatives for long-term fixed rate borrowing might include variations such as those now being considered or tried in the U.S. at present. HDFC is aware of these innovations and might be willing to consider some of them.

c. Exchange Rate Risk: Originally it was intended to have the GOI guaranty the loans to AID. However, the question of who bears the exchange risk arose in these discussions. HDFC, as a user of only rupee proceeds, could not and should not bear this risk. The State Bank of India (SBI), wholly-owned by the Central Government, will be the guarantor. As such, the SBI would be the user of the dollars and pass on rupees to HDFC and would assume the foreign exchange risk.

d. Corporate "Subsidies" For Housing: Under the proposed HG, it is likely that the corporations may borrow from HDFC at 15 to 16 percent interest and on-lend to it employees at say 6 to 8 percent. However, this difference between cost of money to the corporations and on lending rate to the individuals cannot be viewed as "subsidy" in the conventional sense of the word. Rather, in India, this is looked at as another form of compensation to the employees. Corporations view this as cost of hiring the employee and cost of doing business. The corporations would not provide this benefit if they could not afford the costs or such policy resulting in loss to the corporation. HDFC--the borrower-- will not provide any subsidy to the corporations.

D. RECOMMENDATIONS

It is recommended that a $30 million Housing Guaranty Loan be approved to the Housing Development Finance Corporation Limited of India. It is further recommended that the authorization of the program be in one $20 million tranche in FY 1981 and a $10 million tranche in FY 1982. The FY 1982 authorization will be based on an assessment of HDFC operations during the first year and the degree to which it has achieved the objectives set forth in this Project Paper.

II. DETAILED PROGRAM DESCRIPTION

A. RELATION TO GOVERNMENT OF INDIA'S SHELTER PLANS, PROGRAMS AND POLICIES

1. Shelter Sector Background

The 1981 figures put India's population at 684 million. Of this, an estimated 22.2 percent (an increase from 18 percent in 1961) or 151.2 million, live in urban areas where the problems of congestion continue to grow. Slum dwellers and squatters constitute some 25-35 percent of India's larger cities and in places such as Bombay and Calcutta the percentages run higher.

The shelter statistics associated with these enormous numbers are equally sobering. However, when dealing with statistics of this nature, they are at best only general estimates. Furthermore, by the time they are compiled they are somewhat dated. Nevertheless, they help set the framework and background for the context in which HDFC will be operating. It is also the framework which provides the rationale for AID's assistance to HDFC.

Detailed statistics from the 1971 census indicated that there were approximately 92.9 million houses in India of some type to provide shelter from some 97 million households (total population of 547.4 million). This clearly indicated some doubling up as well as large numbers of street dwellers with no home. In addition, of the existing houses, 10.4 million were considered to be non-durable--completely constructed of thatch or some similar material. This indicated a shortage of approximately 14.5 million units. Comparable figures for the urban sector put the shortage at 2.9 million units. Homeownership amounted to less than 50 percent of urban families.

Of equal importance to putting some order of magnitude to the absolute shortage of habitable housing are data concerning the services available to families. A Ministry of Works and Housing survey done in 1973-1974 indicated only about 2/3 of the urban households had access to tap water, either in their own building or communally. One third of urban households had no access to any type of latrine facility, communal or otherwise. Such information as is available suggests the situation is worsening. The Report of the Working Group on Housing for the Formulation of the 1978-83 Five Year Plan (and also used as the basis for the 1980-85 revision) projected a need for 4.5 million new units in urban areas and 8.1 million units in rural areas over the Plan period and extended this to 20.4 and 30.6 million units in urban and rural areas respectively over the next twenty year period (1980-2000).

These are the figures, recognizing that at best they are only of an order of magnitude nature, that face the planners with regard to housing. By any measure, they are overwhelming.

2. Government of India Five Year Plan

The current Five Year Plan covers the years 1980-85 and is a revision of the 1978-83 Plan.

Rapid population growth, especially in urban areas and particularly among the poor, led some Indian policy makers to regard a direct impact through some subsidies, low cost housing, sites and service programs and slum upgrading as essential. Nevertheless, housing investment, according to Planning Commission estimates, fell from 34 percent in the First Five Year Plan to 8.6 percent in the Sixth Five Year Plan (1978-83). Current figures remain about the same. Further, public sector outlays for housing have fallen as a proportion of total public sector investment from about 16 percent in the First Plan to 1.6 percent in the 1978-83 Plan.

Overall, the main objectives of the new Plan include a progressive reduction in poverty and unemployment, improving the quality of life especially for the poor, a redistribution bias in favor of the poor and removing regional inequalities. With regard to housing, the Plan speaks of the need "to reduce substantially the number of absolutely shelterless people and to provide conditions for others to improve their housing environment."

The Plan recognizes that performance in the housing sector, both public and private, in recent years makes it impossible to come even close to solving the country's housing problem in the current Plan period. It does, however, suggest the feasibility of addressing the problem over a twenty-year period.

Crucial to this judgement, however, is its allocation for planning purposes of the bulk of the effort to the private sector. Plan estimates for the total investment in shelter are about Rs 129 billion ($16.1 billion), Rs 35 billion in rural areas and Rs. 94 billion urban areas. The number of units projected is 13 million in rural areas and 5.7 million in urban areas.

Of these estimates, public sector outlays are projected at almost Rs 15 billion ($1.9 billion). For the most part "the role of the public sector" will have to be restricted to the improvement of slums, the direct provision of housing to the poorest people inurban areas and the encouragement of the Central Government housing agency, (the Housing and Urban Development Corporation), to marshall more resources from such sources as the Life Insurance Corporation for lower income housing.

In adopting this Plan, there was a conscious recognition that government programs would have to reduce subsidies significantly and that programs such as sites and services and upgrading would have to be increased.

But to re-emphasize, the private sector and its ability to respond is the key to the Plan reaching its targets. Working from the above figures, private sector investment will have to total on the order of Rs 114 billion ($14.2 billion), between 85-90 percent of the total investment projected for housing. While recognizing that self-help rural housing is a substantial part of this figure, the need for the private sector to increase its role in urban housing is substantial. To this end, the Plan Document states, among other things, that specific attention will have to be given to "greater stimulus and support to private housing in the middle and lower income groups so that there are incentives to channelize savings into housing construction".

To participate in and help achieve these objectives is the role that HDFC has set out to fill.

3. Government Housing Programs and Institutions

a. Organization and Financing: The Ministry of Works and Housing is the Central Government ministry involved with shelter. Although it is involved in a variety of functions, with regard to housing, it is primarily responsible for formulating housing policy and government programs.

The Ministry has a number of para-statal organizations reporting to it, the most important of which is the Housing and Urban Development Corporation (HUDCO). HUDCO was established in 1970 to undertake housing and urban development programs throughout the country by financing state government programs, mainly through state housing boards, slum improvement boards, city development authorities, municipal corporations, and other local bodies.

HUDCO's primary objective is to finance the construction of houses for low income groups and, therefore, it insists that its borrowers (state agencies) adapt policy guidelines with regard to material and cost specifications, income groups, and differential interest rates that are set by HUDCO. HUDCO obtains the bulk of its resources from the Life Insurance Corporation of India (LIC), a government corporation, and through the issue of government-guaranteed debentures.

LIC is the single largest institutional investor in housing. As of March 1978, its total contribution to housing development amounted to about $1 billion. LIC makes loans to state governments, cooperative housing societies and individual mortgage loans to policy holders. It has just completed arrangements for a Rs. 100 million ($12.5 million) loans to HDFC.

The other source of housing finance is the commercial banks (all government-owned) whose direct contribution, however, has been insignificant relative to total resources amounting to a total outstanding of some $116.8 million. This is due partly to the extremely high statutory reserve ratios imposed by the Reserve Bank of India (RBI) on the banking system which amounts to 49 percent of their total demand and time liabilities. Besides the financial constraints, banks do not favor long-term lending (15-20 years) for housing finance due to the nature of their portfolios, and the risks and costs of follow-up and recovery of housing loans. The commercial banks, however, hold 15.7 percent of HDFC stock.

b. Programs: Most of the various housing programs in the public sector were introduced in the late 1950s and most are now being implemented at the state level, although much of the financing comes from HUDCO and LIC. These programs include programs for plantation workers, state government employees, village housing, low and middle income housing, land acquisition and site development, slum improvement, and sites and services programs.

It is also worth noting that the GOI has instituted over the years, almost all of the major types of shelter programs which are used world-wide to meet the needs of the poor, i.e., sites and services, core housing, slum upgrading, etc.

During the sixth five year plan the Government will concentrate its programs on the poorest urban families, recognizing that subsidies must be sharply cut back and attempting to assign a larger role to the private sector.

4. Policies and Legislation

Housing is a state government subject in India and as a result there is no comprehensive overall Central Government policy on housing. Such policy as does exist comes out of the Five Year Plan and from Government programs, i.e., subsidies, concentration of government programs toward the urban poor, allocation of the predominant role to the private sector, etc.--all touched on briefly above--and from state government initiatives.

One thing that is lacking is a comprehensive set of inducements for the private sector to step up its activities. Such stimulation is called for in the Plan document, and the GOI is slowly moving towards its implementation. HDFC has been able to obtain certain tax rulings which are favorable to it. But some of the legislations actually work as a countermeasure to the stimulation of more housing, i.e., the Rent Control Act and the Urban Land Ceiling Act (a brief discussion of each is contained in Annex 7). However, the whole question of Government stimulation to the private sector is an area that needs attention.

B. PRIVATE SECTOR

This paper is concerned with two components of the private sector; the provision of ownership housing and the provision of rental accommodation. It should be noted that the provision of rural housing, which is primarily self-help, and illegal squatter housing are also considered as "private" sector but they are not dealt with to any major degree in this paper.

In the first instance cited above, the substantial amount of ownership housing in urban areas is in cooperative housing. The cooperative housing sector currently consists of seventeen "apex" cooperative housing finance societies at the state level and over 25,000 primary societies. The apex societies arrange for loan financing and provide guidance to the primary societies. Apex society financing comes primarily (85 percent) from the LIC. These loans are guaranteed by the state governments. The problem is that the the amount of resources available is far short of demand. HDFC, therefore, sees a large potential market with the societies.

Private builders construct the cooperative housing units and in many cases take the lead in developing primary societies. Developers building estates for individual ownership are rare, however. Financing is the major problem and, here again, HDFC sees a market.

With regard to rental housing, the wide enthusiasm for homeownership engendered by the cooperative movement together with disincentives arising out of the Rent Act, have caused the idea of rental housing to deteriorrate markedly. Current discussions of housing policy give little emphasis to rental housing. The Rent Control Act which was designed to protect the poor, has been the primary reason for drying up the market in rental accommodation. Low rents and the impossibility of eviction have turned away the investors and caused buildings to deteriorate.

There has been some very initial discussion in HDFC whereby HDFC would finance, own and rent some apartments to serve a need of the poorer people. This would depend at least partly on changes in the legislation and would obviously require HDFC Board approval.

As mentioned earlier, one of the essential ingredients it the private sector is to play a major role is an institutionalized system of long-term financing for shelter. As described above under public sector programs, the Life Insurance Corporation, the General Insurance Corporation, the commercial banks and to a very limited degree, the Providend Fund, all provide some financing for private sector housing. But these are all government institutions with various competing demands for their investments or lending and their contribution to housing is relatively small and, in the case of the insurance corporations and banks, tied primarily to policy holders and employees, respectively. Until recently, there was no private institution that an average person could go to to seek finance for a home.

C. PROGRAM GOAL AND PURPOSE

The long-term goal or objective of this program is to contribute to a fully functioning private housing finance system in India which raises its capital internally and which makes long-term shelter finance available to a wide range of income levels indluding the poorer segments of society. The basis for the achievement of such a goal exists in the Housing Development Finance Corporation (HDFC).

The specific purpose of the program is to expand the operations of the HDFC, through a Housing Guaranty Loan and related technical assistance and help to establish HDFC as the basis for eventual creation of a private housing finance network.

A sub-purpose of the HG will be to assist in the GOI policy to distribute industry more widely in the country and away from the larger cities by financing worker housing through the HDFC programs.

D. AID PROGRAM STRATEGY

1. Institutional

AID's strategy is to assist the HDFC, as aprivate sector institution, to expand its operations at a more rapid rate so that it can make a significant beginning in the provision of long-term housing finance to all income levels. By helping to expand HDFC's operations, the HG will not only contribute to increased earnings of the HDFC but it should have a catalytic effect on HDFC's ability to attract additional investors, lenders and depositors because of the expanded operations.

It should be stressed that the goal for this program is the development of an institution and the strategy seeks to achieve this by supporting the phased approach the HDFC itself is taking. While AID's long-term objective is to maximize shelter solutions for that large segment of the population representing poor and lower income families, a broadly based housing finance system must be in place to achieve this if the private sector is to fulfill its role.

Thus, an institution such as HDFC must develop the scope of its operations carefully and on a sound financial basis if it is to succeed over the long run. It needs to do this if it is to attract the funds it requires to operate. Therefore, some of its initial conservative lending policies and criteria (30 percent down payments, 5-15 years repayment, completed housing units) may preclude it from reaching the lower end of the income scale for individual loans in its early years.

Nevertheless, slightly over 50 percent of HDFC's loans up until January 1981 were made to families earning below Rs 1,000 ($125) per month, the level much below, the median urban family income during this period. It was able to do this with interest rates initially for its smallest loans at 10.5 percent. Recently, however, it has raised its interest rates to reflect increased cost of its capital.

Even so, interest rates currently available under the HG program would not permit financing of completed houses for families earning Rs 1,200 or below per month income. However, to reach lower income families, HDFC has a variety of programs available to and through corporations and institutions to finance worker housing whereby a corporation contributes to the cost of housing for its workers as part of its overall compensation.

The AID strategy will be to channel the HG resource of this first loan into these programs, described in more detail in Sections III and IV, for families earning Rs 1,200 or below. Corporations will be willing to pay an interest rate for long-term funds which will enable the HDFC to cover its costs under the HG loan and make a small spread.

The achievements here are three fold: HDFC's operations are expanded on a basis whereby costs are covered; corporations are able to finance much needed housing for their workers; and both AID and HDFC are able to address the needs of lower income families.

As a longer term strategy, AID will work with HDFC on mechanisms and approaches to reach families at even lower income levels and on an individual basis where corporate assistance will not be available. These mechanisms and approaches may include such things as: lengthening of repayment terms; reduction in the standards of shelter solutions that HDFC will finance, e.g., sites and services, core housing, buidling material loans; expansion of the graduated payment mortgage concept; and rental housing whereby HDFC is the owner.

But these steps must be taken carefully and on a profitable basis, otherwise HDFC will not succeed. The ultimate aim is to have HDFC acting as the central agency for a private system of housing finance institutions operating country-wide. The beginning has been made with eight branches already opened against a projection for the period up to now of only three.

With such a system in place, the opportunities for lower income families to obtain long-term housing finance on reasonable terms should continue to increase.

2. Decentralization of Industry

As outlined above, a sub-goal of the program relates to the GOI policy of decentralization of industry in an effort to curb the growth of major cities, by specifically including the HDFC's corporate lending program as part of the HG loan.

The non-existence of shelter in areas targeted for the location of new industrial investments has made it imperative that these enterprises provide or arrange for housing. The financing of such housing then becomes part of the overall financing necessary to complete these projects. HDFC, in attempting to broaden its role in all types of housing, thus plays an important part in this process and the HG, whose terms are at an acceptable level for the corporations, helps make this possible.

3. Relationship to CDSS

The target group identified in the India CDSS is the rural poor, and the strategy concentrates on increased food production and rural employment generation through agricultural intensification. Additional elements of the strategy are aimed at protecting the agricultural resource base through conservation and reforestation, and meeting basic needs by expanding energy supplies and improving access to health, family planning and nutrition services. Although the strategy set forth in the India CDSS was not developed with the housing programs in mind, an HG Program would completment the CDSS strategy by making better shelter available to low income households, expanding access to improved water supplies and sanitation, and facilitating decentralized industrial investment. An HG Program would also support AID's efforts to transfer relevant technologies and encourage private sector development.

E. COORDINATION WITH OTHER DONORS

The World Bank has been active in India's shelter sector for some years, mostly through very large scale sites and services programs in Calcutta and Madras. Most recently, the bank has begun discussions of a new sites and services/upgrading program in the Greater Bombay area on the order of $250 million through IDA funding.

The HG and Bank programs are complementary in that the Bank program is directed at expanding the capacity of public sector programs, while the HG is aimed at assisting Government plans for the private sector. Office of Housing personnel and Bank staff have kept each other mutually informed on their endeavors. Recently, a Bank appraisal team overlapped in Bombay with the AID project design team and, among other things, interest rate structures and the need for cost recovery were discussed as they pertain to both programs.

Of more direct concern is coordination with the International Finance Corporation (IFC). IFC has an equity position (5 percent) in HDFC, and has made a $4 million loan. As one of HDFC's initial promoters, and with a seat on the Board of Directors, IFC has maintained a strong interest in HDFC's operations. Discussions have been held with IFC before and after the PID preparation mission and prior to the project team's work so that IFC has been kept fully informed.

IFC's primary concern is the financial stability of HDFC and its development as a sound institution playing a role in the private sector. IFC is less concerned at this time with the income level served, although at the same time, recognizing the long term public interest nature of HDFC. IFC, has, however accepted AID's proposed program to date as being consistent with HDFC's need to operate on a sound footing and has indicated its approval to HDFC with the understanding it be kept informed.

F. PROGRAM INPUTS AND UTILIZATION

1. HG Loan

The program will make available $30 million from the U.S. private capital market, $20 million in Fiscal Year 1981 and $10 million in FY 1982. These funds will be converted to rupees (Rs 240 million at an exchange rate of Rs 8 to $1) and be utilized in HDFC's lending activities as part of its overall resources.

Because HG resources must be specifically earmarked for families earning at or below the median urban income and the fact that the interest rates now charged to individuals by HDFC although recently raised to take into account market conditions will probably be below rates available in the U.S. capital market at present, the first $20 million loan will be allocated to HDFC's corporate/institutional program. The corporations then provide some contribution toward the housing for its employees. Annex 17 contains a list of corporate loan applications currently pending.

Corporations or agricultural enterprises (e.g. tea plantations) which either must provide housing for their workers (outlying areas), or which want to provide better housing as part of worker compensation, are seeking financing for the housing from HDFC. HG funds will be available for financing that part of an individual corporation's application to HDFC which will go for workers meeting the criteria set out in the Implementation Agreement, i.e., Rs 1,200 per month income. HDFC will finance the remainder of the proposed loan from its other resources.

The Implementation Agreement will be left flexible enough so that individual loans may be financed under the first $20 million if conditions permit.

2. Technical Assistance

Up to $100,000 Development Grant will be provided as part of the overall program from central funds administered by PRE/H subject to availability of funds. The grant will be utilized in three ways: for short term advisors, office equipment and training. It is expected that short term advisors with specialized expertise in various aspects of the housing finance business, ranging from different kinds of mortgage instruments, mortgage insurance, structuring bond issues, and better accounting procedures including automation and use of small disk computers. Technical Assistance, as well as equipment may be financed. In addition, very selective long and short term training programs in the U.S. to cover certain aspects of housing finance would be considered. Another possibility will be to bring experts to India to conduct short training sessions for HDFC staff. HDFC will develop a detailed technical assistance and training work program in order to insure that technical assistance resources are utilized in the most effective and efficient manner.

3. Local Inputs

In the corporate loan program, HDFC finances only 50 percent of a project, thus the corporations must finance the rest. In cases where corporations on-lend to individuals or guaranty repayment for individual loans from HDFC, the corporation will also supplement interest rate payments or, in some cases, a portion of the house cost.

In individual loans, HDFC requires a 30 percent downpayment which represents the contribution of an individual to his or her own house (although this amount may be lowered at some time in the future).

On a total program scale, the HG loan of $30 million will represent approximately 25 percent of the total resources that HDFC is estimated to make available during this period.

G. EXPECTED ACHIEVEMENTS

1. Institutional

a. Short-Term: The major achievement that this program aims for is a strengthened HDFC which will be increasing the amount of funds it is raising from the domestic capital market and from depositors and, therefore, increasing its loan activity. To attribute some part of HDFC's increased levels of activity directly back to the provision of HG financing other than that specifically contributed by the HG, i.e., a multiplier effect, would be difficult.

However, it is intended to use June 30, 1981 (the end of the HDFC fiscal year) figures as the benchmark against which to measure increases in activity, some part of which can be attributed to the provision of the HG. The short-run measures which will be looked at will be such things as total assets, debt obligations, deposits, lending activities, including a reduction in backlog, and profits. These measures also will be partly reflective of the size and effectiveness of HDFC's staff and its operations which will be assisted through the grant financing.

b. Medium- and Long-Term: Over the medium term, the objective will be to assist in increasing the scope of HDFC's operations from the level it is now at in terms of geographic coverage, in income levels reached and type of shelter financed and in its expanded variety and source of debt obligations including deposits, loans, bonds, secondary market creation, etc.

Over the long term, the objective is to contribute to the functioning of a country-wide housing finance system.

c. Sustainability and Replicability: The whole premise on which this program is based, if valid, assures its sustainability. That is, that a private sector institution can raise capital, both institutional and from individual savers, to finance housing for a wide range of income levels and do it on an unsubsidized basis drawing on the dynamism of the private sector. Initial indications are that the prospects of success are high.

As to replicability, HDFC has started out with the idea that it be country-wide. Although initial projections called for the opening of three new offices outside of Bombay in the first three years, six have already been opened and there is a second branch in Bombay. There is currently a backlog of approved applications which exceed available financing. The rapid expansion of HDFC's corporate lending programs which can already be located in any part of the country appears to indicate a wide market for this program.

Finally, some thought has already been given to the long term whereby HDFC might foster the establishment of private housing finance institutions at the state level with HDFC playing a central agency type of role.

The spread effect of the program will be increased housing available to individuals as the capacity of the HDFC is expanded. The loan will increase the ability of the HDFC to expand its operations. Over the larger term, additional HG financing will aim to make HDFC financing available to lower income groups.

2. Direct Provision of Housing

As described in Section I.C.3, the first year's authorization will directly finance $20 million of housing as part of HDFC's corporate program.

In addition, because HDFC will finance only 50 percent of specific corporate programs, an additional amount of housing will be financed by the corporations.

It is assumed that corporations will develop housing at an appropriate standard for the income levels of the workers to be served. Although some contribution by corporations will be provided either toward the interest rate or for the direct construction costs, it is further assumed that this will be at the minimum level necessary.

Using the average cost of corporate housing financed by HDFC in FY 81 of Rs 46,000 ($5,750) and allowing for inflation, a projection for average cost for FY 1981 worker housing would be $6,612. At this cost, about 6,000 units would be directly and indirectly financed.

H. BENEFICIARY PARTICIPATION AND IMPACT

1. Direct Beneficiaries

The direct beneficiaries of the initial $20 million will be those workers and their families earning Rs 1,200 per month or less and who receive a house under the HDFC's corporate program. (See Section V for discussion of income distribution). As stated in the previous section, the average cost of a house projected to be financed under the program will permit about 6000 units to be financed. At an average of six persons per family, this would be 36,000 direct beneficiaries. For the FY 82 loan, it is intended to expand the beneficiaries to individuals seeking to purchase their own home, most likely through a cooperative society.

2. Beneficiary Participation

Families applying for individual loans to HDFC have chosen that unit which best meets their needs within the price range they can afford thus maximizing the individual decision process. After the loan is approved, disbursements start after the "downpayment" has been applied and continue during construction. During the repayment period, prepayments are allowed at any time. There is a strong desire among Indian families, even at the lower income levels, to pay for their home as quickly as possible and so, when and if they are able, families apply extra income to their house payments. Under worker housing, the schemes will take several forms. In some, the loans will be individual with the worker choosing his own housing as in individual loans but with the corporation on-lending HDFC funds or guaranteeing the loan. In others, housing will be provided by the corporation as part of a company complex (more outlying areas) for, say, tea plantation workers. The housing will be made available to the worker as part of his remuneration.

3. Indirect Beneficiaries

Indirect beneficiaries will be families who obtain housing through corporation projects under overall HDFC financing assisted by the HG. They will also include the expanded number of borrowers from HDFC arising out of increased levels of lending permitted and induced by the HG. Finally they will include construction sector workers who are employed as a result of increased HDFC financing, as well as those employed secondarily in construction related trades, commerce and industries.

III. INSTITUTIONAL ANALYSIS

A. CREATION OF THE HOUSING DEVELOPMENT FINANCE CORPORATION

Initial considerations on the possibility of establishing a private housing finance institution in India were begun in 1975 by the Industrial Credit and Investment Corporation of India (ICICI), under its then Chairman (now Chairman of HDFC). An early participant in these condiderations was the International Finance Corporation (IFC) and subsequently the Aga Khan Group. These efforts grew out of a perceived need to create a private housing finance institution which would generate resources and provide long-term housing finance to middle and lower income families. It was seen as supplementary to government progams concentrating increasingly on sites and services, core housing, and upgrading at the very lowest income level and as an essential ingredient if the private sector was to step up its activities as called for in the Five Year Plan. As such, it represents a strong and positive response of the private sector to fill a badly needed gap. These efforts culminated in the registration of the HDFC on October 17, 1977 under the Indian Companies Act.

B. OWNERSHIP AND FINANCIAL STRUCTURE

HDFC has an authorized share capital of Rs 250 million ($31.25 million) and an issued and subscribed capital of Rs 100 million ($12.5 million) with a par value per share of Rs 100. Of this, the original promoters, i.e., ICICI, IFC and The Aga Khan group each invested Rs 5 million. Over 25 percent of the equity was subscribed by government-owned banks, insurance companies and other financial institutions. In addition to these, HDFC has over 11,000 individual shareholders, most of them individual or small accounts.

Among the major shareholders are the Central Bank of India (Rs 2.2 million) and the Life Insurance Corporation of India (Rs 2.5 million). One hundred nineteen companies hold at least 1,000 shares indicating a broad base of corporate support.

A breakdown of the major shareholders and groups of shareholders is contained in Annex 8. HDFC has raised Rs 243 million through term debt and deposits as of June 30, 1981.

C. POLICIES AND OBJECTIVES

HDFC's primary objective is to provide long term finance to middle and lower income individuals, associations of individuals, and corporate bodies for construction, purchase, and ownership of residential houses in urban and rural areas all over the country. The purpose is to increase the housing stock in the country through mainly individual loan finance for housing and to promote homeownership in general. The other major objective, which goes hand in glove with the first, is to mobilize long-term resource in the form of deposits and term debt and transform short-term savings into long-term housing investment. A longer-term objective of HDFC is to support the development of a national system of housing finance.

In addition to its purely housing finance activities, HDFC, as its name implies, also intends to play a broader development role. One way it intends to do this is by developing integrated model townships comprising reasonably priced, good quality residential accommdations, commercial and shopping complexes, recreation facilities and other amenities that go with well-planned housing schemes.

Another approach being taken by HDFC is the financing of housing facilities in new industrial zones and in agricultural and mining enterprises, thus contributing to regional development as a whole.

Another primary objective, however, and related to all of the above, is to operate HDFC on a sound, commercially viable basis and to eventually provide a reasonable rate of return on the shareholders' equity. For without this, HDFC will not succeed as a private sector initiative.

The Statement of Operating Policies agreed to by HDFC and IFC is contained in Annex 9.

D. ORGANIZATION, ADMINISTRATION AND STAFFING

1. Board of Directors

HDFC is a professionally managed organization governed by a Board of Directors representing various professions including finance, insurance, engineering, and construction.

The Board is chaired by a prominent member of the financial community, formerly President of the Bombay Stock Exchange and Chairman of ICICI. The IFC and the Aga Khan group both have one member on the Board.

2. Management and Organization Structure

a. General: The Corporation, headquarterd in Bombay, is headed by a General Manager who is responsible for the overall operations of the Corporation.

b. Organization: The organization structure of HDFC is based on functional lines, and as of now includes eight departments: Corporate Secretary, Corporate Planning, Credit, Technical, Legal, Finance and Administration. In addition, there are positions for an Economist and for an Internal Auditor.

The Credit, Technical and Legal Departments constitute the "operations" of HDFC and handle credit evaluation, technical appraisals and monitoring, and the preparation of loan documents respectively. The Finance Department includes the resource mobilization function and accounting. The Corporate Planning Department is relatively new but it is charged with the responsibility for corporate planning and development.

c. Branch Operations: HDFC currently has seven branch offices (original plans called for opening three branches in the first three years) located at Ahmedabad, Bangalore, Calcutta, Dadar (Bombay), Madras, New Delhi and Pune. Both Pune and, of course, Dadar are located in the same state as Bombay. HDFC is currently planning to open another office in Bombay in order to shift the operations from the headquaters office, which now carries out all functions, to a New Bombay Main Branch. In addition, an office is being planned at New Bombay where HDFC is proposing to put up its own building.

Each branch is headed by a branch manager, who is professionally qualified in one of the fields of operation. The branch offices have counterpart staff to the headquaters office and carry out all of the functions. However, the branch managers do not yet have authority to approve any loans. They review the applications and forward their recommendations to the headquarters office for aproval.

d. Subsidiary: HDFC is in the process of establishing a wholly-owned subsidiary--HDFC Developers Limited--in order to undertake the development of housing estates and integrated development at appropriate places around the country.

3. Staff

At the end of March, HDFC has a total staff--including clerical and administrative--of 175. Of this 93 were at headquaters in Bombay. The staff includes the whole range of individuals necessary to run a housing finance institution, including loan officers, engineers and architects, lawyers, accountants, individuals with business degrees, etc. The general manager is an experienced engineer who before joining HDFC was chief engineer for the Life Insurance Corporation. The DGM was with Chase Manhattan Bank in Hong Kong and Bombay. Other key people are well experienced. However, a number of the junior staff, while well qualified by training, lack experience. This is due to the rapid expansion of the staff to 101 by the end of FY 79, to 165 by the end of FY 80 and then to the current level. Such a rapid increase always entails problems. Although admittedly very conservative, the original planning figures called for a staff of only 45 in the past five years.

E. TYPES OF LOANS

HDFC's loans are of four major types:

1. Loans to Individual Borrowers

HDFC makes loans to individuals to acquire residential accommodation. The loan amount is based mainly on the creditworthiness of the individual and the value of the dwelling unit, but generally does not exceed 70 percent of the value. The repayment period is from five to fifteen years up to age of 65. Monthly repayments generally do not exceed 25 percent of the individual's gross monthly income.

Loans are made for acquisition of houses and apartments which are secured by a mortgage of the particular apartment financed and for the construction/acquisition of individual houses secured by a mortgage of the land and building.

The rate of interest, recently raised, is determined by the amount of the loan as follows:

Up to and including Rs 20,000	12.5% p.a.
Between Rs 20,000 and Rs 50,000	13.5% p.a.
Between Rs 50,000 and Rs 100,000	14.0% p.a.
Rs 100,001 and above	14.5% p.a.

2. Group Projects

These are loans to registered cooperative societies and associations of apartment owners. The loan amount in these cases is determined by aggregating the loan amount that each member of the group would be eligible for. As with individuals, the loan-to-value ratio generaly does not exceed 70 percent.

The security for such loans is a mortgage of the full property. Individual members may have terms varying from 5 up to 15 years. Age and income of the member being the criterion for determining the maximum for a particular member's term. The rate of interest for such projects ranges from 12.5 to 14.5 percent.

3. Line of Credit

This program provides housing loans to individuals through their employers. Companies who wish to encourage individual home ownership among their employees can approach HDFC for a line of credit varying from Rs 500,000 to Rs 5 million.

a. Line of Credit "through" the Company: In this case the borrower is the individual employee. Loans follow HDFC's standard norms with a maximum period of repayment of 15 years. The rate of interest is from 13.5 to 14.5 percent. The security for the loan is an unconditional irrevocable guarantee from the company. In most cases employers make some contribution to the payment, thus lowering the effective interest rate to the employee and enhancing an employee's eligibility for a loan.

b. Line of Credit "to" the Company: Under this scheme, HDFC makes loans to companies for on-lending to employees who will own the units. As such, the loan is a direct obligation of the company. The current rate of interest to a company is 15 percent, with a maximum term of 10 years. Security for the line of credit is a mortgage of fixed assets of the company and/or any other security acceptable to HDFC.

Here again, the companies generally offer more favorable terms to their employees with respect to amount, period, and rate of interest than those offered to the company by HDFC.

4. Corporate Loans

In developing areas in India, where various industries are being induced to establish operations, there is often little infrastructure and no housing of any type, rental or ownership. The corporation usually has no option but to provide accommodation to its employees if it is to attract and hold them.

To help ease this problem, HDFC has a program whereby it makes loans to corporations for construction of worker housing. The property to be financed is owned by the corporation. HDFC exposure in such cases is restricted to a maximum of 50 percent of the value of the property; the term is restricted to 5-8 years. The current rate of interest charged is 15-16 percent. Security for the loan is mortgage of the property and/or any other security HDFC may deem necessary. Annex 16 is a list containing examples of corporate loans approved by HDFC to date.

F. LOAN PROCESSING, DISBURSEMENT AND SERVICING

In general, an individual loan application would be appraised by the Credit Department, the property would be evaluated by the Technical Department, and the required documents would be checked by the Legal Department before a loan is approved. Loans to cooperative societies or corporations would follow a similar process with, of course, the review being of the society or corporation and its proposed project.

HDFC's disbursements usually start after the individual, society or corporation has expended its contribution. That is, if an individual is financing a house he is building, HDFC will require that the individual's equivalent 30 percent downpayment has bene expended on the house before it disburses. The procedure is similar for a corporation where HDFC is financing 50 percent of the project. The Technical Department then reviews the work in place before a disbursement is approved and for each subsequent disbursement.

Interest only is paid during the construction period, and equal monthly payments for the term of the loan commence after contruction is complete. At the end of every month, a list of unpaid accounts is forwarded to the follow-up section. To date there has been a very low delinquency rate and no defaults. This is partly due to the high downpayments that HDFC required but also to HDFC's excellent credit review process and its loan servicing. HDFC admits, however, that eviction is a very difficult and lengthy process and represents, at least, a potential problem.

The detailed procedures outlined above are contained in Annex 10.

G. MOBILIZATION AND SOURCE OF FUNDS

HDFC funds its operations through long-term lines of credit on commerical terms and through various deposit schemes.

At present, HDFC has two deposit schemes in operations: the Certificate of Deposit Scheme and the Loan Linked Deposit Scheme (LLD). The former attracts deposits from individuals, institutions and companies over the short and medium term (6 months to 5 years) and is competitive with public institutions, especially the commerical banks. The current rate being paid ranges from 9-12 percent, depending on the maturity period, with a minimum deposit of Rs 5,000.

The LLD scheme is an attempt to encourage future homeowners to save regularly for a period of years before the purchase of a house. HDFC supplements their savings with a loan extending up to four times their accumulated savings after a minumum period of three years from the date of their first deposit. The maximum amount that can be saved is Rs 30,000 exclusive of interest. The current rate for savings being offered is 9 percent.

Income from deposits with HDFC is exempted from income tax up to the Rs 3,000 total for such income. Deposits are exempt from the Wealth Tax up to Rs 150,000.

With regard to long-term lines of credit, HDFC is seeking the support of financial institutions, insurance companies, and banks who contributed to the initial capitalization of HDFC and who have been permitted by the Reserve Bank of India to make limited investments in housing, to channel some of these funds through HDFC as an intermediary.

There is also a significant amount of funds available for deposit by charitable trusts and cooperative institutions. HDFC has sought changes in the various provisions of the Income Tax Act and the Indian Trust Act in order to be able to mobilize funds from such trusts and cooperatives.

Finally, HDFC, as it expands its corporate housing programs, is actively pursuing these corporations to deposit some part of their resources with HDFC and has already had some success to date.

H. OPERATIONS

1. Review of Operations to Date

a. General: Although HDFC was incorporated in 1977 and it commenced operations in October 1978, on a somewhat low key. However, the second year saw a dramatic increase in lending which has remained unabated up to the present. Earlier sections discussed the rapid build-up in staff and expansion of branch operations to enable HDFC to sustain the increase in its activities.

This Section will touch on the pertinent financial and operational aspects to demonstrate the results to date. Detailed financial and operational statistics are contained in the latest balance sheet, profit and loss statement, and monthly operating report appended as Annexes 11, 12, and 13.

HDFC's entry into the housing finance field was very fortuitous in that it met an immense pent-up demand and long unfulfilled needs in the areas of housing finance and related services. The growth rate enjoyed by HDFC in its initial years bears testimony to the long felt need for such an institution.

b. Portfolio Analysis: Since HDFC was established in part to encourage individual homeownership, it is relevant to judge the demand for its services in terms of the number of loan applications made by individuals. The number of individual applications received has increased from approximately 1,600 in 1978-79 to 5,800 in 1979-80 to 8,800 in 1980-81. Applications for group projects and corporate loans have totalled 165 to date.

Total loans approved in all categories grew from Rs 71 million in 1978-79 to Rs 229 million in 1979-80 to approximately Rs 300 million in 1980-81, for a total of Rs 600 million at the end of the fiscal year 6/30/81. The rate of disbursement has also similarly picked up, increasing from Rs 13.1 million in 1978-79 to Rs 103.7 million in 1979-80 to Rs 188 million in 1980-81.

c. Analysis of Borrowers: Summarized data of HDFC's borrowers classified under various categories, such as income, area of dwelling unit, region, etc. are given in Annex 13, the monthly operating report.

During 1980-81, 14 percent of all units financed for individual ownership were for individuals having a monthly income under Rs 1,000 and 46 percent of the units financed were for individuals whose monthly income ranged from Rs 1,000 to Rs 2,000. The average loan approved for individuals in these two categories was Rs 18,000 and Rs 28,000 respectively in 1980-81. The percentage of individual borrowers below Rs 1,000 per month income on a cumulative basis is 22 percent, showing a trend toward somewhat higher incomes for individual borrowers. This is due to the factors cited earlier in this paper, i.e., cost of properties financed and the increasing cost of money.

HDFC has, however,been able to reach a lower-income beneficiary, on the average, with its corporate loans. Here the corporations are interested in financing housing for all of their workers, including the lowest income, and are prepared to make some contribution to this end as described in the earlier Section on HDFC loan programs.

The average beneficiary under the corporate loan program earned Rs 900 although this has risen to Rs 1,000 in the current year. Housing financed through corporate programs is also more modest, on the average, reflecting the lower income levels served. Here again, however, the figures have increased in 1981. Through the current period 86 percent of all beneficiaries under corporate programs earned under Rs 1,000 per month, but this has dropped to 69 percent in 1981. Since individual corporate programs cover all worker housing, this reflects increasing wage levels.

d. Distribution of Activity by Section of Country: HDFC commenced operations in 1978 with its headquarters (which carries out all loan functions) in Bombay, a branch in a suburb of Bombay, and other branches in Calcutta and Madras. This resulted in a concentration of loans in the western region. This situation has begun to smooth out, however, with the opening of additional branches; and by the end of FY 81, only 62 percent of the value of all loans has been in the west, and for FY 81 alone, only 55 percent. Thus, HDFC is beginning to become truly national in scope.

e. Mobilization of Resources: HDFC launched its Certificate of Deposit Scheme in the 1979-80 fiscal year and by year end had attracted Rs 38.8 million. The inflow of funds for this source has increased to Rs 160 million by the end of this fiscal year 1980-81.

On the term debt or long-term borrowing side, ICICI provided an initial loan of Rs 2.5 million and the IFC a $4 million loan. The major effort in this regard, however, has been a Rs 100 million loan from the LIC at 12.5 percent interest rate for ten years. This loan which was under negotiation for over a year has been finally signed. With a partial drawdown of this loan, term debt has increased to 34 percent of total borrowings at the end of the fiscal year.

Nevertheless, the mobilization of resources has lagged behind expectations and HDFC will step up its efforts on several fronts. The HG funds will, of course, provide a substantial infusion of long-term debt and, as previously stated, hopefully act as a catalyst.

The Reserve Bank of India had previously appointed an expert committee to study the role of commercial banks relative to provision of financing for housing. Based on the Committee's report, the RBI of India issued guidelines on the provision of housing finance by commercial banks whereby the banking system as a whole would provide funds up to Rs 750 million per annum for housing. The guidelines also suggested that services of specialized housing finance institutions may be utilized for identifying suitable borrowers and for disbursement and recovery of such advances. RBI issued a specific circular on 6/15/81 indicating that banks could lend to HDFC at 12-1/2 percent for 10 years, with a 3-year grace. Under these guidelines, two commercial banks have already approved totalling Rs 15 million to HDFC, and additional applications are pending with several others.

There is also a significant amount of funds potentially available as deposits from charitable trusts and various cooperative institutions. HDFC has sought changes in some provisions of the Income Tax Act in order to be able to mobilize funds from such trusts and cooperatives on a scale not previously attainable.

HDFC also plans a major campaign to attract smaller depositors. The Loan-Linked Deposit Scheme, described earlier as too new to determine its attraction yet, will be aggressively marketed.

f. Financial Analysis: During the period 1978-79 to 1980-81, total income grew from Rs 3.8 million to Rs 15.1 to Rs 33.8 million registering nearly an eight-fold increase. In the first year of operations with the share capital money on hand and a slow start to its lending activities, interest on housing loans accounted for only 10.5 percent of its total income. Nearly 82-percent of the income came from investment and the rest from fees and charges. However, with rapid growth of lending activity in the second year, 1979-80, about 38 percent of total income came from interest on housing loans and only about 35 percent from investments.

This shift in the major source of income continued in 1980-81 as HDFC rapidly increased its disbursements in housing loans. In 1980-81, interest on housing loans contributed to 63 percent of the total income, while investment income reduced further to 19 percent. This trend will continue in the future.

Interest expense and other charges, i.e., cost of debt increased from Rs 0.3 million in 1978-79 to Rs 11.3 million in 1980-81. Increasing reliance on term debt and deposits, once the Rs 100 million equity was utilized, was the main reason for this increase in interest expense.

General and administrative expenses increased from Rs 2.5 million in 1978-79 to Rs 6.3 million in 1980-81, primarily due to the rapid expansion in new branches and staff increase. Profit after taxes increased from 0.6 million in 1978-79 to 10.7 million in 1980-81.

Dividends were not distributed in 1978-79 and 1979-80. However, HDFC is considering declaring a dividend, not exceeding 6 percent of par value in 1980-81. Balance sheets and profit and loss statements covering the year 1978-79, 1979-80, and 1980-81 are contained in annexes 11 and 12.

All indications are that there is a sufficiently large volume of unfulfilled demand for shelter to ensure good growth for HDFC in the next five years, if adequate financial resources are made available to it.

This is the major factor considered by HDFC in preparing its financial projections for the next five years. (See annex 14 for projections). Another important factor entering into its projections is that, while building up a strong operational base, HDFC has relied solely on word-of-mouth publicity. Now, however, with eight offices operating country-wide, HDFC plans to launch a concerted advertising campaign to attract more borrowers and depositors to avail of its facilities.

Although the overall growth rate will begin to level off in the next few years, in contrast to the past three years, the outlook for HDFC appears very promising.

I. ASSESSMENT

To date HDFC, as the first and, so far, only private housing finance institution in India, has successfully demonstrated its ability to meet in an efficient and responsive manner, the large demand from low and moderate income households for housing finance on commercial terms.

From the financial standpoint, a review of HDFC's operations was carried out by a member of the initial PID team from the Federal Home Loan Bank Board. All financial data was analyzed, including standard operating and financial ratios. Although such analysis for an organization just getting underway is difficult to compare against norms, it is felt that HDFC is in good financial shape at present.

However, there are a few points worth commenting on relative to current operations which will be evaluated as the first HG is drawn down.

With its rapid expansion, HDFC's staff has grown more quickly than originally envisioned and the organization has evolved in a somewhat loose fashion. However HDFC is beginning to rationalize its organization, and complete its policy and procedural guidelines in order to remain an efficient organization.

With regard to organization, as things stand now the GM and DGM are not free to concentrate on the crucial problems, longer term goals, and corporate policy issues that they must, i.e., ways to increase deposits, marketing efforts to seek lenders, pursuing favorable legislation, policies on standards, loan terms and income levels of beneficiaries etc. The number of day-to-day operating problems which must be handled at top levels is excessive. Some proposed organizational changes being considered which would improve the situation: (1) consolidation of the credit, technical and legal functions under an Operations Department; (2) a separate department for resources mobilization; and (3) a new Finance Department to include accounting, corporate planning and computerization.

HDFC's processing and servicing of loans, as described in earlier sections, appear to be carried out effectively. Prudent lending policies keep its lending rates above the cost of funds and downpayment requirements keep its risk down. Nevertheless, as HDFC expands its lending activities and opens new branches while at the same time stabilizing its staff and delegating more authority to the branches, it needs to streamline and consolidate its procedures and policies by formalizing them in a series of operating manuals. The first of these, covering credit, has been completed.

Another area that needs special attention is the rate of approval of loans. As of now, the amount of undisbursed loans which have been approved totals Rs 300 million. This exceeds the amount of available funds. The recent LIC loan (Rs 100 million) will help ease this problem, but the rate of deposits will have to increase if it is to be solved.

With regard to lower income families, HDFC, as a new institution, has not yet developed the mechanisms to deal directly with this income group effectively. Current conservative practice relative to type of structure to be financed, level of downpayment, length of repayment period etc., which a new institution should follow, make it difficult to deal with the very poor.

HDFC sees itself, however, as a public interest corporation which has a long-term obligation to serve as broad a range of income levels as possible. Thus, it is prepared to look at all means whereby it can service lower income families. The possibility of a formal policy statement in this regard has been discussed with HDFC and such a statement will be drafted and submitted to its Board later in the year. In the meantime, HDFC sees the best way to reach poorer families is through its corporate loan program where the corporation contributes to the cost of the housing. Thus, it is through this mechanism that the HG program will apply.

HDFC's contribution to housing development will, in the end, depend largely on the extent to which it can raise resources for this purpose. (This will depend, in turn, on the soundness of its operations). Further, it will have to initiate new methods of finance, investigate the possibility of new mortgage instruments to suit the needs of different types of borrowers for different types of dwelling units, and reach as wide a class of borrower as possible.

IV. TECHNICAL ANALYSIS

A. TECHNICAL OPERATIONS OF HDFC

1. Organization

The head of the Technical Department, Chief of Projects, reports to the General Manager. There are currently three technical appraisers at headquarters. There are also appraisers in the branch offices who work under the administrative control of the Branch Manager but are responsible to headquarters for technical appraisal work. Where there is no branch office within suitable distance of a project, a panel of registered valuers is available to inspect and evaluate projects, submitting the reports to the branch office in charge.

2. Review Process

Technical review and appraisal is done with varying frequency, depending on the size of project, for individual, cooperative housing societies and corporate bodies. The first review provides an input to the loan approval process and occurs after the credit appraisal work is completed. The Technical Department is consulted concerning the suitability of plans, reasonableness of the estimate and, in some metropolitan cities, the reliability of the builder. (It should be noted here that HDFC is compiling a builders performance file and has recommended in extreme instances that a loan should not be approved unless a reputable and reliable builder was found.) The final amount of the loan is decided on credit and technical appraisal confirmation.

3. Design Standards

HDFC does not directly concern itself with reviewing design standards but relies partially on approvals given to projects by municipal agencies utilizing by-laws drawn from the National Building Code. The code is advisory, but serves as model for adoption in all states and municipalities of India.

A design review of major projects financed by HDFC yielded sound design principles with no evidence of excessively high standards or less than minimal norms. Choices of materials and construction techniques indicate long life span of structures in all cases.

The Technical Department, during its evaluation inspection of disbursement, reviews the construction from the following points of view: (1) structural safety, (2) completion of work cited in certificate from builder or architect and (3) quality of work. If there is difficulty in any of these areas, it must be rectified before disbursement is authorized.

The responsibility of quality control rests legally on the architect and engineer of any given project. They must file Supervision Certifictes with the municipality in which the project is located. In addition, the municipality inspects plumbing and electricity upon request for hookup and inspects foundation work to ascertain lot layout conformity. The structural engineer also submits calculation sheets for structural design. At the completion of a project, Completion Certificates are filled by the architect and engineer team. At this point, the municipality has a site inspection that leads to an Occupancy Certificate being awarded.

4. Environmental Considerations

The proposed HG Program falls within the category of an intermediate credit institution and, pursuant to AID's Environmental Regulation 16 as amended October 1980, does not require an IEE. Therefore, in accordance with AID regulations, no additional work on environmental consideration for this program is required.

Nevertheless, the activities supported with HG funds will result in improved shelter and living conditions of people in lower income group. HDFC is committed to improving shelter and infrastructure conditions by provision of safe drinking water, sewerage systems, roads, community facilities etc. HDFC has already taken a number of steps to enhance beneficial impact of its program. The HG Program will support these efforts and contribute to better living environment for the people.

The HDFC-financed projects inspected all fall under municipal town planning regulations that assure open space provisions and request tree planting to provide shade and aid in soil stabilization. Also provided are lot distribution and site design guidelines to maintain proper run-off conditions to avoid environmental damage to adjacent areas

B. TYPES OF HOUSING

1. HDFC Owner-Contractor Relationships

HDFC loans to individuals cover three levels of owner-contractor relationships:

Owner Self-Help

An owner can construct his own dwelling, purchasing building materials directly and investing his own labor in construction as as long professional control is maintained through the hiring of an architect or engineer as supervisor. The owner can save up to 35 percent of the standard cost of a house. The average cost is Rs 65/sq. ft. ($8.13).

Owner as General Contractor

The purchase of all building materials by the owner saves him up to 15 percent of the building cost. He chooses to contract labor for construction on an individual basis or through a general contractor. The average cost is Rs 85/sq. ft. ($10.63).

Contracted Construction

The owner chooses a contractor to fully supervise and construct the house. The average cost is Rs 100/sq.ft. ($12.50).

A low income, owner-constructed house of 425 sq. ft. costing Rs 80./sq. ft. was visited (including land cost of Rs 5/sq. ft. which is very low). Of the total cost of Rs 34,000, Rs 25,000 was the loan exposure. The finished house of two rooms plus kitchen and toilet exhibited a good degree of finish throughout.

A description of the type of housing provided under the corporate/institutional program is given in Annex 15.

2. HDFC as Developer

HDFC's venture into developer status with the creation of HDFC Developers Limited has resulted in a housing complex in the midst of industrial sites in the city of Pune. Designed to ultimately accommodate 500 dwelling units, the land had no infrastructure on or near it and had to be developed from scratch. HDFC maintains an onsite project manager as chief coordinator.

Although the asking prices for these units is Rs 90,000 to Rs 250,000, partly because of the high cost of the infrastructure which covers water supply, sewer, power, roads, lighting, landscaping and land costs, the project has been extensively pre-sold reflecting the very high demand for housing in industrial areas.

C. BUILDING INDUSTRY

1. Building Materials

The building materials industry of India relies mainly on indigenous resources, with its only major problem being energy production for the manufacture of cement. The country's capacity for cement production is 28,000 tons which, at present, is the demand. However, current production is 20,000 tons because of the energy constraint. The result of the shortfall has been prioritizing of available supply and some delays in obtaining cement.

Another area of difficulty is quality control of low-fired brick in the Western (Bombay) and Southern regions of India. Because of this, it is only suitable as an infill material.

In general, however, building material availability and quality do not present problems.

2. Land and Infrastructure

Private sector housing efforts encounter some difficulties in urban areas because of the governmental freeze on urban land over $500m^2$ to $2,000m^2$ depending on zone. This product of the Urban Land Ceiling Act, (as discussed previously in the paper) has had a negative effect on housing growth.

Infrastructure systems, while feeling the strain of urbanization, are still available in urban areas. Programs such as World Bank efforts to increase water supply in the Bombay area are under way. The system of basic infrastructure delivery to a proposed site boundary is at cost to supplier; all on-site networks are project costs borne by developers. All basic infrastructure building materials as well as construction equipment are produced in-country.

3. Contractors

Contracting in India has no international participation. The contracting industry has expertise and capability to handle any size project in the building sector. The Builders Association of India is a group of highly skilled contractors that, when combined with quality control supervision imposed by municipal codes and ordinances, insures good construction procedures.

D. ASSESSMENT

The income spread of the people reached by HDFC loans has exposed HDFC to a wide range of different house types and projects. Experience is being gained in development, with the Pune project, of the newly formed HDFC Developers Limited.

The quality of HDFC-financed projects, based on labor-intensive construction, is good, controlled by a set of operating quality control measures from governmental, municipal, professional (architect-engineer) aspects to HDFC Technical Department evaluators. The continued interest in new forms and techniques of construction and creative control over availability and quality of building materials plus an air of cooperative enterprise points to a vigorous building industry of which HDFC is a growing part.

The input of HG financing, while substantial, should be handled without administrative difficulty in terms of Technical Department functioning. The need for additional appraisers with greater experience in handling large projects may arise. In addition, there may be increasing demands for overseeing HDFC Developers, in which case, additional experienced construction staff may be needed.

V. SOCIAL ANALYSIS

A. URBAN SHELTER PROBLEM

The magnitude and intensity of the shelter problem in urban areas of India has already been discussed. It is evident that the magnitude of the problem and resource requirements is immense for the country. In spite of the various government-sponsored programs for low income people through HUDCO, LIC, or state government programs, an average working class person has enormous difficulty in getting a minimum decent shelter. A working class person with an income of, say, Rs 1,200 per month had no place to go to seek long-term financing to buy a house, until HDFC was set up three years ago. Lack of housing finance contributes to the extreme overcrowding in urban areas, with one result being that over 50 percent of all urban households live in one-room dwelling; in Bombay it is about 77 percent. One can begin to feel the intensity of the overcrowding when one considers that the average family size is 5.9 persons per household. Current estimates indicate that about one-third of the population of large cities live in slum areas, both on public as well as private land. These areas, lacking in sanitary facilities, water supply, electricity, or community facilities are a major hazard to human health and environmental conditions.

It must be emphasized that many of the people living in overcrowded one-room dwellings or slum area are not unemployed. The people are gainfully employed in what may be characterized as lower-level workers in the organized sector and self-employed people in the informal sector.

Although most of these people are earning less than Rs 1,200 per month, they are willing and able to pay for reasonable shelter, provided they are given the opportunity to be able to have a house of their own. As it is, they often pay exhorbitant rents or key money to slum landlords. It is interesting to note that most of these people do not expect a free gift of shelter from the government: rather they would like an opportunity and a framework within which they can acquire a house. Lack of housing finance in India has traditionally been been a major problem for this group of people.

B. URBAN INCOME LEVELS AND DISTRIBUTION AND HG TARGET POPULATION

The USAID Mission in Delhi and the Project Design team undertook a new effort to determine the median income for HG program beneficiaries. A survey conducted by the Tata Institute of Social Science in Bombay for the World Bank, calculated the following income distribution for Greater Bombay in 1977.[1]

---

[1] Quoted from "Staff Appraisal Report, Second Bombay Water Supply and Sewerage Project." Report No.1970b-IN, World Bank, Wshington, D.C., July 15, 1978.

Household Income distribution of Total Population of Greater Bombay

Income Group (Rs/Month)	Total Population (%)
Under 200	2.75
201-450	13.25
451-700	15.96
701-1,000	18.15
1,000-1,500	15.85
1,501-2,000	12.10
2,001-3,000	11.62
3,001-5,000	6.20
Above 5,000	1.75
Not Recorded	2.38
	100.00

According to the above table 50.11 percent of the households in Greater Bombay were earning less than Rs 1,000 per month in 1977. The GOI estimates the increase in consumer price index between 1977-81 to be 49 percent, using simple extrapolation based on inflation alone and not counting for any real increase in income levels; thus, the median family income of Greater Bombay is in the order of Rs 1,500 per month in 1981. Assuming income levels to be slightly higher in Greater Bombay than in smaller urban centers and allowing for 20 percent differential between Bombay and other urban areas, USAID and Project Design Team considers Rs 1,200 per month to be a conservative estimate of the median income to be used for this program.

It has been decided to use the Rs 1,200 per month cutoff throughout the program, even when corporations and their potential beneficiaries are located in outlying or rural areas, because the wages in these corporations and other enterprises tend to be much closer to the urban wages.

This program intends to reach poor people who can participate either as workers for corporations, who will provide some assistance toward purchase or directly provide a house, or as individuals in subsequent years' programs. In the case of corporations, the beneficiaries would be workers and laborers in such enterprises as textile mills, fertilizer plants, steel mills, tea plantations, or mines. In the case of the individual participants, the beneficiaries would include semi-skilled workers, secretaries, junior office workers, service personnel such as waiters and hotel help, messengers, etc. The latter are already participating as HDFC borrowers but at rates of intrest not achievable with HG levels at present.

C. PROVISION OF HOUSING BY CORPORATIONS/INSTITUTIONS

Provision of housing or housing allowance by a corporation to its employees is widespread and accepted practice in India. Most people in India receive a compensation package made up of a number of elements. The package usually includes pay, a house or housing allowance, and low interest loans from the company. The employee and employer both look at the total package--employer from the point of view of total cost of hiring and doing business and employee for making his or her decision to work for a given organization. It is useful to emphasize that none of the items in this compensation package are considered a "subsidy" by the employer or the employee. These are considered merely different modes of payment for the services rendered by the employee.

In terms of housing, corporations often provide loans to the employees to buy or own their homes, at rates of interest often lower than the cost to the corporation. Alternatively, the corporation may guaranty private loans obtained by its employees. Sometimes the corporation builds the housing directly and rents it to the employee, as long as he is employed by the corporation, at a nominal rent--usually 10 percent of the salary.

Financing under the HG project would be available to corporations for any of the above purposes. It is anticipated that the corporatins will pass the HG loan to individuals on terms more favorable than that it pays HDFC. Under this arrangement, HDFC would recover its full cost plus a reasonable spread, employees below median income would get long-term financing at a relatively lower rate, and the corporation would consider this assistance as a part of its total compensation package to the employee.

D. DECENTRALIZATION OF INDUSTRY AND ITS IMPACT

The GOI is very concerned with the rapid increase in urban population and the resulting concentration of industrial activities in these areas. In an attempt to slow down the growth of large urban centers and to develop less developed areas of the country, GOI has adopted a policy of industrial decentralization and regional development.

In accordance with this policy, both the Central Government and the state governments provide strong incentives for industries to move into new industrial development zones located in the outlying areas. Various tax benefits are provided and state governments have established state finance corporations which provide long-term finance to new industries locating in these development zones. Infrastructure facilities such as roads, power, and water are also made available. Housing, unfortunately has not been incorporated formally into the development plan. Although industries moving into these areas are encouraged to hire local labor where available, a significant number of workers is drawn from urban areas and this is one of the benefits.

One feature of relocation is the availability of adequate land for residential purposes at a reasonable cost. Industries find it cheaper to house people in these areas than to provide housing in large cities and towns. For many workers, particularly in the income levels at or below Rs 1,200 per month, availability of housing is enough to attract them out of cities and urban centers. Finance for housing to companies is, however, not being provided by any state or the Cental Government. HDFC, thus, performs a very useful function in financing housing for companies in new industrial zones. It complements the work of state government in attempting to relocate industry into well planned industrial zones with residential housing facilities.

E. PROFILE OF HDFC BENEFICIARIES

The proposed project provides a unique opportunity to utilize HG resources to reach the poor people at or below median income, while at the same time, strengthening HDFC and building a long-term housing finance system in the country. HDFC is committed to meet the shelter needs of the people at the lower and middle income level, while keeping the institution profitable. As a result, it must move slowly and carefully in increasing the number of lower income people it services, especially in times of high interest rates. However, the corporate mechanism proposed in this project will meet the needs of lower income people, while giving HDFC more experience and very low risk of default. While HDFC will continue to service people below as well as above the median income, HG resources will be used for only those people who are at or below median income.

HDFC is committed to equal opportunity in terms of its lending practices. Women participate in HDFC programs in a variety of ways. HDFC considers a spouse's income as part of household income when determining the loan amount. The wife, in a number of cases, is co-borrower and her income plays an important role in determining loan amount. In other situations women are the primary or the only borrower. In large cities where there is a number of single working women, they are likely to benefit from HG and HDFC programs as much as men.

The Project Design team reviewed a random selection of twenty recent recipients of HDFC loans, who were at or below Rs 1,000 per month. The profile of these loan recipients showed that the youngest recipient was 23 years old and the oldest was 47 years hold. Most of them however, were in their late twenties to late thirties. The majority were employed in some type of private organizations. However, a few were employed by the government and one was self-employed. Three of them were women. Their occupation covered a wide range of skilled, semi-skilled, and unskilled areas including: unskilled labor, messenger, police constable, electrical fitter, draftsman, receptionist, nurse, electrician, tailor, packer, operator, teacher, skilled fitter, store keeper, salesman, winding job, telex operator and typist. Potential beneficiaries of HG program are likely to fall into these categories.

In addition, HDFC is in the process of introducing a savings and loan scheme for people with incomes as low as Rs 300 per month. Under this scheme, an individual will deposit a predetermined amount in the savings account with HDFC, and after three years of regular deposits, the depositor will be entitled to a housing loan for four times the amount saved. This scheme clearly indicates HDFC's commitment to reach the lower income people by a variety of immaginative approaches.

VI. ECONOMIC ANALYSIS

A. ECONOMIC OVERVIEW

Given the size of the Indian economy, the proposed HG loan will not have a significant impact on India's overall finances. The proposed project is 100-percent local cost and therefore the GOI will have to allow the release of an equivalent of $30 million in Indian rupees over the two year period or approximately Rs 240 million. This again is an extremely small amount compared with the total money supply (M_4) of Rs 540 billion and total deposits in commercial banks of Rs 328 billion in 1980 and will have no measureable impact on inflation in the economy of India. Looked at from the point of view of total investment in India in 1980, private sector investment was Rs 278 billion. Again the HG contribution would be too small to have any significant impact.

However, the proposed HG is highly significant as an indication of India's efforts to diversify its sources of borrowing. The net inflow of AID on concessional terms has been steadily declining during the recent past. India has recognized the fact that it cannot continue to depend primarily on concessional assistance and must borrow on what it calls "quasi commercial" terms of the World Bank and International Finance Corporation. A recent policy statement of the GOI states that "although the interest on these loans was in the range of 9 to 17 percent, the major advantage was that the loans were long-term with lower annual repayment burden." In addition, the GOI has decided to encourage the Indian private sector to borrow abroad, suggesting especially the IFC, which provides "quasi-commercial" loans at 13 to 14 percent interest for 7 to 10 years. Annex 19 contains several recent statements by the GOI relative to external borrowing.

The AID-India Consortium meeting in Paris shared India's view that the balance of payments would be a strain in the medium-term and that it was caused principally by the major increases in the price of crude oil and related commodities like fertilizers. However, the consortium members agreed that the long-term prospects were good and India was a good credit risk.

The debt service ratio[1] for India was estimated to be 10.4 percent in 1979/80. According to the World Bank projections[2] debt service is likely to remain at or slightly below 10 percent, until 1984/85, and then begin to rise, but will remain below 16 percent through the 1990s. Even allowing for a lower level of domestic oil production and readjustments in the economic policies, it is likely to remain below 20 percent through 1995. Low debt service combined with an impeccable record of managing its past debt, made India a very creditworthy borrower.

1/Amortization and interest payments on foreign loans as a percentage of exports of goods and services.
2/"Economic Situation and Prospects in India" Report No. 3401-IN, World Bank, April 15, 1981.

B. DEVELOPMENTS IN THE FINANCIAL SECTOR

Recent reports on currency and finance indicate deceleration in both deposit and credit growth. In the context of persistent inflationary pressures in the economy and a decline in national income, the Reserve Bank of India pursued a restrictive credit policy in 1979-80. Restrictive credit policies have led to increased lending rates, especially short-term, to from 15 to 18 percent with the commercial banks. These rates were applicable to all sectors of the economy, except certain specified priority sectors. They also resulted in increased deposit rates on savings accounts. Annex 18 contains information on current interest rates prevailing in the country.

Aggregate deposits registered an increase of 16.1 percent during 1979-80; however this increase was 23 percent during 1978-79. In spite of the higher cost of housing (estimated to have increased by almost 50 percent during the last year in Bombay) and lower savings rates, HDFC business has not been affected significantly because of the huge volume of unserviced demand for housing finance. However, this trend may adversely affect HDFC's ability to raise resources in the domestic market, especially in the short-term.

VII. PROJECT IMPLEMENTATION

A. BORROWING PROCEDURES

HDFC will be the Borrower and the State Bank of India, a Government of India owned-and-operated Bank with offices all over the country and in New York, will be the Guarantor of the Housing Guaranty loan. State Bank of India, in addition, will serve as investment advisor to HDFC. State Bank will work closely with HDFC to contact potential lenders, determine the time of borrowing, and terms and conditions of borrowing. State Bank of India will also take the foreign exchange risk and repayment in dollars of the loan transactions. HG loan funds will be disbursed to the State Bank offices in New York and it, in turn, will release an equal amount in Indian Rupees to HDFC. State Bank may not charge any fee for its services or for taking the foreign exchange risk. However, it would seek to utilize the U.S. dollars in the most beneficial manner based upon its portfolio. Neither HDFC nor AID will direct the state bank on use of U.S. dollars. Underlying assumption, of course, is that the State Bank will be able to offset its cost of providing services to HDFC and foreign exchange risk by investing U.S. dollars in the most profitable part of its portfolio. This arrangement will insure that HDFC gets the best advice from responsible bankers and, at the same time, will not have to pay any surcharge for the service nor bear any foreign exchange risk. In terms of repayment of loan, HDFC will pay to the State Bank of India in Indian rupees, and State Bank will convert this payment in U.S. dollars.

B. DISBURSEMENTS

It is anticipated that the current HG loan would be used to finance shelter for people below the median income level through the corporate mechanism discussed earlier in the paper. However, if HG loan rates go down HDFC would, of course, be free to use HG funds for individual borrowers below the median income. HDFC will prepare a Project Delivery Plan which will include the planned schedule of loan approvals and timings. This plan will be submitted to RHUDO/Asia for approval. Upon approval of Project Delivery Plan, an amount up to one third of total authorization, i.e., $6.33 million will be disbursed to HDFC. HDFC will use this amount to make actual loan committments based upon the Project Delivery Plan. Prior to release of second disbursement, HDFC will provide satisfactory evidence to RHUDO/Asia that previous HG loan amount has been disbursed for the people at or below median income level. This process will continue until the last disbursement. HDFC will have six months from the date of last disbursement to provide satisfactory evidence to RHUDO/Asia that entire HG loan amount has been disbursed in accordance with this Project Paper.

C. PROJECT PLANNING AND APPROVAL

HDFC has a well established system for project planning and approval but has been constrained by limited resource availability. As mentioned earlier, it has a backlog of approved loans. The HG loan will allow HDFC to partly meet its current demand, as well as seek and approve new corporate applications for employee housing projects.

HDFC will process all applications in accordance with established procedures. Once the loan applications have been processed and approved, it will seek reimbursements for those beneficiaries who are at or below median income level. HDFC will maintain all records, so that individual beneficiaries of the HG loan can be easily identified. RHUDO will review these records periodically.

D. CONDITIONS

Office of Housing considered the possibility and desirability of including a condition for the first tranche requiring HDFC to prepare a policy statement outlining its intentions regarding promotion and financing of progressively lower income housing. We discussed this issue with HDFC and reviewed its plans for providing shelter for lower income people. HDFC management supports the concept and has already several programs whereby it is responding to the shelter needs of the lower income people earning as little as Rs 300 per month. In one of the recent HDFC-financed projects, the average income was Rs 560 per month. PRE/H felt that HDFC, not only has a commitment to lower income people; it already is responding to their shelter needs; and in fact the HDFC Operating Policies (Annex 9) states its objective to be "To provide long-term finance to middle and lower income individuals, associates of individuals, cooperative societies of individuals . . . and to promote home ownership." However it does not have fully articulated policy statement. PRE/H recognizes that it takes some time to get a policy statement in any organization. Thus it would be more appropriate to require this policy statement as a condition to the second tranche. Thus, following will be the conditions for the release of second tranche:

1. HDFC is a new institution and its most important consideration is its financial soundness. To the extent it is consistent with the financial viability of HDFC, it will attempt to reach a greater number of families in the lower income group. During the course of the first year of the HG loan and prior to release of the second tranche, it is intended that HDFC formulate a policy statement outlining its intentions regarding the promotion and financing of progressively lower income housing in India.

2. Prior to release of the second tranche, AID will review the progress made in provision of housing finance to families at or below the median income level and HDFC's general performance during the first year. Among the issues would be: extent to which rental housing is financed as compared to homeowners; income profile of beneficiaries and analysis of sub-borrowers.

E. AID MANAGEMENT

Management and administration of this project will be the responsibility of the Office of Housing's Regional Housing and Urban Development Office

(RHUDO) located in Bangkok, through periodic visits to India. RHUDO will arrange to visit Bombay, Delhi, and project sites. RHUDO will, in effect, serve as USAID/Delhi's housing expert by providing briefings to the Mission on the progress of the project and seeking policy guidance from the Mission. The Mission will nominate a person as a point of contact and, where desired, this person may accompany RHUDO for field review of the project at HDFC offices and project sites.

Submission of all plans, documents, and correspondence will be directly from HDFC to the RHUDO. However, copies of all correspondence will be sent to the Mission. All program management and administrative actions will rest with RHUDO. However, the Mission will make all policy decisions, with recommendations from the RHUDO.

F. PROGRAM MONITORING AND EVALUATION

HDFC already has a management reporting system whereby it prepares a monthly report on its operations. This report presents, in a clear and concise manner, key information on its portfolio (See Annex 13). This report includes average loan profile, status of applications received, loan approvals and disbursements by regions, distribution of borrowers by income group, size of shelter units approved, etc. HDFC will, in addition to preparing its regular monthly report, identify HG loan beneficiaries by the above indicators. RHUDO will use this modified monthly report for project monitoring. In addition, RHUDO will visit Bombay, Delhi, and project sites to review the progress and will prepare trip reports, providing information copies to USAID/Delhi.

RHUDO will prepare a Monitoring Plan which will include the dates of visits to India, place of visit, and general nature of these visits. Information copies will be provided to USAID/Delhi.

However, because of the nature of this project and its monitoring requirements, site visits by the Mission's engineer will not be required.

Program evaluation will take place on an annual basis. The first annual program evaluation will take place one year after the signing of the Implementation Agreement. The responsibility for taking the initiative to conduct this evaluation will be that of the RHUDO. However, the evaluation will be conducted jointly with HDFC, who will provide necessary staff support and information. The annual evaluation will concentrate primarily on:

a. Progress towards the stated objectives spelled out in the Logical Framework
b. Major accomplishments of the program to date
c. Major problems of the program and corrective actions taken by HDFC and the Office of Housing
d. Recommendations and/or expectations for the next year.

In addition, Office of Housing Evaluation and Monitoring guidelines will be utilized to conduct these evaluations.

G. AUTHORIZATION IN PHASES

This $30 million program will be authorized in two phases. $20 million will be authorized in FY 1981 following approval of this project paper. The second $10 million will be authorized in FY 1982, subject to availability of funds under the Housing Guaranty Program and fulfilment of conditions spelled out earlier in this paper. Conditions for authorization of the second tranche of $10 million will be:

1. HDFC's policy statement outlining its intentions regarding promotion and financing of progressively lower income housing.

2. Satisfactory performance on the utilization of the HG loan under the first tranche.

Prior to recommending the second tranche for authorization, an Action Memorandum for AA/Asia will be prepared addressing the above subjects and the degree to which they have been accomplished to AID's satisfaction.

H. NEGOTIATING STATUS

Pursuant to approval of this Project Paper, AID will authorize a $20 million HG loan and send a letter of Advice to HDFC. Upon receipt of the Letter of Advice, HDFC will seek advice from its guarantor and investment advisor--State Bank of India--on the best time to enter the U.S. capital market to borrow. HDFC will keep the Office of Housing informed of every development and the timing of its borrowing. The Office of Housing will facilitate the process within AID policy guidelines and encourage U.S. lenders. The legal agreements are:

1. The Implementation Agreement between AID and HDFC.
2. The Loan Agreement between the U.S.lender and HDFC.
3. The Guaranty Agreement between AID and the U.S.lender.
4. The Guaranty Agreement of the State Bank of India.

I. PROGRAM IMPLEMENTATION SCHEDULE

Third Quarter CY 1981

1. Approval of $30 million project paper; with $20 million authorization.
2. Office of Housing issues Letter of Advice.
3. Draft Project Delivery Plan.
4. Draft Implementation Agreement prepared by AID for review and comment.

Fourth Quarter CY 1981

1. Signing of Implementation Agreement by AID and the Borrower.
2. Completion of Legal opinions.
3. Completion of Project Delivery Plan.
4. Negotiation and signing of Loan Agreement between the U.S. Lender and Borrower.
5. Negotiation and signing of Guaranty Agreement between AID and U.S. Lender.
6. Negotiation and signing of Guaranty Agreement between AID and State Bank of India.
7. HDFC begins processing new loan applications from corporations for HG financing
8. HDFC participates in the Office of Housing Shelter Workshop.
9. HDFC initiates policy paper for providing financing to people further down the income scale.
10. HDFC draws down the one fourth of the authorized amount advance for HG loan.

First Quarter CY 1982

1. HDFC continues processing new applications for loans.
2. RHUDO reviews progress with HDFC.
3. HDFC draws down the remainder of the first tranche of HG loan.

Second Quarter CY 1982

1. HDFC completes policy paper on shelter for lower income families and its plans for the future.
2. AID reviews the policy paper and progress of the first tranche of HG loan.
3. Office of Housing fields short-term consultants to work with HDFC.
4. AID prepares an Action Memorandum for action on second tranche of HG loan.

Third Quarter CY 1982

1. HDFC begins implementation of its policy to go further down the income strata.
2. HDFC and State Bank of India negotiate and complete agreements for the drawdown of second tranche of HG loan.
3. Consultants visit to work with HDFC.

Fourth Quarter CY 1982

1. Office of Housing and HDFC conduct the annual evaluation of the project.
2. HDFC draws the first disbursement for the second tranche.

First Quarter CY 1983

1. Review of HDFC's policy implemenation on low cost shelter.
2. RHUDO review of the entire program with HDFC and discussion on future role of AID.
3. HDFC drawdown of the remainder of second tranche.

Second Quarter CY 1983

1. HDFC continued operations.

Third Quarter CY 1983

1. RHUDO review of the program.

Fourth Quarter CY 1983

1. Annual evaluation of the program conducted jointly by AID and HDFC.

Annex 1

ORIGIN AID-35

ORIGIN OFFICE ASPD-03
INFO AAAS-01 ASEM-01 ASDI-02 ASDP-02 CH6-01 PPCE-01 PDPR-01
PPPB-03 PPEA-01 FM-02 HO-04 ASTR-01 CH8-01 RELO-01
7S-00 /025 A0

INFO OCT-00 /035 R

DRAFTED BY AID/ASIA/PD/SA: JOSBORN:FV
APPROVED BY AID/A/AA/ASIA: RHALLIGAN
AID/ASIA/PD/SA: HSHARLACH (DRFT)
AID/GC/ASIA: STISA (DRAFT)
AID/ASIA/BI: JMANLEY (DRAFT)
AID/ASIA/DP: CJOHNSON (DRAFT)
AID/DS/H: WMANN (DRAFT)
AID/ASIA/PD: RVANRAALTE
------------------360721 130809Z /34

P R 130544Z JUN 81
FM SECSTATE WASHDC
TO AMEMBASSY NEW DELHI PRIORITY
INFO AMEMBASSY BANGKOK

UNCLAS STATE 155567

AIDAC, FOR RHUDO, BANGKOK

E.O. 12065: N/A

TAGS:

SUBJECT: APAC DECISION: PRIVATE SECTOR HOUSING FINANCE PROJECT PID (386-HG-001)

1. APAC MET ON 3 JUNE 1981 AND APPROVED PID FOR DOLS 30 MILLION TO BE AUTHORIZED IN TWO TRANCHES. IT IS UNDERSTOOD THAT A PP WILL BE SUBMITTED FOR BUREAU REVIEW IN JULY 1981. THE APAC MADE THE FOLLOWING SUGGESTIONS FOR PROJECT DESIGN.

2. POLICY OF HOUSING DEVELOPMENT FINANCE CORPORATION (HDFC): AS AN INSTITUTION-BUILDING PROJECT, SUPPORT OF THE HDFC SHOULD STRESS EVOLUTION OF THE HDFC'S LENDING POLICIES TOWARD PROVISION OF HOUSING TO PROGRESSIVELY LOWER-INCOME GROUPS. IT IS RECOGNIZED THAT THIS CANNOT NECESSARILY OCCUR RAPIDLY GIVEN THE NEWNESS OF THE HDFC, AND THE NECESSITY THAT IT CONTINUE TO OPERATE ON A SOUND FINANCIAL BASIS. NEVERTHELESS, THE PP SHOULD CONSIDER INCLUDING CERTAIN CONDITIONS IN THE AGREEMENT THAT WOULD MOVE THE HDFC IN THIS DIRECTION. FOR EXAMPLE: (A) AS A CONDITION TO LOAN EFFECTIVENESS, THE HDFC WOULD PREPARE A POLICY STATEMENT OUTLINING ITS INTENTIONS REGARDING THE PROMOTION AND FINANCING OF PROGRESSIVELY LOWER-INCOME HOUSING; AND (B) PRIOR TO THE RELEASE OF THE SECOND TRANCHE, AID WILL REVIEW HDFC'S PROGRESS IN THIS DIRECTION, INCLUDING THE TYPES OF BENEFICIARIES REACHED, THE TYPES OF HOUSING PROVIDED, AS WELL AS ANY OTHER MEASURES ADOPTED BY HDFC TO DIRECT ITS SUPPORT TO LOWER INCOME HOUSING PROJECTS (E.G., THROUGH CO-OPS, SITES AND SERVICES), EITHER WITH HG FUNDS OR WITH ITS OWN RESOURCES FREED AS A RESULT OF THE AID LOAN.

3. BENEFICIARIES: WE UNDERSTAND THAT GIVEN CURRENT INTEREST RATES OF THE HG PROGRAM THE ONLY LIKELY PARTS OF THE CURRENT HDFC PORTFOLIO THAT COULD BE SUPPORTED BY THE HG AND WHICH WOULD PAY POSITIVE INTEREST RATES ARE LOANS THROUGH CORPORATIONS FOR

EMPLOYEE HOUSING. THE PP SHOULD CONTAIN A BENEFICIARIES' PROFILE FROM HDFC LOAN ACTIVITIES INVOLVING CORPORATIONS' PROGRAMS OF STAFF HOUSING. THE APAC SUGGESTS A NEW MISSION CALCULATION OF THE APPROPRIATE MEDIAN INCOME TO MEET HG STATUTORY REQUIREMENTS, AS RS 1000 MEDIAN URBAN HOUSEHOLD INCOME (PID, P. 8) SEEMS HIGH.

4. HOUSING FINANCE: IN PROVISION OF HOUSING THROUGH CORPORATIONS, THE IMPLICIT RATE OF SUBSIDY BY THE CORPORATIONS SHOULD BE DISCUSSED. ANALYSIS OF THE TRADE-OFFS GENERALLY OF HOME OWNERSHIP VERSUS RENTAL HOUSING PROVISION SHOULD BE PROVIDED.

5. PROJECT MONITORING: WHILE RHUDO/ASIA WILL HAVE RESPONSIBILITY FOR PROJECT IMPLEMENTATION, SOME MISSION INVOLVEMENT IN PROJECT MONITORING WILL BE ADVISABLE. THIS SHOULD BE RECOGNIZED AND OUTLINED IN THE PP, INCLUDING REVIEW OF PROGRESS AT PARTICULAR SITES BY AN ENGINEER.

6. GRANT: IT IS RECOGNIZED THAT GRANT FUNDS FROM HG FEE INCOME OR IPPUP ARE LIMITED. HOWEVER, PROPOSED DOLS 100,000 MAY BE INADEQUATE FOR RAPID INSTITUTIONAL DEVELOPMENT, AND MORE MAY BE NECESSARY. USE OF SUCH FUNDS SHOULD BE DESIGNED TO IMPROVE HDFC MANAGEMENT FIRST IN THE FIELDS OF PARTICULAR INTEREST TO AID, E.G., BENEFICIARY IDENTIFICATION, CONSTRUCTION COST REDUCTION, ACCOUNTING, AND STAFF DEVELOPMENT DURING PERIODS OF RAPID EXPANSION.

7. PP COMPOSITION: THE PP SHOULD SPELL OUT IN DETAIL THE CRITERIA USED BY HDFC IN THEIR LENDING TO WHICH HG LOANS WOULD ALSO BE SUBJECT. THESE CRITERIA, INTER ALIA, SHOULD INCLUDE BENEFICIARIES, REPAYMENT RATES, FORECLOSURE PROCEDURES, AS WELL AS PLANNING, DESIGN AND CONSTRUCTION STANDARDS. HDFC'S PROCEDURES FOR MONITORING HOUSING CONSTRUCTION QUALITY AND OCCUPANCE SHOULD BE SET OUT IN DETAIL. ECONOMIC ANALYSIS SHOULD STRESS THE TARGET GROUPS' ABILITY AND PROPENSITY TO INVEST IN THE PLANNED HOUSING. IT SHOULD DETAIL ANY MARKET AND PHYSICAL FACTORS CONSTRAINING THE PLANNED HOUSING PROGRAM AT THE PROPOSED MAGNITUDES. FINANCIAL ANALYSIS SHOULD DETAIL THE CURRENT AND PLANNED DEBT EQUITY RATIOS AND PROJECTED DEBT SERVICING CAPABILITY OF THE HDFC. IN DISCUSSION OF THE OVERALL SHELTER SECTOR IN INDIA, THIS PROJECT'S BENEFITS SHOULD BE COMPARED AGAINST THE OPTIONS OF SHELTER INITIATIVES IN THE FORMS OF SLUM IMPROVEMENT, CORE HOUSING AND THE LIKE. STOESSEL

ub

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

NAME OF COUNTRY

PROJECT NO. 386-HG-001

	ANSWER YES OR NO PUT PP PAGE REFERENCES AND/OR EXPLANATIONS WHERE APPROPRIATE
A. General Criteria Under HG Statutory Authority.	
Section 221(a) Will the proposed project further one or more of the following policy goals?	
(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;	YES (PP 15 & 16)
(2) is intended to assist in marshalling resources for low-cost housing;	YES (PP 3, 15, 16)
(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national; and/or;	YES (PP 3, 15, 16)
(4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for low-cost shelter programs and policies?	YES (PP 3, 15, 16)
Section 222(a) Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of $1,555,000,000?	NO
Will the guaranty be issued prior to September 30, 1982?	YES ($20 million during FY 81)
Section 222(b) Will the proposed guaranty result in activities which emphasize:	
(1) projects providing improved home sites to poor families on which to build shelter and related services; or	NO

47

(2) projects comprised of expandable core shelter units on serviced sites; or — NO

(3) slum upgrading projects designed to conserve and improve existing shelter; or — NO

(4) shelter projects for low-income people designed for demonstration or institution building; or — YES (PP 3, 11, 15, 16)

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor? — NO

Section 222(c)
If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible? — N/A

Section 223(a)
Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers? — YES

Section 223(f)
Is the maximum rate of interest allowable to the eligible U.S. Investor as prescribed by the Administrator not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development? — YES

Section 223(h)
Will the Guaranty Agreement provide that no payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible? — YES

Section 223(j)

(1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country? — YES

(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements? — YES

(3) Is the project designed and planned by A.I.D. so that at least 90 percent of the face value of the proposed guaranty will be for housing suitable for families below the median income, or below the median urban income for housing in urban areas, in the host country? YES

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed $25 million in any fiscal year? NO

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed $15 million? NO

Section 238(c)
Will the guaranty agreement provide that it will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued? YES

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

1. Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year? YES

2. Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist? NO

AID 1020-28 (11-78)

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 81 to FY 83
Total U. S. Funding 3.1 million
Date Prepared: July 1981

Project Title & Number: India 386-HG-001

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1) 1. Contribute to the fully functioning and viable private housing finance system in India.	Measures of Goal Achievement: (A-2) 1. Increased availability of long term housing finance to all income groups, especially those earning medium or less than medium income. 2. Increased supply of housing units suitable and affordable by people earning medium or less than medium income. 3. Expanded network of housing finance (savings and loan types) institutions on a nationwide basis.	(A-3) 1. Program monitoring and evaluation. 2. Records of HDFC. 3. Overall review and assessment by RHUDO.	Assumptions for achieving goal targets: (A-4) 1. GOI continued support of HDFC; already demonstrated in the past three years of its existence.
Project Purpose: (B-1) 1. Enhance HDFC's ability to raise more capital internally. 2. Encourage HDFC make more financing available on long term basis and wide range of income groups including the poor segments of society. 3. Enhance HDFC's ability to expand its operations on a national level; both in terms of HDFC's office locations as well as potential beneficiaries of HDFC's program. 4. Support GOI policy of decentralization away from largest cities by financing workers' housing through HDFC program.	Conditions that will indicate purpose has been achieved: End-of-Project status. (B-2) 1. Increased amount of resources raised by HDFC in local market. 2. Increased number of loans and amount of loan allocated to people at or below medium income. 3. Increased number of HDFC offices on a nationwide basis and increased number of beneficiaries. 4. Increase in number HDFC loans granted to industries locating away from major urban centers.	(B-3) 1. HDFC's recods. 2. Review of GOI policy of decentralization away from largest cities.	Assumptions for achieving purpose: (B-4) 1. Availability of capital in the Indian capital markets and increased propensity to save of people. 2. Policy commitment of HDFC to assist the people at or below median income. 3. GOI's continued encouragement of the industries locating away from major urban centers.
Project Outputs: (C-1) 1. Increased resource availability to HDFC. 2. Increased number of people at or below medium income benefiting from HDFC's program. 3. Expanded operations of HDFC; both in terms of number of offices and loan applications processed. 4. Increased availability of shelter in outlying areas; thereby encouraging industries to locate there and support GOI policy of decentralization.	Magnitude of Outputs: (C-2) $400 million over 5 yrs (of this $110 million in the first 2 yrs.) Approx. 1/3 of the total beneficiary will be below median income. Two new offices per year. 78,000 D.U. (68,000 without HG) over five years (32,000 in the first two years including 10,000 with HG resources). 225 corporate loans in outlying areas over 5 years (75 loans in the first two years). Benefiting 22,000 people over 5 years (13,500 in first two years including 10,000 with HG resources.	(C-3) 1. Program monitoring and evaluation. 2. HDFC's records.	Assumptions for achieving outputs: (C-4) 1. Continued efficient operations of HDFC. 2. Continued GOI support to HDFC's goals and purposes. 3. Continued GOI policy of decentralization away from major cities.
Project Inputs: (D-1) 1. HG loan 2. Local investment by HDFC.	Implementation Target (Type and Quantity) (D-2) 1. US $30 million ($15 million first year). 2. $110 million ($50 million first year and $60 million second year). 3. US $100,000 grant from the Office of Housing.	(D-3) 1. AID records. 2. Program monitoring and evaluation. 3. Technical advisor and training recipient's report.	Assumptions for providing inputs: (D-4) 1. Approval of $30 million loan in FY 81; with $15 million authorization and $15 million authorization in FY 82. 2. Timely completion of all agreements between AID and HDFC and State Bank of India. 3. HDFC's drawdown on the loan. 4. HDFC providing local inputs.

Annex 3

50

Annex 4

UNCLASSIFIED

ACTION COPY

Department of State

INCOMING TELEGRAM

PAGE Ø1 NEW DE 13998 25Ø437Z 5782 Ø24553 AID4375
ACTION AID-35

ACTION OFFICE HO-Ø4
INFO ASEM-Ø1 ASBI-Ø2 ASDP-Ø2 GC-Ø1 GCAS-Ø1 GCFL-Ø1 STA-1Ø
ASPD-Ø3 ASTR-Ø1 FHLB-Ø1 HUD-Ø2 RELO-Ø1 MAST-Ø1 UO-Ø1
/Ø32 A2 O25

INFO OCT-Ø1 /Ø36 W
------------------27Ø75.4 25Ø437Z /34

P 25Ø446Z JULY 81
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC PRIORITY Ø921

UNCLAS NEW DELHI 13998

AIDAC

E. O. 12Ø65: N/A
SUBJECT: INDIA HOUSING PROGRAM - HDFC

REF: RAJ CHANDA/MALICK 7/24 TELCON

1. USAID/I REVIEWED DRAFT PP FOR HDFC PARTICIPATION IN AID HG PROGRAM AND CONCURRED WITH DRAFT PROPOSAL. WE BELIEVE THAT PROGRAM REPRESENTS UNIQUE OPPORTUNITY FOR INDIAN PRIVATE SECTOR HOUSING ORGANIZATION TO TAKE PART IN HG ASSISTANCE AND ENDORSE PROGRAM AS CONTAINED IN DRAFT DOCUMENT.

2. IN FOLLOW UP TO REF TELCON, MALICK TELEPHONED DEEPAK PAREKH OF HDFC TO OBTAIN INFORMATION ON STATUS OF HDFC LETTER REQUEST FOR HG ASSISTANCE.

3. PAREKH INDICATED THAT MINISTRY OF FINANCE/DEPARTMENT OF ECONOMIC AFFAIRS IN PROCESS OF ISSUING LETTER TO HDFC GRANTING IT PERMISSION TO PARTICIPATE IN THE HG PROGRAM, PENDING FINAL CLEARANCE FROM MINISTRY OF WORKS AND HOUSING FROM WHICH NO PROBLEMS ARE ANTICIPATED. ONCE HDFC RECEIVES THIS LETTER IT WILL SUBMIT ITS LETTER REQUEST TO AID AND ANTICIPATE THAT THIS WILL OCCUR LATTER PART OF NEXT WEEK. BLOOD

UNCLASSIFIED

ACTION COPY

Department of State

INCOMING TELEGRAM

Annex 5

PAGE 01 NEW DE 14655 051150Z 2937 044376 AID1911
ACTION AID-35

ACTION OFFICE HO-04
INFO ASEM-01 ASBI-02 ASDP-02 GC-01 GCAS-01 GCFL-01 ASPD-03
ASTR-01 FHLB-01 HUD-02 RELO-01 MAST-01 /021 A4 85

INFO OCT-01 EB-08 NEA-07 L-03 SP-02 /056 W
------------------163554 051449Z /40

R 051029Z AUG 81
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC 1199

UNCLAS NEW DELHI 14655

AIDAC

E. O. 12065: N/A
SUBJECT: INDIA HOUSING PROGRAM-HDFC

REF: NEW DELHI 13998

USAID/I RECEIVED LETTER REQUEST DATED JULY 24, 1981 FROM HDFC ADDRESSED TO DR. RICHARD BROWN, ACTING MISSION DIRECTOR. VERBATIM CONTENT OF LETTER IS AS FOLLOWS:

"DEAR DR. BROWN:

AS YOU ARE AWARE, WE HAVE HAD A SERIES OF DISCUSSIONS WITH THE OFFICE OF HOUSING OF THE USAID, WASHINGTON. HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED WOULD LIKE TO UTILISE THE RESOURCES AVAILABLE UNDER THIS PROGRAMME. WE BELIEVE THAT THE GUARANTEE WILL BE PROVIDED BY THE USAID TO THE PRIVATE US LENDER. THE USAID WILL BE COUNTER-GUARANTEED BY THE STATE BANK OF INDIA.

THIS IS A FORMAL REQUEST FOR A 30 MILLION DOLLAR TERM LOAN TO BE SANCTIONED TO US UNDER THE HOUSING GUARANTEE PROGRAMME.

WITH KIND REGARDS,

YOURS SINCERELY,
SIGNED DEEPAK S. PAREKH"

BLOOD

ANNEX 6

AUG 17 1981

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, BUREAU FOR ASIA

FROM: ASIA/PD - G. R. Van Raalte

SUBJECT: India - Private Sector Housing Finance Program - 386-HG-001 Guaranty Authority

Problem: Your signature is required on the attached Guaranty Authorization authorizing a Housing Guaranty for the Housing Development Finance Corporation Limited in the amount of $20 million in FY 1981.

Discussion: The proposed Housing Guaranty (HG) loan will go to the Housing Development Finance Corporation (HDFC) to finance low income housing as part of its expanding program to provide long term financing of homes at a market rate of interest. The current request for authorization is for $20 million. It is anticipated that you will be requested to authorize an additional $10 million Housing Guaranty in FY 1982, subject to satisfactory performance by HDFC, in accordance with the attached Project Paper. The HDFC will be formally advised that additional authorization is subject to mutual agreement of the parties as to the progress of the program in meeting certain stated goals including development of a policy statement on reaching lower income people, analysis of the beneficiaries' profile, sub-borrower profile analysis and the mix of rental and home ownership units financed by the HG loan.

The proposed HG for India was approved by the Asia Project Advisory Committee (APAC) on July 31, 1981. Minor revisions in the Project Paper were made by AID/W at the request of the APAC. Specifically, clarification was made of conditions and methods of disbursement of funds, the use of technical assistance, and conditions to the release of the second tranche of $10 million.

In addition to the HG, centrally funded grant monies up to $100,000 managed by the Office of Housing will be used to provide short term technical advisors in specialized areas such as secondary market operations, standardized mortgage instruments, new concepts of mortgage finance and short term training in the U.S.

The program has been examined for its overall soundness, including technical, financial, economic, social, environmental and institutional aspects of its design and implementation. It was found to support Government of India policy and programs for low income housing. The expected beneficiary impact analysis and evaluation plan were found to be acceptable. The institutional and policy development embodied in the program's design conform to the policies and goals of AID in the shelter sector.

Recommendation: That by signing the attached Guaranty Authorization you approve and authorize a Guaranty Authority of $20 million in FY 1981, representing the initial element of an anticipated two year $30 million program, it being understood that a separate Guaranty Authorization in the amount of $10 million will be presented for your signature next year based on appropriate documentation indicating satisfactory progress in implementation.

Attachments:

1. Guaranty Authorization.
2. Project Paper.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ASSISTANT
ADMINISTRATOR

GUARANTY AUTHORIZATION

INDIA

Low Income Housing
386-HG-001

Pursuant to the authority vested in the Assistant Administrator, Bureau for Asia, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed Twenty Million United States Dollars ($20,000,000) in face amount, assuring against losses of not to exceed one hundred percent (100%) of loan investment and interest with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance a low income housing program in India. These guaranteed loans shall be made to the Housing Development Finance Corporation of India to provide long-term financing for low income housing.

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans shall extend for a period of up to thirty (30) years from the date of disbursement and may include a grace period of up to ten (10) years on repayment of principal. The guaranties of the loans shall extend for a period beginning with disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term U.S. capital markets.

3. The State Bank of India Guaranty: The State Bank of India shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guarantied amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

9l

5. Other Terms and Conditions: The guaranties shall be subject to such other terms and conditions as A.I.D. may deem necessary:

Jon W. Holstine
Assistant Administrator
Bureau for Asia

8/18/81
Date

Clearances:

ASIA/PD, G. R. van Raalte ______ Date 8/17
ASIA/BI, James Norris ______ Date 8/17
GC/ASIA, Herbert Morris ______ Date 8/17
PRE/H, David McVoy ______ Date 8/17

GC/H:BBDavis/RChanda:prj:08/13/81

65

LEGISLATION

The Rent Act

The present Rent Regulation legislation prevailing in the city of Bombay has been in existence for over fifty years. The Bombay Rent Act was enacted in 1918 as the Bombay Rent (War Restrictions) Act, 1918 and apart for a brief interlude between 1929 and 1938, has been effectively enforced.

The Act seeks to control rents in the belief that given a severe housing shortage landlords are likely to demand exorbitant rents from existing tenants. Landlords are therefore unable to increase rents from existing tenants nor are they permitted to evict tenants unless the property is required for their own self-occupation or the tenant has violated the term of his contract with the landlord.

The Rent Act has had the effect of discouraging an active market in rental accommodation. Risk of non recovery has resulted in rent premiums being charged or the non rental of empty apartments. The consequences of the Rent Act may be listed as follows :

1. Under occupation of existing dwelling units
2. The Rent Act is regressive in that it protects both rich and poor tenants equally.
3. Low rents reduces the willingness and capacity of landlords to maintain their buildings leading to a general deterioration of the housing stock.

In other words, the Act has limited the amount of land available for new construction activity precisely in areas where a housing shortage is most acute thereby forcing up the price of all available living space for the poor and rich alike.

It appears that the withdrawal of the Act cannot have any other effect but that of an improvement in the housing sector.

I. Extent of Ceiling

No person (family) may hold vacant land in excess of

Zone A	500 sq. m.	Principalities (Metropolitan area)
B	1000 sq.m.	Outlying areas of principalities and Medium to large cities.
C	1500 sq.m.	Outlying areas of cities and small cities
D	2000 sq.m.	Small Towns.

The ULCA 1976 was designed to limit the right to own vacant land in urban areas over a specified maximum. Any vacant land could be acquired by Government at a compensation which may be termed nominal.

The government, has, so far, not acquired any land under the Act for the objects for which the Act was designed. At the same time, the exemptions under Section 20 have not been freely granted. When exemptions have been obtained they have carried several conditions - the most importent of which has specified the cost of construction at an unrealistically low figure.

Exemption may be granted by the competent authority if :

1. Under Section 20, it is expedient in the public interest or if it is likely to cause undue hardship to the person.

2. Under Section 21, the competent authority may exempt excess land which is to be utilised for the construction of dwelling units (not exceeding a plinth area of 80 sq.m.) for the economically weaker sections of society.

3. Under Section 22, the competent authority can allow the extension of vacant land which in excess of the ceiling limit and has become excess on account of the demolition of a building or by its destruction due to natural causes and is required for redevelopment in accordance with the master plan of the area. These caluses permit a wide range of interpretations which in effect confers extensive powers on the 'competent abthority'. Poweverful and well placed builders are in the most advantageous position to obtain the necessary exemptions.

4. Most important, the Rent Act protects existing tenants at the expanse of all future potential tenants. Rental accommodation is positively discouraged by design.

By the virtual elimination of the rental housing market people, unable to purchase housing of their own, have been denied an important alternative tenure arrangement. The importance of rental housing cannot be minimised in achieving an optimal use of the existing housing stock as well as contributing efficiently to future housing needs.

The Urban Land (Ceiling and Regulation) Act (1976)

The ULCA was introduced in 1976 to achieve the following objectives :

1. To prevent concentration of urban land in the hands of a few persons and speculation and profiteering therein.

2. To bring about socialization of urban land in urban agglomeration to subserve the common good by ensuring its equitable distribution.

3. To discourage the construction of luxury housing leading to conspicuous consumption of scarce building materials and to ensure the equitable utilization of such materials and

4. To secure orderly urbanization.

LEGISLATION

The Rent Act

The present Rent Regulation legislation prevailing in the city of Bombay has been in existence for over fifty years. The Bombay Rent Act was enacted in 1918 as the Bombay Rent (War Restrictions) Act, 1918 and apart for a brief interlude between 1929 and 1938, has been effectively enforced.

The Act seeks to control rents in the belief that given a severe housing shortage landlords are likely to demand exorbitant rents from existing tenants. Landlords are therefore unable to increase rents from existing tenants nor are they permited to evict tenants unless the property is required for their own self-occupation or the tenant has violated the term of his contract with the landlord.

The Rent Act has had the effect of discouraging an active market in rental accommodation. Risk of noh recovery has resulted in rent premiums being charged or the non rental of empty apartments. The consequences of the Rent Act may be listed as follows :

1. Under occupation of existing dwelling units
2. The Rent Act is regressive in that it protects both rich and poor tenants equally.
3. Low rents reduces the willingness and capacity of landlords to maintain their buildings leading to a general deterioration of the housing stock.

4. Most important, the Rent Act protects existing tenants at the expanse of all future potential tenants. Rental accommodation is positively discouraged by design.

By the virtual elimination of the rental housing market people, unable to purchase housing of their own, have been denied an important alternative tenure arrangement. The importance of rental housing cannot be minimised in achieving an optimal use of the existing housing stock as well as contributing efficiently to future housing needs.

The Urban Land (Ceiling and Regulation) Act (1976)

The ULCA was introduced in 1976 to achieve the following objectives :

1. To prevent concentration of urban land in the hands of a few persons and speculation and profiteering therein.

2. To bring about socialization of urban land in urban agglomeration to subserve the common good by ensuring its equitable distribution.

3. To discourage the construction of luxury housing leading to conspicuous consumption of scarce building materials and to ensure the equitable utilization of such materials and

4. To secure orderly urbanization.

The ULCA 1976 was designed to limit the right to own vacant land in urban areas over a specified maximum. Any vacant land could be acquired by Government at a compensation which may be termed nominal.

The government, has, so far, not acquired any land under the Act for the objects for which the Act was designed. At the same time, the exemptions under Section 20 have not been freely granted. When exemptions have been obtained they have carried several conditions - the most important of which has specified the cost of construction at an unrealistically low figure.

Exemption may be granted by the competent authority if :

1. Under Section 20, it is expedient in the public interest or if it is likely to cause undue hardship to the person.

2. Under Section 21, the competent authority may exempt excess land which is to be utilised for the construction of dwelling units (not exceeding a plinth area of 80 sq.m.) for the economically weaker sections of society.

3. Under Section 22, the competent authority can allow the extension of vacant land which in excess of the ceiling limit and has become excess on account of the demolition of a building or by its destruction due to natural causes and is required for redevelopment in accordance with the master plan of the area. These caluses permit a wide range of interpretations which in effect confers extensive powers on the 'competent authority'. Poweverful and well placed builders are in the most advantageous position to obtain the necessary exemptions.

In other words, the Act has limited the amount of land available for new construction activity precisely in areas where a housing shortage is most acute thereby forcing up the price of all available living space for the poor and rich alike.

It appears that the withdrawal of the Act cannot have any other effect but that of an improvement in the housing sector.

I. Extent of Ceiling

No person (family) may hold vacant land in excess of

Zone	A	500 sq. m.	Principalities (Metropolitan area)
	B	1000 sq.m.	Outlying areas of principalities and Medium to large cities.
	C	1500 sq.m.	Outlying areas of cities and small cities
	D	2000 sq.m.	Small Towns.

ANNEX 8

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

CATEGORIES OF SHAREHOLDERS

FINANCIAL INSTITUTIONS:		NO. OF SHARES
1.	The Industrial Credit and Investment Corporation of India Limited	50,000
2.	International Finance Corporation (Washington)	50,000
3.	Life Insurance Corporation of India	25,000
	TOTAL	1,25,000

INSURANCE COMPANIES:		NO. OF SHARES
1.	General Insurance Corporation of India	8,000
2.	The New India Assurance Company Limited	6,000
3.	The United India Fire and General Insurance Company Limited	8,000
4.	National Insurance Company Limited	6,000
	TOTAL	30,800

OTHERS:

Sr.No.	Category/Name	No. of Share-holders	NO. OF SHARES
1.	His Royal Highness The Aga Khan	1	50,000
2.	Non-Resident Shareholders	30	3,160
3.	Co-operative Societies	34	2,950
	TOTAL	65	56,110

BANKS:-		NO. OF SHARES
1.	Central Bank of India	22,150
2.	State Bank of India	12,150
3.	Bank of Baroda	10,000
4.	Bank of India	10,000
5.	Dena Bank	10,000
6.	Indian Bank	10,000
7.	Indian Overseas Bank	10,000
8.	United Commercial Bank	10,000
9.	Punjab National Bank	10,000
10.	Canara Bank	7,500
11.	Bank of Maharashtra	5,500
12.	New Bank of India	5,000
13.	Syndicate Bank	4,250
14.	United Bank of India	4,250
15.	State Bank of Bikaner and Jaipur	4,000
16.	State Bank of Hyderabad	4,000
17.	State Bank of Travancore	3,000
18.	State Bank of Mysore	2,500
19.	Union Bank of India	2,500
20.	State Bank of Patiala	2,500
21.	State Bank of Indore	2,000
22.	State Bank of Saurashtra	2,000
23.	Corporation Bank	1,800
24.	Vijaya Bank	1,300
25.	Andhra Bank	1,000
	TOTAL	1,57,400

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

LIST OF COMPANIES HOLDING HDFC SHARES : 1000 AND ABOVE

Sr.No.	Name of the Company	Place	No. of Shares
1	Ashok Leyland Limited.	Madras	12,150
2	Associated Bearing Co. Ltd.	Bombay	5,000
3	Amar Dye-Chem Limited.	Bombay	2,250
4	Aluminium Industries Ltd.	Kerala	1,800
5	Adarsh Chemicals and Fertilisers Ltd.	Surat	1,350
6	Asian Paints India Ltd.	Bombay	1,000
7	Alembic Chemicals Works Co.Ltd.	Baroda	1,000
8	Amco Batteries Ltd.	Bangalore	1,000
9	Addison & Co. Ltd.	Madras	1,000
10	Brooke Bond India Ltd.	Calcutta	15,000
11	Bharat Bijlee Ltd.	Bombay	2,700
12	Bharat Forge Co. Ltd.	Pune	2,000
13	Bajaj Auto Ltd.	Pune	2,000
14	Belpahar Refractories Ltd.	Jamshedpur	1,000
15	Chemicals & Fibres of India Ltd.	Bombay	10,000
16	Carborundum Universal Ltd.	Madras	3,000
17	Chowgule & Co. Pvt. Ltd.	Goa	2,700
18	Ceat Tyres of India Ltd.	Bombay	1,000
19	Dempo Bros. Pvt. Ltd.	Bombay	1,000
20	Escorts Limited.	New Delhi	10,000
21	Engine Valves Ltd.	Madras	6,375
22	Engineering Construction Corpn. Ltd.	Bombay	5,000
23	Elecon Engg. Co. Ltd.	Gujarat	2,700
24	Ferro Alloys Corpn. Ltd.	Pune	1,000
25	Glaxo Laboratories India Ltd.	Bombay	10,000
26	GSFC Ltd.	Baroda	7,500
27	Godrej & Boyce Mfg. Co. P. Ltd.	Bombay	4,250
28	Gammon India Ltd.	Bombay	4,250
29	Hindustan Lever Ltd.	Bombay	12,150
30	Herdillia Chemicals Ltd.	Bombay	3,600
31	Hindustan Brown Boveri Ltd.	Bombay	2,250
32	Hindustan Sanitaryware & Industries Ltd.	Calcutta	2,250
33	Hyderabad Asbestos Cement P. Ltd.	Hyderabad	1,125
34	Indian Explosives Ltd.	Calcutta	15,000
35	Indian Aluminium Co. Ltd.	Calcutta	10,000
36	Indian Tobacco Co. Ltd.	Calcutta	10,000
37	Indian Organic Chemicals Ltd.	Bombay	7,500
38	Indian Dyestuff Industries Ltd.	Bombay	4,000
39	Ingersoll Rand India Ltd.	Bombay	3,600
40	India Piston Ltd.	Madras	1,800
41	Kamani Engineering Corpn. Ltd.	Bombay	5,000
42	Kothari Madras Ltd.	Madras	2,700
43	Kirloskar Electric Co. Ltd.	Pune	2,000
44	Kirloskar Cummins Ltd.	Pune	2,000
45	Kirloskar Oil Engines Ltd.	Pune	1,800
46	Kirloskar Pneumatic Co. Ltd.	Pune	1,800
47	Kanoria Chemicals & Ind. Ltd.	Calcutta	1,000
48	Kunal Engg. Co. Ltd.	Madras	1,000
49	Larsen & Toubro Ltd.	Bombay	5,000
50	Laxmi Cement Distributors Pvt. Ltd.	Jamnagar	1,350

....2

65

Sr.No.	Name of the Company	Place	No. of Shares
51.	Lucas TVS Ltd.	Madras	1,275
52.	Motor Industries Co. Ltd.	Bangalore	15,344
53.	The Mafatlal Fine Spg. & MFG. Co. Ltd.	Bombay	4,000
54.	Modella Woollen Ltd.	Bombay	2,700
55.	Mico Farm Chemicals Ltd.	Madras	1,000
56.	Nirlon Synthetic Fibres & Chemicals Ltd.,	Bombay	14,250
57.	National Organic Chemicals Industries Ltd.	Bombay	4,000
58.	National Peroxide Ltd.	Bombay	1,350
59.	Panyam Cements & Minerals Industries Ltd.	Kurnool	7,500
60.	Philips India Ltd.,	Bombay	7,500
61.	Polyolefins Industries Ltd.	Bombay	4,000
62.	Reliance Textiles and Industries Ltd.	Bombay	6,800
63.	Swadeshi Polytex Ltd.,	Ghaziabad	10,000
64.	Scindia Steam Navigation Co. Ltd.,	Bombay	7,500
65.	Shri Ambica Mills Ltd.	Ahmedabad	4,000
66.	Special Steels Ltd.	Bombay	3,500
67.	Shapoorji Pallonji & CO.P.Ltd.,	Bombay	3,500
68.	Simplex Mills Co. Ltd.	Bombay	2,250
69.	Senapathy Whiteley Ltd.,	Bangalore	2,250
70.	Shree Vallabh Glass Works	Gujarat	2,250
71.	Somany Pilkington Ltd.	Haryana	2,250
72.	Shaw Wallace & Co. Ltd.	Calcutta	2,250
73.	Seshasayee Paper and Boards Limited	Erode	2,000
74.	Shardlaw India Ltd.	Madras	1,000
75.	Sturdia Chemicals Ltd.	Bombay	1,250
76.	Shivaji Works Ltd.	Sholapur	1,000
77.	Shri Arbuda Mills Ltd.	Ahmedabad	1,000
78.	Surendra Industries P. Ltd.	Bombay	1,000
79.	Simpson & General Finance Co. Ltd	Madras	1,000
80.	Saurashtra Cement and Chemical Industries Ltd.,	Gujarat	1,800
81.	The Associated Cement CO. Ltd.	Bombay	15,000
82.	The Tata Iron & Steel Co. Ltd.	Bombay	12,000
83.	The Tata Engineering and Locomotive Co. Ltd.	Bombay	10,000
84.	The Bombay Burmah Trading Corpn. Ltd.	Bombay	10,000
85.	The Baroda Rayon Corpn. Ltd.	Bombay	9,250
86.	The Bombay Dyeing & Mfg.Co.Ltd.	Bombay	6,000
87.	The India Cements Ltd.	Madras	5,000
88.	The Tata Finlay Limited	Calcutta	5,000
89.	Tata Chemicals Ltd.	Bombay	5,000
90.	The Standard Mills Co. Ltd.	Bombay	4,000
91.	The Tata Oil Mills Co. Ltd.,	Bombay	3,000
92.	The Hindustan Construction Co. Ltd.,	Bombay	2,700
93.	The Triveni Engg. Works Ltd.,	New Delhi	2,250
94.	The Tinnevelly Tuticorin Tea and Investment Co. Ltd.	Calcutta	2,000
95.	The Indian Hotels Co. Ltd.	Bombay	2,000
96.	The Tata Power Company Ltd.,	Bombay	2,000
97.	The Tata Hydro Electric Power Company Ltd.,	Bombay	2,000
98.	The Andhra Valley Power Supply Co. Ltd.,	Bombay	2,000
99.	The Salem Erode Tea & Investment Co. Ltd.	Calcutta	2,000
100.	Tata Exports Ltd.	Bombay	2,000

.....3

Sr.No.	Name of the Company	Place	No. of Shares
101.	Tata Sons Ltd.,	Bombay	2,000
102.	The Indian Hume Pipe Co. Ltd.	Bombay	1,800
103.	The Mysore Kirlocker Ltd.	Karnataka	1,800
104.	Tractors & Farm Equipment Ltd.	Madras	1,800
105.	The Mettur Chemicals & Industries Ltd.	Salem	1,800
106.	The West Coast Paper Mills Ltd.	Karnataka	1,350
107.	The Investment Trust of India Ltd.	Madras	1,000
108.	The Raghuvanshi Mills Ltd.	Bombay	1,000
109.	The Western India Plywood Ltd.,	Kerala	1,000
110.	The Indian Tube Co., Ltd.	Calcutta	1,000
111.	Tata Robins Fraser Ltd.	Jamshedpur	1,000
112.	Tata Yadogava Ltd.	Jamshedpur	1,000
113.	The Investment Corpn. of India Ltd.,	Bombay	1,000
114.	Union Carbide India Ltd.,	Calcutta	10,000
115.	Usha Martin Balck Ltd.	Calcutta	1,125
116.	Valcun Laval Ltd.	Pune	2,700
117.	Voltas Ltd.	Bombay	1,000
118.	WIMCO Ltd.	Bombay	5,000
119.	Walchandnagar Industries Ltd.	Bombay	2,700
			477,844
	Other Companies (Below 1,000 shares)	Total	11,365
		Total Companies	489,209
	11,861 Individual Shareholders		141,481
	Totals from page 1		369,310
			,000,000

STATEMENT OF OPERATING POLICIES

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

STATEMENT OF OPERATING POLICIES

AGREED BETWEEN IFC AND HDFC

1. OBJECTIVES

Housing Development Finance Corporation Limited (HDFC), has been established to obtain inter alia, the following objectives.

A. To provide long-term finance to middle and lower income individuals, associations of individuals, cooperative societies of individuals, other groups of individuals, and bodies corporate for housing in India, and to promote home ownership.

B. To contribute to the mobilisation of long-term savings, and transformation of short-term savings for long-term housing investment.

C. To support the development of a national system of housing finance.

D. To promote the growth and development of the money and capital market.

E. To support the growth of a diversified building industry, and the development of appropriate building technology.

II. OPERATIONS

A. Borrowers - The primary clientele which HDFC will serve is middle and lower-income individuals, borrowing for owner-occupied family residences. In order to reach as many people as possible at the lowest feasible cost of intermediation, HDFC will finance for the purpose of residential accommodation, individuals, associations of individuals, cooperative societies of individuals, and other groups of individuals in the framework of mainly large-scale residential developments. Such borrowers will normally account for the major part of total funds advanced by HDFC from time to time.

Such individuals who are employees of companies and formed into groups under the company's aegis with its financial and/or administrative support will also borrow for individual housing. HDFC will also finance bodies corporate for financing housing for their employees. The fact that an individual or corporation sponsoring an employee group may be a shareholder, depositor, debenture holder or other investor in HDFC may be considered but save the special benefits that may be made available to shareholders and other investors as stated in the Prospectus issued in April 1978, shall not be given undue weight in allocating funds among competing applicants.

B. Purposes - Loans will be granted for the construction of new residential units for or by the borrower, the acquisition of new or existing housing or the substantial improvement or extension of existing housing units. HDFC may also consider financing nursing homes, shopping premises and other amenities which go with housing schemes.

C. Distribution - HDFC will strive, to the extent consistent with sound management and financial soundness, to distribute its loans in proportion to the effective market demand in all major regions of the country so that not more than 40% of the amount of loans approved are allocated for housing units in any single region.

D. Terms and Conditions - (1) Amounts - Of the total number of loans granted, normally at least 70% shall be for an initial principal amount not exceeding Rs 70,000 per dwelling unit, which figure shall be revised from time to time to reflect changes in construction costs. For this purpose, in case of loans to cooperative societies, associations of individuals, and groups of individuals, the number of loans shall be deemed to be as many as the number of dwelling units financed. The total amount of loans or other financial assistance granted and outstanding at any time to any individual shall not exceed one-half of 1% of the paid-up share capital, surplus and reserves of HDFC and in the case of financial assistance for associations of individuals, cooperative societies, groups of individuals or other legal entities, such limit shall be 10% of the paid-up share capital, surplus and reserves. HDFC will generally require an appraisal of the property to be financed and will generally not finance more than

80% of the value of the property to be built or acquired. The loan amount per borrower will take into account the borrower's expected ability to service the debt having regard to his current and prospective income and other obligations.

2. Term - Overall, HDFC will fix the terms of its loans so as to strike an optimal balance between, on the one hand, granting the longest term feasible to reach as broad a clientele as possible and, on the other hand, revolving its funds to serve as many clients as possible. The term of its loans will take into consideration the term, mix and stability of its resources, and the borrower's expected ability to service the debt, having regard to his current and prospective income and other obligations.

3. Interest Rate - The interest rates HDFC charges on its loans will be determined to reflect its cost of resources, to enable it to earn an adequate return on its capital, and to attract additional resources, to compensate HDFC for the risk it assumes on its loans, and to cover overhead and operating expenses, including adequate provisions against losses, giving due regard to rates charged similar borrowers by comparable sources of financing.

71

4. Security - HDFC will require as security for its loans, a first mortgage on the properties (with clear title) it finances, and/or, any other security to its satisfaction. HDFC may also, as it deems appropriate, require the properties it finances to be covered by adequate hazard insurance and the individuals it finances to be covered by adequate life insurance, with the policies insuring to the benefit of HDFC.

HDFC may eventually seek to develop a variety of individual and group insurance schemes, in cooperation with the Life Insurance Corporation of India and the General Insurance Corporation of India, to serve borrowers most effectively and efficiently.

5. Follow-Up - HDFC will administer its loans in such a manner as to minimise arrears and will act promptly to collect arrears that do occur. If, after a reasonable period of time, satisfactory settlement has not been received on amounts in arrears, HDFC will take such action as it may deem necessary within the due process of law to collect the amounts owing.

72

E. Other Investments - HDFC will not invest in real property for its own account, except in the case of premises for its own occupation, property acquired from borrowers as a result of default or property held temporarily pending development. In accordance with prescribed legal procedure, property acquired in the last manner will be sold as soon as practicable after acquisition.

III. RESOURCES

A. Sources - HDFC will diversify its sources of funds in addition to its share capital to include loans contracted from or the sale of obligations to institutional savers, small and medium-size individual and institutional investors. It may also develop schemes to attract savings and time deposits, including those linked to possible housing loans, and a variety of marketable obligations in line with its objective of capital market development.

B. Term - HDFC may undertake to transform relatively shorter-term savings it mobilizes into longer-term loans, taking into consideration the limits that may be imposed by the mix and stability of its resources. HDFC may constitute adequate reserves, obtain lines of credit and/or rediscount facilities and foster the development of secondary markets for the loans it makes to protect itself against the liquidity risks inherent in such term transformation.

C. Indebtedness - HDFC will not incur debts, including contingent liabilities, in excess of 15 times its paid-in share capital, surplus and free reserves.

IV. PROFITS AND DISTRIBUTION

HDFC's continuing profitability and the maintenance of a sound loan portfolio and capital structure is essential for its growth and financial security and for its effective contribution to the development of India's financial sector. Earnings may be retained to the extent necessary for financial stability, and dividends thereafter paid out at a rate sufficient to enable HDFC to attract additional capital. It will be an endeavour of HDFC to protect its equity base from erosion from the effects of inflation.

V. MANAGEMENT

A. General - In all its operations, HDFC will seek to develop a reputation for operating efficiency and acceptance by the public consistent with optimising the mobilisation of savings and their application to its lending operations. In this manner, it will seek to serve both savers and borrowers by keeping the cost of financial intermediation to a minimum consistent with the provision of a high level

74

of professional service and the earning of a fair return on its net worth in the interest of its shareholders, depositors, creditors and the general community.

B. <u>Management Reports</u> - In addition to the provision of independently audited annual financial statements as required by the Articles of Association of HDFC, management will produce such monthly reports as may be required for the effective control of operations. These reports may include financial statements detailed by organizational unit and/or activity, analysis of overdue loans, collection efforts and provisions for losses. Appropriate general and statistical information on business conducted and general economic and financial reviews as they affect the operations may also be included. These reports will be submitted to the Board of Directors' meetings.

C. <u>Staff</u> - HDFC will endeavour to recruit and retain highly qualified staff for whose services appropriate compensation and incentives will be provided. In furtherance of this goal, HDFC may provide continuing training and development programmes to maintain this level of professional competence.

D. <u>Procedures</u> - Management will establish and publish internal operating procedures for the conduct of HDFC's business, and make these procedures known to all employees, and particularly

75

to new employees. Management will establish appropriate operational credit procedures and limits required for the effective appraisal and supervision of the creditworthiness of borrowers and the condition of property financed. Branch managers and senior management will be given autonomy in accordance with their experience and qualifications for credit approvals up to limits fixed from time to time by the Board of Directors.

E. Geographic Expansion - In pursuit of its objective to support the development of a national housing finance system, HDFC may, to the extent permitted by its own operations and management capabilities, develop a branch network and aid local initiatives to establish local and regional housing finance institutions throughout India.

F. Conflicts - HDFC will not involve itself directly or indirectly, in any transaction with any directors, officers, employees or shareholders of HDFC, which would involve a real or apparent conflict of interest between the company and those individuals, their families or other entities with which they have a significant business relationship, unless all the following conditions are met.

1. No special concessions are given to the party involved in the transaction.

2. Commitments are made only after formal decision by the Board of Directors or a Committee of Directors.

3. The circumstances of a conflict of interest and the circumstances of a proposed transaction are made known in writing to the Board of Directors or a Committee of Directors, prior to the commitment being considered.

4. The individuals involved takes no part in the decision to make the commitment.

5. In the event that the commitment is to be made, a written record of the reason for the Board or Committee's decision is prepared and retained, and

6. Where a commitment is made under this section, all subsequent transactions with the same party are treated as new transactions subject to the provisions of (1) through (5) above.

VI. Revision of Policies - Any proposal to modify this Statement of Operating Policies, shall be considered by the Board of Directors only after each member has been given an adequate opportunity to study and comment on the proposal. Any such modification shall become effective only after it has been adopted at a meeting of the Board of Directors.

May 29, 1973.

STATEMENT OF OPERATING POLICIES

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

STATEMENT OF OPERATING POLICIES

AGREED BETWEEN IFC AND HDFC

I. OBJECTIVES

Housing Development Finance Corporation Limited (HDFC), has been established to obtain inter alia, the following objectives.

A. To provide long-term finance to middle and lower income individuals, associations of individuals, cooperative societies of individuals, other groups of individuals, and bodies corporate for housing in India, and to promote home ownership.

B. To contribute to the mobilisation of long-term savings, and transformation of short-term savings for long-term housing investment.

C. To support the development of a national system of housing finance.

D. To promote the growth and development of the money and capital market.

E. To support the growth of a diversified building industry, and the development of appropriate building technology.

Easier

II. OPERATIONS

A. Borrowers - The primary clientele which HDFC will serve is middle and lower-income individuals, borrowing for owner-occupied family residences. In order to reach as many people as possible at the lowest feasible cost of intermediation, HDFC will finance for the purpose of residential accommodation, individuals, associations of individuals, cooperative societies of individuals, and other groups of individuals in the framework of mainly large-scale residential developments. Such borrowers will normally account for the major part of total funds advanced by HDFC from time to time.

Such individuals who are employees of companies and formed into groups under the company's aegis with its financial and/or administrative support will also borrow for individual housing. HDFC will also finance bodies corporate for financing housing for their employees. The fact that an individual or corporation sponsoring an employee group may be a shareholder, depositor, debenture holder or other investor in HDFC may be considered but save the special benefits that may be made available to shareholders and other investors as stated in the Prospectus issued in April 1978, shall not be given undue weight in allocating funds among competing applicants.

B. Purposes - Loans will be granted for the construction of new residential units for or by the borrower, the acquisition of new or existing housing or the substantial improvement or extension of existing housing units. HDFC may also consider financing nursing homes, shopping premises and other amenities which go with housing schemes.

C. Distribution - HDFC will strive, to the extent consistent with sound management and financial soundness, to distribute its loans in proportion to the effective market demand in all major regions of the country so that not more than 40% of the amount of loans approved are allocated for housing units in any single region.

D. Terms and Conditions - (1) Amounts - Of the total number of loans granted, normally at least 70% shall be for an initial principal amount not exceeding Rs 70,000 per dwelling unit, which figure shall be revised from time to time to reflect changes in construction costs. For this purpose, in case of loans to cooperative societies, associations of individuals, and groups of individuals, the number of loans shall be deemed to be as many as the number of dwelling units financed. The total amount of loans or other financial assistance granted and outstanding at any time to any individual shall not exceed one-half of 1% of the paid-up share capital, surplus and reserves of HDFC and in the case of financial assistance for associations of individuals, cooperative societies, groups of individuals or other legal entities, such limit shall be 10% of the paid-up share capital, surplus and reserves. HDFC will generally require an appraisal of the property to be financed and will generally not finance more than

80% of the value of the property to be built or acquired. The loan amount per borrower will take into account the borrower's expected ability to service the debt having regard to his current and prospective income and other obligations.

2. Term - Overall, HDFC will fix the terms of its loans so as to strike an optimal balance between, on the one hand, granting the longest term feasible to reach as broad a clientele as possible and, on the other hand, revolving its funds to serve as many clients as possible. The term of its loans will take into consideration the term, mix and stability of its resources, and the borrower's expected ability to service the debt, having regard to his current and prospective income and other obligations.

3. Interest Rate - The interest rates HDFC charges on its loans will be determined to reflect its cost of resources, to enable it to earn an adequate return on its capital, and to attract additional resources, to compensate HDFC for the risk it assumes on its loans, and to cover overhead and operating expenses, including adequate provisions against losses, giving due regard to rates charged similar borrowers by comparable sources of financing.

4. <u>Security</u> - HDFC will require as security for its loans, a first mortgage on the properties (with clear title) it finances, and/or, any other security to its satisfaction. HDFC may also, as it deems appropriate, require the properties it finances to be covered by adequate hazard insurance and the individuals it finances to be covered by adequate life insurance, with the policies insuring to the benefit of HDFC.

HDFC may eventually seek to develop a variety of individual and group insurance schemes, in cooperation with the Life Insurance Corporation of India and the General Insurance Corporation of India, to serve borrowers most effectively and efficiently.

5. <u>Follow-Up</u> - HDFC will administer its loans in such a manner as to minimise arrears and will act promptly to collect arrears that do occur. If, after a reasonable period of time, satisfactory settlement has not been received on amounts in arrears, HDFC will take such action as it may deem necessary within the due process of law to collect the amounts owing.

E. Other Investments - HDFC will not invest in real property for its own account, except in the case of premises for its own occupation, property acquired from borrowers as a result of default or property held temporarily pending development. In accordance with prescribed legal procedure, property acquired in the last manner will be sold as soon as practicable after acquisition.

III. RESOURCES

A. Sources - HDFC will diversify its sources of funds in addition to its share capital to include loans contracted from or the sale of obligations to institutional savers, small and medium-size individual and institutional investors. It may also develop schemes to attract savings and time deposits, including those linked to possible housing loans, and a variety of marketable obligations in line with its objective of capital market development.

B. Term - HDFC may undertake to transform relatively shorter-term savings it mobilizes into longer-term loans, taking into consideration the limits that may be imposed by the mix and stability of its resources. HDFC may constitute adequate reserves, obtain lines of credit and/or rediscount facilities and foster the development of secondary markets for the loans it makes to protect itself against the liquidity risks inherent in such term transformation.

C. Indebtedness - HDFC will not incur debts, including contingent liabilities, in excess of 15 times its paid-in share capital, surplus and free reserves.

IV. PROFITS AND DISTRIBUTION

HDFC's continuing profitability and the maintenance of a sound loan portfolio and capital structure is essential for its growth and financial security and for its effective contribution to the development of India's financial sector. Earnings may be retained to the extent necessary for financial stability, and dividends thereafter paid out at a rate sufficient to enable HDFC to attract additional capital. It will be an endeavour of HDFC to protect its equity base from erosion from the effects of inflation.

V. MANAGEMENT

A. General - In all its operations, HDFC will seek to develop a reputation for operating efficiency and acceptance by the public consistent with optimising the mobilisation of savings and their application to its lending operations. In this manner, it will seek to serve both savers and borrowers by keeping the cost of financial intermediation to a minimum consistent with the provision of a high level of professional service and the earning of a fair return on its net worth in the interest of its shareholders, depositors, creditors and the general community.

B. Management Reports - In addition to the provision of independently audited annual financial statements as required by the Articles of Association of HDFC, management will produce such monthly reports as may be required for the effective control of operations. These reports may include financial statements detailed by organizational unit and/or activity, analysis of overdue loans, collection efforts and provisions for losses. Appropriate general and statistical information on business conducted and general economic and financial reviews as they effect the operations may also be included. These reports will be submitted to the Board of Directors' meetings.

C. Staff - HDFC will endeavour to recruit and retain highly qualified staff for whose services appropriate compensation and incentives will be provided. In furtherance of this goal, HDFC may provide continuing training and development programmes to maintain this level of professional competence.

D. Procedures - Management will establish and publish internal operating procedures for the conduct of HDFC's business, and make these procedures known to all employees, and particularly to new employees. Management will establish appropriate operational credit procedures and limits required for the effective appraisal and supervision of the creditworthiness of borrowers and the condition of property financed. Branch managers and senior management will be given autonomy in accordance with their experience and qualifications for credit approvals up to limits fixed from time to time by the Board of Directors.

E. Geographic Expansion - In pursuit of its objective to support the development of a national housing finance system, HDFC may, to the extent permitted by its own operations and management capabilities, develop a branch network and aid local initiatives to establish local and regional housing finance institutions throughout India.

F. Conflicts - HDFC will not involve itself directly or indirectly, in any transaction with any directors, officers, employees or shareholders of HDFC, which would involve a real or apparent conflict of interest between the company and these individuals, their families or other entities with which they have a significant business relationship, unless all the following conditions are met.

1. No special concessions are given to the party involved in the transaction.

86

2. Commitments are made only after formal decision by the Board of Directors or a Committee of Directors.

3. The circumstances of a conflict of interest and the circumstances of a proposed transaction are made known in writing to the Board of Directors or a Committee of Directors, prior to the commitment being considered.

4. The individuals involved takes no part in the decision to make the commitment.

5. In the event that the commitment is to be made, a written record of the reason for the Board or Committee's decision is prepared and retained, and

6. Where a commitment is made under this section, all subsequent transactions with the same party are treated as new transactions subject to the provisions of (1) through (5) above.

VI. Revision of Policies - Any proposal to modify this Statement of Operating Policies, shall be considered by the Board of Directors only after each member has been given an adequate opportunity to study and comment on the proposal. Any such modification shall become effective only after it has been adopted at a meeting of the Board of Directors.

May 29, 1978.

LOAN PROCEDURES

CREDIT APPRAISAL

Individuals

At the time of purchasing the application forms, most individuals make enquiries regarding the amount of loan that they would be eligible for, the time that it would take to process the application, how the various details required in the form are to be filled out, etc. This is attended to generally by the receptionist and only for specific queries is the individual asked to contact the Credit Department.

The individual then submits the application form duly filled out with relevant documents attached together with the required processing fees (attached) If the applicant is self-employed, income -tax returns and computation of income duly certified by a chartered accountant for the preceding three years is required. In case the applicant is employed, a salary slip and the verification of employment form is required.

On receipt of the application, the Credit Department sends out the reference forms to the references indicated by the applicant and also sends out the verification form to the employer, in case the applicant is employed, or a bank reference if self-employed.

The applicant is then generally called for an interview by the appraiser and relevant papers such as bank pass books, LIC policies, etc. are verified.

Once appraisal is complete, the appraiser recommends the case to the sanctioning authority for approval or rejection.

If the loan is approved, an offer letter setting out the main terms and conditions of the loan is issued to the applicant. The applicant is required to sign the acceptance copy of the offer letter and return it to HDFC together with the legal and technical fees (attached) indicating acceptance of the terms and conditions of the loan .

Group Projects

Such projects are usually loans to cooperative societies. If all or a majority of the members of a society are desirous of financial assistance, then the society and each member fills out the appropriate form and submits it together with the processing fees

The process of evaluating is essentially the same as in the case of the individual loan applicants. The loan given to the society is the aggregate of the sum total of the loans that each member is eligible for. The society is required to submit its bye-laws, balance-sheet and income and expenditure account duly certified by a Chartered Accountant, registration certificate of the society, etc. The Technical and Legal Departments also scrutinize the documents prior to the application being put up for approval. This is done to apprise the applicants of any short coming that may have been noticed in their technical specifications or legal documents.

If the loan is approved, an offer letter setting out the main terms and conditions of the loan is issued to the society. The society is required to sign the acceptance copy of the offer letter and return it to HDFC together with the legal and technical fees indicating acceptance of the terms and conditions of the loan.

Corporate bodies

Before receiving a formal application from companies, a preliminary discussion is held to cover the broad aspects of the proposal, such as project details, project location, beneficiaries of the housing scheme, the proposed loan amount, etc.

Once this has been cleared, the company can make a formal application with the processing fees
The following documents are also submitted with the applications :

- Memorandum and articles of association of the company
- Detailed cost estimates and approved plans of the proposed project.
- Audited annual accounts of the company for the past three years.
- Projected financial statements for the next three years.
- An brief write-up on the past and future of the company, with respect of its background, areas of operations, expansaion programmes, its housing activities, etc.

...3/-

desirous of financial assistance, then the society and each member fills out the appropriate form and submits it together with the processing fees

The process of evaluating is essentially the same as in the case of the individual loan applicants. The loan given to the society is the aggregate of the sum total of the loans that each member is eligible for. The society is required to submit its bye-laws, balance-sheet and income and expenditure account duly certified by a Chartered Accountant, registration certificate of the society, etc. The Technical and Legal Departments also scrutinize the documents prior to the application being put up for approval. This is done to apprise the applicants of any short coming that may have been noticed in their technical specifications or legal documents.

If the loan is approved, an offer letter setting out the main terms and conditions of the loan is issued to the society. The society is required to sign the acceptance copy of the offer letter and return it to HDFC together with the legal and technical fees indicating acceptance of the terms and conditions of the loan.

Corporate bodies

Before receiving a formal application from companies, a preliminary discussion is held to cover the broad aspects of the proposal, such as project details, project location, beneficiaries of the housing scheme, the proposed loan amount, etc.

Once this has been cleared, the company can make a formal application with the processing fees
The following documents are also submitted with the applications :

- Memorandum and articles of association of the company
- Detailed cost estimates and approved plans of the proposed project.
- Audited annual accounts of the company for the past three years.
- Projected financial statements for the next three years.
- An brief write-up on the past and future of the company, with respect of its background, areas of operations, expansaion programmes, its housing activities, etc.

...3/-

The application is scrutinized by the Credit, Technical and Legal Departments and the representatives of the company are called in for discussions.

If the company's financial performance as reflected by the analysis is found to be satisfactory, then the case is put up for approval.

If the loan is approved, an offer letter setting out the main terms and conditions of the loan is issued to the company. The company is required to sign the acceptance copy of the offer letter and return it to HDFC together with the legal and technical fees indicating its acceptance of the terms and conditions of the loan.

TECHNICAL APPRAISAL

Individuals

For individuals purchasing in existing house or apartment, once the loan offer is accepted, and legal and technical fees are paid, the technical appraiser inspects the property and verifies that the building is structurally stable, functionally sound and aesthetically good. In case of an individual purchasing a flat in a building under construction or financing a house which he is constructi the technical appraiser does the valuation of the work done. Generally, three such appraisals are carried out during construction.

The technical appraiser's report approved by the co-ordinator is forwarded to the Legal Department for further action.

Group Projects/Corporate Bodies

In case of cooperative societies and corporate bodies, the Technical Department is consulted prior to the case being put up for approval regarding the suitability of the plans, the reasonableness of the estimate and, in some metropolitan cities, the reliability of the builder. Generally, the Technical Department also inspects the property prior to the

91

loan being approved taking into account the following factors :

- location of the property
- selling rates of land in the neighbourhood and
- service availability.

On the basis of the Technical Department report, the case is put up for approval.

Once the loan offer is accepted and the legal and technical fees are paid and the cooperative society or the corporation have fully utilised their own contribution, the technical appraiser then inspects the property, assesses the progress of work, and verifies whether the society/corporate body have utilised their own contribution. The appraiser's report verified by the co-ordinator is then forwarded to the Legal Department for necessary action.

LEGAL REVIEW

Individuals

Once the loan offer is accepted and the legal and technical fees paid, the individual borrower contacts the Legal Department who provides guidance regarding various documents that need to be furnished. The documentation varies depending on the nature and type of property or the dwelling unit that the individual intends to acquire. e.g.

1. It may be a flat being constructed by a professional builder. Such a flat may be either under construction or may be ready for occupation.

2. Itmay be a flat from a registered cooperative society, where the society owns the plot of land and the building. The building may be under construction or may have been completed in all respects and possession of the flat is available immediately against full payment to the society.

3. It may be the applicant's own house which is being constructed on a plot of land owned by the applicant or acquired under a long lease.

...5/-

qv

loan being approved taking into account the following factors :

- location of the property
- selling rates of land in the neighbourhood and
- service availability.

On the basis of the Technical Department report, the case is put up for approval.

Once the loan offer is accepted and the legal and technical fees are paid and the cooperative society or the corporation have fully utilised their own contribution, the technical appraiser then inspects the property, assesses the progress of work, and verifies whether the society/corporate body have utilised their own contribution. The appraiser's report verified by the co-ordinator is then forwarded to the Legal Department for necessary action.

LEGAL REVIEW

Individuals

Once the loan offer is accepted and the legal and technical fees paid, the individual borrower contacts the Legal Department who provides guidance regarding various documents that need to be furnished. The documentation varies depending on the nature and type of property or the dwelling unit that the individual intends to acquire. e.g.

1. It may be a flat being constructed by a professional builder. Such a flat may be either under construction or may be ready for occupation.

2. Itmay be a flat from a registered cooperative society, where the society owns the plot of land and the building. The building may be under construction or may have been completed in all respects and possession of the flat is available immediately against full payment to the society.

3. It may be the applicant's own house which is being constructed on a plot of land owned by the applicant or acquired under a long lease.

...5/-

Once all the documents, have been submitted and found to be satisfactory and the technical department has recommended a disbursement, the legal appraisal report is prepared and date is fixed for disbursement. A disburseme memo is prepared in each case duly authorised by the General Manager/Deputy General Manager.

At the time of disbursement the individual borrower is required to execute a loan agreement, a promissory note and a letter of declaration and indemnity.

In cooperative/corporate cases, a similar set of documents is required.

In addition, it is ensured in the cases of cooperative societies that the loan amount being borrowed together with any existing borrowings are within the prescribed limits for borrowings as per the societies' bye-laws.

DISBURSEMENT :

The borrower is issued a Disbursement Advice detailing the repayment terms for his ready reference at the time of disbursement.

LOAN SERVICING :

Repayment of the loan by Equated Monthly Instalments (EMI) commences only after the full loan is disbursed. Howeve the borrower is required to pay simple interest on the disbursed portion of the loan from the date(s) of disbursement to the date of commencement of EMI. Repayment by EMI commences in the month following the month in which final disbursement is made.

All payments of EMI and Pre-EMI interest are due on the last day of the month. Borrowers are assigned specific loan account numbers and their individual records are maintained in the Pre-EMI Ledger or the EMI Ledger.

PROCESSING FEES

(a) Individuals :

Loan Applied for	Fees
1. Upto and including Rs 20,000/-	Rs. 125.00
2. Between Rs 20,001/- and Rs 50,000/- (both inclusive)	Rs. 250.00
3. Between Rs 50,001/- and Rs 1 lac (both inclusive)	Rs. 350.00
4. Over Rs 1 lac	Rs. 450.00

(b) Group Projects:

¾% of the loan amount applied for subject to a manimum of Rs 150/- per member

(c) Corporate Bodies:

1% of the loan amount applied for subject to a minimum of Rs. 2,500/-.

95

PROCESSING FEES

(a) <u>Individuals</u> :

Loan Applied for	Fees
1. Upto and including Rs 20,000/-	Rs. 125.00
2. Between Rs 20,001/- and Rs 50,000/- (both inclusive)	Rs. 250.00
3. Between Rs 50,001/- and Rs 1 lac (both inclusive)	Rs. 350.00
4. Over Rs 1 lac	Rs. 450.00

(b) <u>Group Projects</u>:

¾% of the loan amount applied for subject to a manimum of Rs 150/- per member

(c) <u>Corporate Bodies</u>:

1% of the loan amount applied for subject to a minimum of Rs. 2,500/-.

LEGAL AND TECHNICAL FEES

(a) Individuals

1% of the loan amount sanctioned subject to a minimum of Rs 300/-.

(b) Group Projects

1% of the loan amount sanctioned subject to a minimum of Rs 250/- per member.

(c) Corporate Bodies

1% of the loan amount sanctioned.

HOUSING DEVELOPMENT FINANCE CORP.

Balance Sheets
(as of June 30)

Rs. million	FY79	FY80	FY81
ASSETS			
Net and Current Assets	68	28	21.0
Investments	15	19	30.1
Housing Loans	13	101	292.5
Fixed and Other Assets	6	8	10.6
TOTAL	102	156	354.2
LIABILITIES & NET WORTH			
Deposits	0	39	160.0
Borrowings	3	11	83.0
Total Liabilities	3	50	243.0
Paid-in Capital	99	100	100.0
Reserves and Surplus	0	6	11.2
Total Net Worth	99	106	111.2
TOTAL	102	156	354.2

HOUSING DEVELOPMENT AND FINANCE CORPORATION (HDFC)

PROFIT AND LOSS STATEMENTS (Rs. million)

INCOME	FY79	FY80	FY81 (Estimated)
Interest on Housing Loans	0.4	5.7	20.8
Fees and other charges	0.3	4.2	7.0
Income from Investments	3.1	5.2	6.0
Total Income	3.8	15.1	33.8
EXPENDITURE			
Interest Expense & Other Charges	0.3	1.8	11.3
Operating Income	3.5	13.3	22.5
Operating Expenses	2.5	4.0	6.3
Profit Before Tax	1.0	9.3	16.2
Tax Appropriation	0.4	3.1	5.5
Profit After Tax	0.6	6.2	10.7
Special REserve	0.4	3.7	6.5
Surplus	0.2	2.5	4.2

ANNEX 13

MANAGEMENT REPORT

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

MANAGEMENT REPORT - OPERATIONS

AS AT APRIL 30, 1981

27th Board Meeting
June 9, 1981
Agenda Item No. ______

I. Average Loan Profile

	Individuals Ownership		Corporate Bodies	
	Current Year	Cumulative	Current Year	Cumulative
1. Cost per unit	Rs. 83,000	Rs. 77,000	Rs. 46,000	Rs. 29,000
2. Loan Per Unit	Rs. 36,000	Rs. 32,000	Rs. 22,000	Rs. 13,000
3. Rate of Interest	12.33%	11.84%	14.79%	12.49%
4. Term of Loan	13.27 yrs.	13.28 yrs.	5.61 yrs.	7.52 yrs.
5. Area of dwelling unit	70 sq.mts.	68 sq.mts.	55 sq.mts.	47 sq.mts.
6. Age of applicant	36 years	36 years	-	-
7. Income of Applicant	Rs. 2,100	Rs. 2,000	Rs. 1,100	Rs. 900
8. Loan/cost ratio	43%	42%	48%	45%
9. Cost/Income ratio	3.56:1*	-	-	-

(*) for April, 1981

100

II. STATUS OF APPLICATIONS RECEIVED

	Individuals				Group Projects				Line of Credit				Corporate bodies			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Received	808	001	7493	14909	2	5	24	75	-	1	10	24	1	3	20	66
Sanctioned	665	953	6073	11771	2	2	15	51	2	-	12	24	2	-	21	53
Rejected	28	29	247	620	-	-	-	-	-	-	-	-	-	-	-	-
Cancelled	27	45	299	460	-	-	1	1	-	-	-	1	-	-	2	2
Processed/ closed	65	54	462	880	-	-	6	8	-	-	-	-	-	-	8	9
Under Process	1638	1588	-	-	16	16	-	-	-	1	-	-	4	5	-	-

1 = This month

2.= Previous month

3 = Year to date

4 = Cumulative

10/

II. STATUS OF APPLICATIONS RECEIVED

	Individuals				Group Projects				Line of Credit				Corporate bodies			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Received	808	001	7493	14909	2	5	24	75	-	1	10	24	1	3	20	66
Sanctioned	665	953	6073	11771	2	2	15	51	2	-	12	24	2	-	21	53
Rejected	28	29	247	620	-	-	-	-	-	-	-	-	-	-	-	-
Cancelled	27	45	299	460	-	-	1	1	-	-	-	1	-	-	2	2
Processed/ closed	65	54	462	880	-	-	6	8	-	-	-	-	-	-	8	9
Under Process	1636	1588	-	-	16	16	-	-	-	1	-	-	4	5	-	-

1 = This month

2.= Previous month

3 = Year to date

4 = Cumulative

102

	MARCH 1981			JULY,80 - APRIL,81 ACTUAL			JULY,80 - APRIL,81 FORECAST			CUMULATIVE		
	No. of appli.	No. of units	Rs. in millions	No. of appli.	No. of units	Rs. in millions	No. of appli.	No. of units	Rs. in millions	No. of appli.	No. of units	Rs. in millions
	908	908	32.8	5774	5774	208.8	5000	5000	175.0	11311	11311	380.9
	2	24	.5	14	220	6.7	23	-	25.0	50	1223	31.6
	-	-	-	11	593	18.9	10	-	25.0	23	1196	33.0
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	19	1009	22.2	10	-	25.0	51	7937	105.5
	-	(-)2	(-) .3	-	-	-	-	-	-	-	-	-
	-	-	-							2	39	4.0
	910	930	33.0	5818	7596	256.6			250.0	11437	22064	555.0
	549	549	15.3	3644	3644	118.8	-	-	114.6	5763	5763	182.0
	1	22	2.0	17	558	9.6	-	-	13.3	34	948	15.8
	1	10	1.4	16	390	15.1	-	-	24.8	19	458	15.9
	3	133	1.1	13	614	21.0	-	-	24.8	28	4985	46.0
	-	-	-	-	-	.5	-	-	-	2	397	4.0
	-	714	19.8	-	5206	165.0	-	-	177.5	-	12551	263.7
										5548	5548	198.9
										16	275	15.8
										4	738	17.1
										23	2952	59.5
										-	-	-
										-	9513	291.3

103

IV. LOANS SANCTIONED – REGIONWISE

REGION	Year to date			Cumulative		
	No. of places	Rs. in millions	%	No. of places	Rs. in millions	%
North	7	24.5	10	19	36.6	7
South	27	78.9	31	56	130.1	23
East	11	10.8	4	31	45.5	8
West	20	142.4	55	64	342.8	62
TOTAL	65	256.6	100	170	554.9	100

V. AGEING OF LOAN APPLICATIONS UNDER PROCESS

	Individuals	Group projects	Lines of credit	Corporate bodies
Upto 1 month	780	2	–	1
1 month – 2 months	448	5	–	2
2 months – 3 months	199	3	–	–
3 months – 4 months	128	1	–	–
More than 4 months	83	5	–	1
Total no. of applications	1638	16	–	4
Value (Rs. in millions)	59.0	17.7	–	3.0
TOTAL VALUE (Rs. in millions)				79.7

IV. LOANS SANCTIONED – REGIONWISE

REGION	Year to date			Cumulative		
	No. of places	Rs. in millions	%	No. of places	Rs. in millions	%
North	7	24.5	10	19	36.6	7
South	27	78.9	31	56	130.1	23
East	11	10.8	4	31	45.5	8
West	20	142.4	55	64	342.8	62
TOTAL	65	256.6	100	170	554.9	100

V. AGEING OF LOAN APPLICATIONS UNDER PROCESS

	Individuals	Group projects	Lines of credit	Corporate bodies
Upto 1 month	780	2	–	1
1 month – 2 months	448	5	–	2
2 months – 3 months	199	3	–	–
3 months – 4 months	128	1	–	–
More than 4 months	83	5	–	1
Total no. of applications	1638	16	–	4
Value (Rs. in millions)	59.0	17.7	–	3.0
TOTAL VALUE (Rs. in millions)				79.7

VI. DISTRIBUTION OF BORROWERS - BY INCOME GROUP

A. INDIVIDUAL OWNERSHIP

(i) Current year

Gross adjusted * Monthly income (Rs)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average Loan (Rs.)
Upto - 1000	870	14	15.5	7	18,000
1001 - 2000	2847	46	80.3	36	28,000
2001 - 3000	1444	24	62.3	28	43,000
3001 - above	967	16	63.0	29	65,000
TOTAL	6128	100	221.1	100	36,000

(ii) Cumulative

Gross adjusted* Monthly income (Rs.)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average loan (Rs.)
Upto - 1000	2799	22	42.9	10	15,000
1001 - 2000	5604	44	154.6	37	28,000
2001 - 3000	2644	21	113.3	27	43,000
3001 - above	1676	13	107.7	26	64,000
TOTAL	12723	100	418.5	100	33,000

Sanctions under Lines of credit, where not fully disbursed, have been ignored.

* Gross adjusted monthly income comprises the joint incomes of borrower and co-borrower.

B. CORPORATE BODIES

(i) Current year

Income (Rs.)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average Loan (Rs.)
Upto - 1000	630	62	8.1	36	13,000
1001 - 2000	330	33	9.7	44	29,000
2001 - 3000	40	4	3.1	14	76,000
3001 - above	9	1	1.3	6	1,48,000
TOTAL	1009	100	22.2	100	22,000

(ii) Cumulative

Income (Rs.)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average Loan (Rs.)
Upto - 1000	6851	86	53.9	51	8,000
1001 - 2000	945	12	40.2	38	43,000
2001 - 3000	128	2	9.7	9	76,000
3001 - above	12	-	1.6	2	1,32,000
TOTAL	7937	100	105.4	100	13,000

107

B. CORPORATE BODIES

(i) Current year

Income (Rs.)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average Loan (Rs.)
Upto - 1000	630	62	8.1	36	13,000
1001 - 2000	330	33	9.7	44	29,000
2001 - 3000	40	4	3.1	14	76,000
3001 - above	9	1	1.3	6	1,48,000
TOTAL	1009	100	22.2	100	22,000

(ii) Cumulative

Income (Rs.)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average Loan (Rs.)
Upto - 1000	6851	86	53.9	51	8,000
1001 - 2000	945	12	40.2	38	43,000
2001 - 3000	128	2	9.7	9	76,000
3001 - above	12	-	1.6	2	1,32,000
TOTAL	7937	100	105.4	100	13,000

108

VII. DISTRIBUTION OF BORROWERS - BY AREA OF DWELLING UNIT

A. INDIVIDUAL OWNERSHIP

(i) Current Year

Area (Sq. mt.)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average loan (Rs.)
Upto - 50	2238	37	55.7	25	25,000
51 - 80	1917	31	67.6	31	35,000
81 - 95	508	8	22.9	10	45,000
96 - above	996	16	54.3	25	54,000
Not selected	469	8	20.6	9	44,000
TOTAL	6128	100	221.1	100	36,000

(ii) Cumulative

Area (Sq. mt.)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average loan (Rs.)
Upto - 50	5426	43	117.8	28	22,000
51 - 80	3574	28	121.9	29	34,000
81 - 95	903	7	40.0	10	44,000
96 - above	1684	13	90.0	21	53,000
Not selected	1136	9	48.9	12	43,000
TOTAL	12723	100	418.5	100	33,000

Sanctions under Lines of Credit, where not fully disbursed, have been ignored.

B. CORPORATE BODIES

(i) Current Year

Area (Sq. Mt.)	No. of Units	%	Total Loan amount (Rs. in mill.)	%	Average loan (Rs.)
Upto - 50	427	42	3.7	17	9,000
51 - 80	516	51	13.9	63	27,000
81 - 95	22	2	1.6	7	73,000
96 - above	44	5	3.0	13	68,000
TOTAL	1009	100	22.2	100	22,000

(ii) Cumulative

Area (Sq. Mt.)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average Loan (Rs.)
Upto - 50	4933	62	33.9	32	7,000
51 - 80	2746	35	52.1	50	19,000
81 - 95	109	1	7.7	7	71,000
96 - above	149	2	11.7	11	78,000
TOTAL	7937	100	105.5	100	13,000

B. CORPORATE BODIES

(i) Current Year

Area (Sq. Mt.)	No. of Units	%	Total Loan amount (Rs. in mill.)	%	Average loan (Rs.)
Upto - 50	427	42	3.7	17	9,000
51 - 80	516	51	13.9	63	27,000
81 - 95	22	2	1.6	7	73,000
96 - above	44	5	3.0	13	68,000
TOTAL	1009	100	22.2	100	22,000

(ii) Cumulative

Area (Sq. Mt.)	No. of units	%	Total loan amount (Rs. in mill.)	%	Average Loan (Rs.)
Upto - 50	4933	62	33.9	32	7,000
51 - 80	2746	35	52.1	50	19,000
81 - 95	109	1	7.7	7	71,000
96 - above	149	2	11.7	11	78,000
TOTAL	7937	100	105.5	100	13,000

VIII. GROUP PROJECTS, CORPORATE BODIES AND LINES OF CREDIT – UNDER PROCESS

A. GROUP PROJECTS

		(Rs. in 000)
1.	Mulund Saidham, Bombay	735
2.	Vihar Co-op Society, Baroda	1208
3.	Mulund Suraksha, Bombay	3279
4.	St. Xaviers, New Delhi	3000
5.	Dharmnagar, Baroda	8.85
6.	Harekrishna, Ulhasnagar	5.49
7.	Dwarka, Thane	1091
8.	Dreamland, Thane	815
9.	APSRTC Co-op Society, Hyderabad	4.56
10.	Kanchanganga Nasik	664
11.	Gokul, Nagpur	.582
12.	Vivek Coop Society, Bombay	800
13.	Shree Jiveshwar, Pune	378
14.	Geetanjali, Aurangabad	486
15.	Vishrut Coop Society, Ahmedabad	1540
16.	Mehul Coop Society, Baroda	10.00
		17,668

112

B. CORPORATE BODIES

		(Rs. in 000)
1.	Dharamsi Morarji, Bombay	2330
2.	Stup Consultants, Bangalore	130
3.	B.D. Steel Castings, Tarapur	450
4.	Savina Impex & Agencies	100
		3010

CONSTRUCTION FINANCE

1.	Olympic Enterprises	25,00
2.	Satguru Enterprises	20,00
3.	Unique Estate Development	40,00
4.	Arpan Construction Pvt Ltd	200,00
		285,00

B. CORPORATE BODIES

		(Rs. in 000)
1.	Dharamsi Morarji, Bombay	2330
2.	Stup Consultants, Bangalore	130
3.	B.D. Steel Castings, Tarapur	450
4.	Savina Impex & Agencies	100
		3010

CONSTRUCTION FINANCE

1.	Olympic Enterprises	25,00
2.	Satguru Enterprises	20,00
3.	Unique Estate Development	40,00
4.	Arpan Construction Pvt Ltd	200,00
		285,00

114

IX. APPLICATION FORMS SOLD

	This month	Year to date
Individuals	2698	26,888
Group Projects	3	113
Corporate Bodies	3	71

X. FEES AND CHARGES COLLECTED

	This month	Year to date
Application form charges	27,944	2 86,831
Processing fees	2 49,919	21 21,518
Legal & Technical fees	2 68,292	25 29,294
		49 37,643

115

XI. STATEMENT OF RECOVERIES

Amount of EMIs/No. of EMIs		Individuals	Group Projects	Corporate Bodies	Total
APRIL 1981					
Due	Rs.	1,6 84,287	91,670	4 00,487	2,1 76,444
	No.	3,706	16	15	3,737
Recd.	Rs.	1,6 22,999	82,752	4 00,487	2,1 06,238
	No.	3,584	14	15	3,613
Overdue	Rs.	61,288	8,918*	-	70,206
	No.	122	2	-	124
%Delay	Rs.	3.63	9.72	-	3.22
	No.	3.29	12.50	-	3.31
MARCH 1981					
Overdue	Rs.	6,103	239*	-	6,342
	No.	9	1	-	10
FEBRUARY 1981					
Overdue	Rs.	2,254	239*	-	2,493
	No.	3	1	-	4
JANUARY 1981					
Overdue	Rs.	313.28	239*	-	552.28
	No.	1	1	-	2
DECEMBER 1980					
Overdue	Rs.	313.28	239*	-	552.28
	No.	1	1	-	2
NOVEMBER 1980					
Overdue	Rs.	313.28	-	-	313.28
	No.	1	-	-	1

Pre-EMI Interest receivable in April 1981 : Rs 6 38,625/-.

(*) Short Payments by Kalpit Apartments.

116

XI. STATEMENT OF RECOVERIES

Amount of EMIs/No. of EMIs		Individuals	Group Projects	Corporate Bodies	Total
APRIL 1981					
Due	Rs.	1,6 84,287	91,670	4 00,487	2,1 76,444
	No.	3,706	16	15	3,737
Recd.	Rs.	1,6 22,999	82,752	4 00,487	2,1 06,238
	No.	3,584	14	15	3,613
Overdue	Rs.	61,288	8,918*	-	70,206
	No.	122	2	-	124
%Delay	Rs.	3.63	9.72	-	3.22
	No.	3.29	12.50	-	3.31
MARCH 1981					
Overdue	Rs.	6,103	239*	-	6,342
	No.	9	1	-	10
FEBRUARY 1981					
Overdue	Rs.	2,254	239*	-	2,493
	No.	3	1	-	4
JANUARY 1981					
Overdue	Rs.	313.28	239*	-	552.28
	No.	1	1	-	2
DECEMBER 1980					
Overdue	Rs.	313.28	239*	-	552.28
	No.	1	1	-	2
NOVEMBER 1980					
Overdue	Rs.	313.28	-	-	313.28
	No.	1	-	-	1

Pre-EMI Interest receivable in April 1981 : Rs 6 38,625/-.

(*) Short Payments by Kalpit Apartments.

117

HDFC-CD OPERATIONS :

OUTSTANDING DEPOSITS

DEPOSIT PERIOD MONTHS	AS AT APRIL 30, 1981	AS AT MARCH 31, 1981	AS AT FEBRUARY 28, 1981
6 - 12	4 46 60,000	4 05 75,000	3 87 74,000
13 - 24	2 72 26,000	2 61 36,000	2 69 31,000
25 - 36	1 62,000	1 27,000	1 27,000
37 - 59	5 11 33,000	5 09 48,000	3 09 18,000
60	2 02 18,000	1 97 06,000	86 58,000
TOTAL :	14 33 99,000	13 74 92,000	10 54 08,000
Average weighted cost of deposits	9.27%	9.28%	9.04%

FINANCIAL PROJECTIONS

PROJECTED BALANCE SHEET
WITH HOUSING GUARANTY LOANS
(RUPEES IN MILLIONS)

	80-81	81-82	82-83	83-84	84-85	85-86
ASSETS						
Net Current Assets	21.0	38.0	63.0	103.0	160.0	225.0
Investments	30.1	72.2	104.9	169.8	334.8	456.6
Housing Loans	292.5	622.9	1100.2	1737.9	2512.5	3418.5
Net Fixed Assets	9.5	22.5	23.5	25.5	27.5	29.5
Others	1.1	0.9	0.7	0.5	0.3	0.1
Total	354.2	756.5	1292.3	2036.7	3035.1	4129.7
LIABILITIES AND NET WORTH						
Deposits	160.0	380.0	630.0	1030.0	1600.0	2250.0
Term Debts	83.0	255.0	527.0	849.0	1146.0	1533.0
Total Liabilities	243.0	635.0	1157.0	1879.0	2746.0	3783.0
Paid in Capital	100.0	100.0	100.0	100.0	200.0	200.0
Special Reserves	10.6	21.1	34.9	54.6	85.8	133.0
P & L Acct (Surplus)	0.6	0.4	0.4	3.1	3.3	13.7
Total Net Worth	111.2	121.5	135.3	157.7	289.1	346.7
Total Liabilities & N.W.	354.2	756.5	1292.3	2036.7	3035.1	4129.7

Annex 14

119

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED
WITH HOUSING GUARANTY LOANS
Projected Profit & Loss Account (Rupees in millions)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
INCOME						
Fees and Other Charges	7.0	10.5	15.0	18.7	23.3	28.4
Interest on housing loans	20.8	56.0	112.0	191.3	295.7	423.4
Income from investments	6.0	11.0	17.5	32.5	56.0	85.0
Other income	--	8.0	10.0	12.5	15.0	
TOTAL	33.8	85.4	154.5	255.0	390.0	554.3
EXPENDITURE						
Interest on deposits	8.9	31.0	58.0	97.5	154.5	226.2
Interest on term debt	2.4	19.8	47.2	86.5	128.5	168.6
TOTAL	11.3	50.8	105.2	184.0	283.0	394.8
Operating Income	22.5	34.6	49.3	71.0	107.0	159.5
Gen & Adm Expenses	6.3	8.3	14.7	21.8	28.9	41.5
Profit before tax	16.2	26.3	34.6	49.2	78.1	118.0
Transfer to sp.res.	6.5	10.5	13.8	19.7	31.2	47.2
Taxable Income	9.7	15.8	20.8	29.5	46.9	70.5
Tax	5.5	9.0	11.8	16.8	26.7	40.4
Profit after tax	4.2	6.8	9.0	12.7	20.2	30.4
Dividend equity	6.0 (6%)	7.0 (7%)	9.0 (9%)	10.0 (10%)	20.0 (10%)	20.0 (10%)
Balance c/f to Profit & Loss A/c	.2	.3	---	2.7	.2	10.4
	Rs 2 million with- drawn from	Rs 500,000 withdrawn				

18

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED
WITH HOUSING GUARANTY LOANS

Projected Profit & Loss Account (Rupees in millions)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
INCOME						
Fees and Other Charges	7.0	10.4	15.0	18.7	23.3	28.4
Interest on housing loans	20.8	56.0	112.0	191.3	295.7	423.4
Income from investments	6.0	11.0	17.5	32.5	56.0	85.0
Other income	--	8.0	10.0	12.5	15.0	-
TOTAL	33.8	85.4	154.5	255.0	390.0	554.3
EXPENDITURE						
Interest on deposits	8.9	31.0	58.0	97.5	154.5	226.2
Interest on term debt	2.4	19.8	47.2	86.5	128.5	168.6
TOTAL	11.3	50.8	105.2	184.0	283.0	394.8
Operating Income	22.5	34.6	49.3	71.0	107.0	159.5
Gen & Adm Expenses	6.3	8.3	14.7	21.8	28.9	41.5
Profit before tax	16.2	26.3	34.6	49.2	78.1	118.0
Transfer to sp.res.	6.5	10.5	13.8	19.7	31.2	47.2
Taxable Income	9.7	15.8	20.8	29.5	46.9	70.8
Tax	5.5	9.0	11.8	16.8	26.7	40.4
Profit after tax	4.2	6.8	9.0	12.7	20.2	30.4
Dividend equity	6.0 (6%)	7.0 (7%)	9.0 (9%)	10.0 (10%)	20.0 (10%)	20.0 (10%)
Balance c/f to Profit & Loss A/c	.2	.3	---	2.7	.2	10.4
	Rs 2 million withdrawn from	Rs 500,000 withdrawn				

121

PROJECTED BALANCE SHEET
WITHOUT HOUSING GUARANTY LOANS
(RUPEES IN MILLIONS)

	80-81	81-82	82-83	83-84	84-85	85-86
ASSETS						
Net Current Assets	21.0	38.0	63.0	93.0	125.0	160.0
Investments	30.1	51.0	42.4	55.8	161.1	221.4
Housing Loans	292.5	592.4	959.8	1408.4	1939.8	2550.8
Net Fixed Assets	9.5	22.5	23.5	25.5	27.5	29.5
Others	1.1	0.9	0.7	0.5	0.3	0.1
Total	354.2	704.8	1089.4	1583.2	2253.7	2961.8
LIABILITIES AND NET WORTH						
Deposits	160.0	380.0	630.0	930.0	1250.0	1600.0
Term Debts	83.0	205.0	327.0	499.0	721.0	1033.0
Total Liabilities	243.0	585.0	957.0	1429.0	1971.0	2633.0
Paid in Capital	100.0	100.0	100.0	100.0	200.0	200.0
Special Reserves	10.6	19.4	30.7	48.2	74.0	110.5
P & L Acct (Surplus)	0.6	0.4	1.7	6.0	8.7	18.3
Total Net Worth	111.2	119.8	132.4	154.2	282.7	328.8
Total Liabilities	354.2	704.8	1089.4	1583.2	2253.7	2961.8

PROJECTED PROFIT & LOSS ACCOUNT

WITHOUT HOUSING GUARANTY LOANS

(Rs in Millions)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
INCOME						
Fees	70	76	97	122	145	169
Other Charges	-	5	10	15	25	35
Interest on Housing Loans	208	542	1003	1593	2325	3200
Income from Investments	60	85	100	175	250	400
Other Income	-	80	100	125	150	175
Total	338	788	1310	2030	2895	3979
EXPENDITURE						
Interest on Deposits	89	310	580	917	1281	1674
Interest on Term Debt	24	176	317	499	748	1086
Total	113	486	897	1416	2029	2760
Operating Income	225	302	413	614	866	1219
Gen. & Admn.Expenses	63	80	130	177	221	307
Profit before Tax	162	222	283	437	645	912
Transfer to Special Reserve	65	88	113	175	258	365
Taxable Income	9.7	13.4	17.0	26.2	38.7	54.7
Tax	55	76	97	149	220	311
Profit After Tax	42	58	73	113	167	236
Dividend Equity	60(6%)	60(6%)	60(6%)	70(7%)	140(7%)	140(7%)
Balance C/f to Profit & Loss A/c.	2	3	13	43	27	96
	*Rs 2 withdrawn from P & L Account	*Rs 5 withdrawn from P & L Account				

123

PROJECTED PROFIT & LOSS ACCOUNT

WITHOUT HOUSING GUARANTY LOANS

(Rs in Millions)

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
INCOME						
Fees	70	76	97	122	145	169
Other Charges	-	5	10	15	25	35
Interest on Housing Loans	208	542	1003	1593	2325	3200
Income from Investments	60	85	100	175	250	400
Other Income	-	80	100	125	150	175
Total	338	788	1310	2030	2895	3979
EXPENDITURE						
Interest on Deposits	89	310	580	917	1281	1674
Interest on Term Debt	24	176	317	499	748	1086
Total	113	486	897	1416	2029	2760
Operating Income	225	302	413	614	866	1219
Gen. & Admn.Expenses	63	80	130	177	221	307
Profit before Tax	162	222	283	437	645	912
Transfer to Special Reserve	65	88	113	175	258	365
Taxable Income	9.7	13.4	17.0	26.2	38.7	54.7
Tax	55	76	97	149	220	311
Profit After Tax	42	58	73	113	167	236
Dividend Equity	60(6%)	60(6%)	60(6%)	70(7%)	140(7%)	140(7%)
Balance C/f to Profit & Loss A/c.	2	3	13	43	27	96
	*Rs 2 withdrawn from P & L Account	*Rs 5 withdrawn from P & L Account				

34

EXAMPLES OF PROJECTS BEING FINANCED BY HDFC

HDFC uses several flexible machinisms for providing housing finance to the people including :

1 Corporate loans - loans to individuals "through" the company for its employees for home ownership.

2 Corporate loans - loans "to" the company for home ownership for their employees.

3 Corporate loans - loans to the company for rental or free accommodation for their employees.

4 Loans to individuals "through" other institutions such as City and Industrial Development Corporation of Maharashtra (CIDCO).

5 Loans to individuals "through" cooperatives or trade union for home ownership.

6 Direct loans to individuals.

7. HDFC as a developer of low and middle income housing.

Following are brief examples of the projects financed in each of these categories.

1 Corporate loans to individuals "through" the Company

BAYER (INDIA) PRIVATE LTD.

In 1979, HDFC approved a loan of Rs. 500,000 to Bayer (India) Private Ltd. company in Bombay. This loan was approved as a line of credit to the company and it provided an unconditional irrevocable guarantee for repayment. The company in turn provided loans to 55 employees for home ownership in any part of the country. Most people bought their houses in the outlying areas of Bombay; although four loans were in other parts of the country. Average income of the loan recipient was Rs. 1400 per month and average cost of dwelling unit was Rs. 32,250, with 43 square meter of floor space. Average amount of loan was only Rs. 9000 and term of loan was 12 years. Most of the beneficiaries were semi-skilled and skilled workers of the company.

It is interesting to note that while HDFC charged 11.5% rate of interest to the company, the company charged only 4% to its employees. The difference between 11.5% and 4% i.e. 7.5% was absorbed by Bayer (India) Private Ltd. which regarded this difference as another form of compensation paid to the employees for their services.

1 Corporate loans to individuals "through" the Company

BAYER (INDIA) PRIVATE LTD.

In 1979, HDFC approved a loan of Rs. 500,000 to Bayer (India) Private Ltd. company in Bombay. This loan was approved as a line of credit to the company and it provided an unconditional irrevocable guarantee for repayment. The company in turn provided loans to 55 employees for home ownership in any part of the country. Most people bought their houses in the outlying areas of Bombay; although four loans were in other parts of the country. Average income of the loan recipient was Rs. 1400 per month and average cost of dwelling unit was Rs. 32,250, with 43 square meter of floor space. Average amount of loan was only Rs. 9000 and term of loan was 12 years. Most of the beneficiaries were semi-skilled and skilled workers of the company.

It is interesting to note that while HDFC charged 11.5% rate of interest to the company, the company charged only 4% to its employees. The difference between 11.5% and 4% i.e. 7.5% was absorbed by Bayer (India) Private Ltd. which regarded this difference as another form of compensation paid to the employees for their services.

So far Rs. 4.5 million has been drawn down. Loan was made in form of Rs. 3 million tranches to be paid out against certified construction (1/3 of costs). One half of second tranche has been drawn.

Originally an 8 year loan @ 12%. The three tranches were to be constructed over 3 yrs. Interest is paid during construction, principal payments start after each tranche is completed. ** Interest rate has been increased to 13% in the first tranche, 14% in the second and the third is open to be re-negotiated.

With regard to the financing for other Rs. 18 million for this project, it is handled by internal accruals. Working capital is financed from commercial banks at 19½% but they wont finance housing. TF could seek financing from HUDCO but not practicable because of conditions and time to get approved.

ICICI and like institutions are another source of funds for TF but, here again, these institutions won't finance housing. (They would do, say, for a brand new industrial facility which included housing as part of the package). These institutions now lending at 14% for ten yrs.

LIC loans to projects for housing but not more than Rs. 2.5 million for a project no matter what its size. LIC would also require a mortgage on the property.

HDFC takes "equitable mortgage" Title deeds are deposited with HDFC. This means the borrower can't sell.

128

2 **Corporate loans - loans "to" the Company for home ownership for their employees**

GUJARAT STATE FERTILIZER CORPORATION (GSFC) LTD.

Project Design team looked at two loans provided to GSFC located in Baroda for their employees for home ownership. In this case the loan is "to" the company for on lending to its employees. However company is responsible for making all loan repayments to HDFC. First loan of Rs. 2.5 million was approved in July 1980 at 11.5% interest, later increased to 13.5% by HDFC; the second loan of Rs. 5 million was approved in April 1981 at 14.75%. In both the cases GSFC is charging 6 percent interest to its employees; even though the cost of money to GSFC increased from 11.5% to 14.75%. Here, again GSFC regards the difference between the interest it pays HDFC and its charges its employees, as cost of doing business and another mode of compensation to its employees.

Most of the beneficiaries are semi-skilled and clerical workers. Average income was Rs. 1152 per month. Average cost of the unit was Rs. 73,500 and average loan amount was Rs. 33,800 with a repayment period of 10 years. Average floor space was 83 square meters. The second loan has not yet been drawn down and therefore detail information is not available at the moment.

2 Corporate loans - loans "to" the Company for home ownership for their employees

GUJARAT STATE FERTILIZER CORPORATION (GSFC) LTD.

Project Design team looked at two loans provided to GSFC located in Baroda for their employees for home ownership. In this case the loan is "to" the company for on lending to its employees. However company is responsible for making all loan repayments to HDFC. First loan of Rs. 2.5 million was approved in July 1980 at 11.5% interest, later increased to 13.5% by HDFC; the second loan of Rs. 5 million was approved in April 1981 at 14.75%. In both the cases GSFC is charging 6 percent interest to its employees; even though the cost of money to GSFC increased from 11.5% to 14.75%. Here, again GSFC regards the difference between the interest it pays HDFC and its charges its employees, as cost of doing business and another mode of compensation to its employees.

Most of the beneficiaries are semi-skilled and clerical workers. Average income was Rs. 1152 per month. Average cost of the unit was Rs. 73,500 and average loan amount was Rs. 33,800 with a repayment period of 10 years. Average floor space was 83 square meters. The second loan has not yet been drawn down and therefore detail information is not available at the moment.

3. <u>Corporate loans for Rental or Free Accommodation of its Employees</u>

<u>TATA - FINLAY LTD.</u>

An amalgamation of some 8 or 9 former British tea plantations. The Plantation Workers Act requires that eventually all tea plantation workers are to get housing. At present those who don't have a house have a housing allowance built into their wages. When they get a house (company) there is a deduction.

Seasonal labor get Rs. 300 mo.

The house is for workers and his family. Because of the nature of plantation work where workers must live on plantation, can't sell house to employee. Currently these workers live on plantation in something they have put up themselves.

Houses average about 40 sq. meters in rows houses. Size of house is graded according to employee level.

HDFC has sanctioned loan of Rs. 9 million. Total project cost cost (housing and related infrastructures is Rs. 27 million). 3108 units at average cost of Rs. 9,000. Therefore HDFC loan covers about Rs. 3000 per unit. (Standard HDFC policy for corporate loans is to cover 50% of the cost through the HDFC loan).

In case of TF, there is no mortgage but there is a bank guaranty. This relate- to fact that housing can't be foreclosed on plantation nor would it be sold by TF.

In making loan to TF, HDFC looks at overall profitability of TF. Interest of HDFC is to fulfill its social objectives. No other way to reach and service for plantation workers. TF, for instance, would also like to borrow to finance houses for execs. in Calcutta. But this is unlikely for HDFC.

This project is a 3,108 dwelling unit rural development for workers constructed over four years (1979-1982) disbursed throughout 23 tea estates in Assam and West Bengal. Each unit (referred to as a labour house) averaging 438 sq.ft. is estimated at $ 1,077 or $ 2.45/sq.ft. The structures, in rural settlings, are single or attached one storey dwellings at very low densities, brick wall and columns on slab, hardwood roof trusses with asbestos sheet roofing. No water or electricity is provided within the dwelling unit. Each unit has a bore hold latrine, kitchen has flue/ over. A community bath house serves as a source for water as well, no source is more than 100 yards from a dwelling unit, more than 5 families.

These specifications which include two to three rooms per unit plus front and back verandah and kitchen are approved minimum standards of the Assam plantations labour Rules

In case of TF, there is no mortgage but there is a bank guaranty. This relates to fact that housing can't be foreclosed on plantation nor would it be sold by TF.

In making loan to TF, HDFC looks at overall profitability of TF. Interest of HDFC is to fulfill its social objectives. No other way to reach and service for plantation workers. TF, for instance, would also like to borrow to finance houses for execs. in Calcutta. But this is unlikely for HDFC.

This project is a 3,108 dwelling unit rural development for workers constructed over four years (1979-1982) disbursed throughout 23 tea estates in Assam and West Bengal. Each unit (referred to as a labour house) averaging 438 sq.ft. is estimated at $ 1,077 or $ 2.45/sq.ft. The structures, in rural settlings, are single or attached one storey dwellings at very low densities, brick wall and columns on slab, hardwood roof trusses with asbestos sheet roofing. No water or electricity is provided within the dwelling unit. Each unit has a bore hold latrine, kitchen has flue/ over. A community bath house serves as a source for water as well, no source is more than 100 yards from a dwelling unit, more than 5 families.

These specifications which include two to three rooms per unit plus front and back verandah and kitchen are approved minimum standards of the Assam plantations labour Rules

4 Loans to Individuals "Through" Other Institutions

CIDCO

City and Industrial Development Corporation, a public sector agency responsible for development of New Bombay borrowed Rs 6 million at 11.5% interest to provide housing loans to 400 vegitable and fruit vendors. In this case, HDFC was somewhat hesitant to deal directly with the fruit and vegitable vendors in the informal sector, with no regular income. HDFC and CIDCO worked out a system whereby the loan was to CIDCO, who passed it on to the individuals at the same rate of interest it had to pay HDFC. CIDCO took the responsibility for repayment of loan and worked a system of loan recovery from the individuals. Since CIDCO is responsible for developing New Bombay which would have an impact of "de-congesting" existing City of Bombay. It decided to absorb the cost of servicing these loans within its overall operations.

The structures are reinforced concrete columns and slabs with brick in fill mortered walls, angle iron glazed windows and wood/particle board doors. Minimum electrical service is surface mounted. Kitchen and bath room facilities in typical unit are minimum. Kitchen area is 54 sq.ft. and has a cooking platform (bottled gas) and a window. The water source is an adjoining chamber that has a wall tap and floor drain (bathing room) entry sill, no door and small louvre window. An adjoining chamber contains an enclosed (door) squat toilet with water tap. The living area is one room with two windows and entry door, measuring 12.5 feet by 9.2 feet or 115 sq.ft. These dwelling units of 253 sq.ft. each (including their portion of entry stair and hall) are costing $ 3294/unit or $ 13/square foot based upon contractors tenders. Occupancy will range from one to four people per unit. This project is now under construction. CIDCO has an ongoing need for financing this type of housing with 400 additional units which are being planned.

CIDCO

City and Industrial Development Corporation, a public sector agency responsible for development of New Bombay borrowed Rs 6 million at 11.5% interest to provide housing loans to 400 vegitable and fruit vendors. In this case, HDFC was somewhat hesitant to deal directly with the fruit and vegitable vendors in the informal sector, with no regular income. HDFC and CIDCO worked out a system whereby the loan was to CIDCO, who passed it on to the individuals at the same rate of interest it had to pay HDFC. CIDCO took the responsibility for repayment of loan and worked a system of loan recovery from the individuals. Since CIDCO is responsible for developing New Bombay which would have an impact of "de-congesting" existing City of Bombay. It decided to absorb the cost of servicing these loans within its overall operations.

The structures are reinforced concrete columns and slabs with brick in fill mortered walls, angle iron glazed windows and wood/particle board doors. Minimum electrical service is surface mounted. Kitchen and bath room facilities in typical unit are minimum. Kitchen area is 54 sq.ft. and has a cooking platform (bottled gas) and a window. The water source is an adjoining chamber that has a wall tap and floor drain (bathing room) entry sill, no door and small louvre window. An adjoining chamber contains an enclosed (door) squat toilet with water tap. The living area is one room with two windows and entry door, measuring 12.5 feet by 9.2 feet or 115 sq.ft. These dwelling units of 253 sq.ft. each (including their portion of entry stair and hall) are costing $ 3294/unit or $ 13/square foot based upon

5 <u>Loans to Individuals "through" Cooperatives and Trade Unions</u>

RASHTRIYA MILL MAZDOOR SANGH (RMMS)

RMMS is a union of a textile workers in Bombay. The loan amount is Rs 15 million at 11.5% interest. RMMS is playing the role of coordinator and the 1000 homeowners will form a cooperative society, as the project moves along. These loans are to the individuals, however, employees have agreed to deduct the loan payment out of the monthly pay checks and deposit it with HDFC. Most of these people are not likely to leave their jobs, however, the ones who may leave or may be fired; the RMMS and eventually the cooperative society has agreed to work with HDFC and cost recovery.

Project evolved from an initial approach by President of Textile Workers Uni

There is land owner with land near Bombay Airport. He has engaged developer to develop rather than sell land so as to escape stamp duty on transaction.

Developer plans to build 5000 apartment units. Textile Workers Union got clearance for use of land under the Urban Land Acquisition Law. In exchange 1000 units will be offered for sale to union members @ Rs 90 per sq.ft. Other units in project will go for Rs 175 per sq.ft.

The 1000 units will be in 22 buildings of 40± units each. Each building will be a separate cooperative society. The cooperative will manage the building. HDFC loan will be to the individual, the cooperative to guaranty.

Total loans will amount to Rs 10 million. Average loan per unit will be Rs 10,000. These sizes of units: 431 sq.ft. unit selling for about Rs 38,000; 337 sq.ft. unit for about Rs 30,000; and 221 sq.ft unit for about Rs 20,000.

There will be an agreement between the Union and HDFC. This is all still to be finalized. However, the Union will use its good offices with the various textile mills in the case of a default.

The workers who will live in project work in 60 separate textile mills. The employer mills have agreed to deduct the EMI (Equated Monthly Instalment) from employees pay checks who have bought a house in the project and each mill will submit one monthly check to HDFC covering all participating employees listing each of employees and payment. All of this will start from 1.1.82.

Of the total 1000 units in the project, 18 units will go to direct employees of the union and about 80 will go to various other individuals, all to be financed by HDFC. The remainder will go to Textile Union members.

Loan terms are 11½% for 5-15 years. Repayment period cannot extend beyond an individual's 55th birthday. E.g. If he is 50 when he takes out a loan, it would only be a five year loan. Fifteen years is maximum.

Downpayments go up to 40% (from normal 30%) because prices have gone up since the loan was approved.

Income levels. 86% of applicants earn between Rs 650-1,150 per month. 14% earn Rs 1,200 ± . This is family income.

Total loans will amount to Rs 10 million. Average loan per unit will be Rs 10,000. These sizes of units: 431 sq.ft. unit selling for about Rs 38,000; 337 sq.ft. unit for about Rs 30,000; and 221 sq.ft. unit for about Rs 20,000.

There will be an agreement between the Union and HDFC. This is all still to be finalized. However, the Union will use its good offices with the various textile mills in the case of a default.

The workers who will live in project work in 60 separate textile mills. The employer mills have agreed to deduct the EMI (Equated Monthly Instalment) from employees pay checks who have bought a house in the project and each mill will submit one monthly check to HDFC covering all participating employees listing each of employees and payment. All of this will start from 1.1.82.

Of the total 1000 units in the project, 18 units will go to direct employees of the union and about 80 will go to various other individuals, all to be financed by HDFC. The remainder will go to Textile Union members.

Loan terms are 11½% for 5-15 years. Repayment period cannot extend beyond an individual's 55th birthday. E.g. If he is 50 when he takes out a loan, it would only be a five year loan. Fifteen years is maximum.

Downpayments go up to 40% (from normal 30%) because prices have gone up since the loan was approved.

Income levels. 86% of applicants earn between Rs 650-1,150 per month. 14% earn Rs 1,200 ± . This is family income.

139

The RMMS (Rashtriya Mill Mazdoor Sangh) will have to be registered with the Maharashtra Registrar of Cooperative Societies.

If all else fails, HDFC can foreclose. However, this is an 8 - 9 year process through the civil court.

The Maharashtra Housing Finance Cooperative Society (MHFCS) has a law pending before the State Assembly that will give it the power to evict without waiting for some lengthy process. The State Government is the owner of MHFCS and the Life Insurance Corporation is the primary source of finance. HDFC is trying to tag on to this law through an amendment.

6 Direct loans to Individuals for Home Ownership

HDFC grants loans to individuals to acquire residential accommodation anywhere in India. The quantum of loan is based mainly on the credit worthiness of the individual and the value of the dwelling unit. However, HDFC does insist on a down payment of at least 30% of the value of the unit. The loan is generally structured such that the monthly repayments do not exceed 25% of the individual's gross monthly income.

Loans are granted for acquisition of flats in cooperative societies or association of apartment owners, which are secured by a mortgage of the particular flat financed only. Loans are also granted for construction/ acquisition of bunglows or rowhouses in which case, the security is a mortgage of the land and building.

The maximum period of repayment is normally 15 years. However, this period should not extend beyond the individual's age of retirement or his reaching 65 years of age, whichever is earlier.

The rate of interest applicable is determined by the quantum of the loan amount and is as under :

Upto and including Rs. 20,000	12.5 % p.a.
Between Rs. 20,001 and Rs. 50,000	13.5% p.a.
Rs. 50,001 to 100,000	14 % p.a.
Over Rs. 100,000	14.5 % p.a.

6 Direct loans to Individuals for Home Ownership

HDFC grants loans to individuals to acquire residential accommodation anywhere in India. The quantum of loan is based mainly on the credit worthiness of the individual and the value of the dwelling unit. However, HDFC does insist on a down payment of at least 30% of the value of the unit. The loan is generally structured such that the monthly repayments do not exceed 25% of the individual's gross monthly income.

Loans are granted for acquisition of flats in cooperative societies or association of apartment owners, which are secured by a mortgage of the particular flat financed only. Loans are also granted for construction/ acquisition of bunglows or rowhouses in which case, the security is a mortgage of the land and building.

The maximum period of repayment is normally 15 years. However, this period should not extend beyond the individual's age of retirement or his reaching 65 years of age, whichever is earlier.

The rate of interest applicable is determined by the quantum of the loan amount and is as under :

Upto and including Rs. 20,000	12.5 % p.a.
Between Rs. 20,001 and Rs. 50,000	13.5% p.a.
Rs. 50,001 to 100,000	14 % p.a.
Over Rs. 100,000	14.5 % p.a.

Project Design team reviewed a random selection of 20 recent individual borrowers. The lowest income beneficiary was earning Rs. 550 per month, loan amount was Rs. 10,000 and the floor area of the dwelling unit was 230 sq.ft. The highest income beneficiary was a manager earning Rs.4000 per month.

Individual housing visited in the Pune area 140 km outside of Bombay included a high income bracket (Rs. 4000/- per month) house under construction using steel framing and steam cured reinforced cellular concrete block containing boiler ash. These blocks, made by Siporex India Limited, in Pune, while expensive individually (67 Cents per 100 x 240 x 590 MM block) effect considerable savings in all other aspects of the construction process and are under cost analysis for low income housing. The value of this house is Rs. 151,000 excluding land with a loan exposure of Rs. 100,000.

A low income, owner-constructed house of 425 sq.ft. costing Rs. 80/sq.ft. was also visited (including land cost of Rs. 5/sq.ft. which is very low). Of the total cost of Rs. 34,000, Rs. 25,000 was the loan exposure. The finished house of two rooms plus kitchen and toilet exhibited a good degree of finish throughout.

7 HDFC as a Developer

CHINCHWAD, PUNE

The Pune Project has a much greater degree of HDFC overseeing as they are the developer. HDFC maintains an on-site project Manager as Chief Coordinator and supports a Staff of resident engineers for quality control who are hired by the architect and paid by HDFC. (Prevents long term staffing difficulties).

The Chief Projects and Technical Administrative Head of HDFC Developers Limited, is personally involved in quality control of the Pune Project. Viewed as the pace setter of the newly created development corporation, Pune is undergoing constant concrete quality testing and over-seeing of all levels of construction.

Construction economy is effected by production on site of concrete blocks utilizing semi-automatic block laying machines producing 1200 to 2000 blocks per day (refer to annex for machine description). Construction on the Pune site is labor intensive with the exception of the block production, cement mixing and elevator lift equipment. Approximately 20% to 25% of construction cost is labor.

7 HDFC as a Developer

CHINCHWAD, PUNE

The Pune Project has a much greater degree of HDFC overseeing as they are the developer. HDFC maintains an on-site project Manager as Chief Coordinator and supports a Staff of resident engineers for quality control who are hired by the architect and paid by HDFC. (Prevents long term staffing difficulties).

The Chief Projects and Technical Administrative Head of HDFC Developers Limited, is personally involved in quality control of the Pune Project. Viewed as the pace setter of the newly created development corporation, Pune is undergoing constant concrete quality testing and overseeing of all levels of construction.

Construction economy is effected by production on site of concrete blocks utilizing semi-automatic block laying machines producing 1200 to 2000 blocks per day (refer to annex for machine description). Construction on the Pune site is labor intensive with the exception of the block production, cement mixing and elevator lift equipment. Approximately 20% to 25% of construction cost is labor.

HDFC's venture into Developer status with the creation of HDFC Developers Limited has produced this project in a housing complex at Chinchwad, Pune. Pune, a small town 140 kilometers South East of Bombay, has a rapidly growing industrial sector involved in Engineering industry. The area has an acute housing shortage at the MIC-HIC range (Rs 1200 to Rs 2500 per month salary) for industrial employees upto middle management position.

With a probable loan exposure of Rs 16,000,000, HDFC is creating four unit types of one and four floor units ranging in area from 990 sq.ft. to 490 sq.ft. of reinforced concrete slab and columns with brick infill, marble mosaic flooring, one to two bedrooms, living room, kitchen and baths.

Themarket is virtually captive because of the high need. The project was executed through competition among three architecture firms and also produced the first HDFC-in-house Finance profile.

A future project virtually identical to this one contemplated for Nasik, a growing industrial town also 140 km. distant from Bombay. (Refer to annex for Pune Project plans and Feasibility Report).

ADDITIONAL PROJECTS FINANCED BY HDFC

VITHAL-RAKHMAI (LOW INCOME)

A more traditional low cost housing scheme visited is that of the Vithal-Rakhmai Cooperative Housing Society in the Haveli District of Pune. This 3,15 hectare site contains 42 blocks of single storey row housing totalling 274 D.U. This translates to 35 dwelling units per acre. A 253 sq. ft. unit of one room, kitchen, water closet and more (drain, water faucet, black stone for washing) costs Rs.21,000 with a loan range of Rs.15,000 to Rs.18,000. The income of the buyers ranges from Rs.500 to Rs.700 per month. Each room will have one electrical outlet surface mounted. 50% of the D.U. have been sacntioned for buyers who must then raise approximately Rs.10,000 paid in instalments to the builder as construction progresses before loan disbursements begin. This project is semi-loan bearing brick construction with concrete slab roof with steel windows. Its quality is good and the finished unit, improved and painted by purchasers, is simple, orderly and apparently without defect. (Refer to annex plans). Included in the annex is a legal document that is conditional release from the Urban Land Ceiling Act. It illustrates the conditions for development that in essence becomes a form of zonning and building control plus sale price limit. The developer cannot ask for more than Rs. 73.44 per sq. ft. and is under obligation to perform as per stipulations in the agreement.

The most typical form of housing vacated by the purchasers of the above low income units are two and three storey balcony access one room tenaments constructed of wood, with common water and toilet facilities located to the rear of the lot. These units many of which are utpo 80 years old are in turn sold to others within or slightly below the purchaser's income bracket. This housing is located, mixed with commercial use of the ground floor throughout the urban fabric.

ADDITIONAL PROJECTS FINANCED BY HDFC

VITHAL-RAKHMAI (LOW INCOME)

A more traditional low cost housing scheme visited is that of the Vithal-Rakhmai Cooperative Housing Society in the Haveli District of Pune. This 3,15 hectare site contains 42 blocks of single storey row housing totalling 274 D.U. This translates to 35 dwelling units per acre. A 253 sq. ft. unit of one reom, kitchen, water closet and more (drain, water faucet, black stone for washing) costs Rs.21,000 with a loan range of Rs.15,000 to Rs.18,000. The income of the buyers ranges from Rs.500 to Rs.700 per month. Each room will have one electrical outlet surface mounted. 50% of the D.U. have been sacntioned for buyers who must then raise approximately Rs.10,000 paid in instalments to the builder as construction progresses before loan disbursements begin. This project is semi-loan bearing brick construction with concrete slab roof with steel windows. Its quality is good and the finished unit, improved and painted by purchasers, is simple, orderly and apparently without defect. (Refer to annex plans). Included in the annex is a legal document that is conditional release from the Urban Land Ceiling Act. It illustrates the conditions for development that in essence becomes a form of zonning and building control plus sale price limit. The developer cannot ask for more than Rs. 73.44 per sq. ft. and is under obligation to perform as per stipulations in the agreement.

The most typical form of housing vacated by the purchasers of the above low income units are two and three storey balcony access one room tenaments constructed of wood, with common water and toilet facilities located to the rear of the lot. These units many of which are utpo 80 years old are in turn sold to others within or slightly below the purchaser's income bracket. This housing is located, mixed with commercial use of the ground floor throughout the urban fabric.

GOKUL DHAM (LOW INCOME)

The most impressive project visited was the Conwood Construction Company's Gokul Dham located in Bombay. This is 4,880 D.U. low income project now under construction. The site is 22.539 hectares or 55.69 acres with a density of 88 dwelling units per acre. The four plan types are all variations of five storey construction reinforced concrete with concrete block infill (block manufactured on site at a rate of 3000 block per day utilizing machinery identical to that of the HDFC Pune project). Three of the plan types are banks of two units separated 25 feet by a staircase. Facing the slots produced are combinations of kitchen/bath/water closets. These slots will become drying yards for the residents maintaining uncluttered facades on the perimeters of the building while also allowing good ventilations of all units.

Plan types range from a small one room plus bath/water closet (minimum municipal standards) suitable for single or double occupancy at 201 sq. ft upto a two bedroom, living room, kitchens, bath/water closet of 603 sq. ft. Price is in the range of Rs.90 to Rs.105 sq. ft. ($ 10.60 to 12.35). HDFC is financing 1000 of these units for a loan exposure of Rs.10,00,000. This development is approximately 50% sold to industrial workers. The entire development is being segmented into cooperative societies in a building basis (refer to annex for Cooperative Society Bye-laws). The structure for community awareness and responsibility is present upon purchasing an apartment.

YASHODHAM MIDDLE AND HIGH INCOME

HDFC is planning a middle and upper middle income housing project with 2500 dwelling units. This project will be on the site adjoining low income development at Gokul Dham discussed in this annex. Since HDFC used most of the land for low income housing it was allowed to build some higher income units by the Government and was granted an exemption from Urban Land Ceiling Act. HDFC intends to use the to benefit the low income residents of adjoining Gokul Dham. At this moment HDFC is working out the financial details and cash flow project.

to benefit the low income residents of adjoining Gokul Dham. At this moment HDFC is working out the financial details and cash flow project.

Annex 16

EXAMPLES OF LOANS APPROVED BY HDFC FOR LOW INCOME HOUSING

TABLE

	Name of the project	Description	Total loan approved Rs	Loan approved for those with income of less than Rs 1000	Average cost per unit Rs	Total no. of units	Average area sq.m.	Location
1.	Rashtriya Mill Mazdoor Sangh	Textile workers	15 million	11,250,000	34,300	1000	34	Bombay, Maharashtra
2.	CIDCO	Vegetable/ fruit traders	6 "	6,000,000	28,000	400	22.9	New Bombay, Maharashtra
3.	TISCO	Skilled/ unskilled workers	10 "	10,000,000	18,500	1578	50-80	Bihar/Orissa, Adityapur, etc.
4.	Tata Finlay	Tea planters	9 "	9,000,000	9,000	3108	50	Assam, West Bengal.
5.	Tata Chemicals	Skilled/ unskilled workers	3.5 "	3,500,000	23,000	196	50	Mithapur, Gujarat.
6.	Mafatlal	"	1.6 "	1,067,000	85,000	18	80	Dewas, M. P.
7.	TELCO	"	10 "	2,500,000	96,000	144	50-80	Chinchwad, Pune, Maharashtra.
8.	Warren Tea	Tea planters	2.5 "	2,500,000	14,200	343	50	Assam (Tea estate)
9.	Bajaj Auto	Skilled/ unskilled workers	1.4 "	1,400,000	34,000	78	50	Pune, Maharashtra.
10.	Mcleod Roussel	"	0.90 "	800,000	12,000	106	Upto 80	Assam, West Bengal.
11.	SIPCOT	"	2.2 "	2,200,000	11,000	288	50	Hosur, Tamil Nadu
12.	Orient Papers	"	4 "	2,000,000	53,000	262	50-80	Adilabad, A. P.
13.	Mukund Iron	"	8 "	8,000,000	43,000		50	Bombay
14.	Baroda Rayon	"	1.6 "	1,600,000	29,000	80	50	Pandesara, Gujarat.
15.	Indian Tube	"	2.5 "	2,300,000	56,000	80	80	Jamshedpur, Bihar

CORPORATE LOAN APPLICATIONS PENDING AS OF JUNE 30, 1981

			Rs in million
1.	Dharamshi Morarji Ltd	Chemical Industry Workers	2.5
2.	Macneill & Magor Ltd	Plantation Workers	10.0
3.	McLeod Russel Ltd.	Plantation Workers	1.0
4.	Modi Rubber	Engineering Industry Workers	10.0
5.	Gedore Tools (India) Ltd.	Engineering Industry Workers	2.0
6.	Maharashtra Electrosmelt	Steel Industry Workers	3.5
7.	Metron Semi Conductors	Engineering Industry Workers	2.0
8.	Raymond Woollen Mills	New Cement Unit	5.0
9.	Straw Products Ltd.	New Cement Unit	5.0
10.	Scindia Steam Navigation Co. Ltd.	Shipping Industry	7.5
			48.5

INTEREST RATE STRUCTURE: (JUNE 1981)

			1979-80 Redemption Yield
I	**SECURITIES:**		
	Government of India Securities		
	i) Short Term	1 to 5 years	4.7-5.74%
	ii) Medium Term	5 to 15 years	5.7-6.30%
	iii) Long Term	15 years +	6.2-6.98%

			% Per Annum
II	**COMMERCIAL BANKS:**		
	Fixed Deposits		
	(i)	1 to 2 years	7.5%
	(ii)	2 to 3 years	8.5%
	(iii)	3 to 5 years	10%
	(iv)	Over 5 years	10%
	Lending Rates (Set by RBI)		
	(i) Ceiling rate (general)		18.0%
	(ii) Minimum rate (general)		12.5%
	(iii) Minimum rate - Selective Credit Control		15.5-18%
III	**POST OFFICE SAVINGS:**		
		1 year	8.5%
		2 years	9.5%
		3 years	10.0%
		5 years	10.5%
		6 years	12%

.....2.

IV COMPANY DEPOSITS:

	1 Year	9-13%
	2 years	9.5-14.0%
(Budget 1981-82 fixed max. at 15%)	3 years	10.5-15.0%

V CAPITAL MARKET:

		Budget 1981-82
(i) Shares & Debentures - Preference shares	11.0%	(12.0-13.5%)
Debentures	10.[illegible]%	
(ii) Ordinary shares (Average Gross Yield)	5.83%	
(iii) Bank Rate	9.0%	
(iv) Minimum lending rate (Commercial Banks) -(February 27)	13.5%	
(v) Call Money rate (Bombay)-(February 20)	7.87%	

VI INDUSTRIAL FINANCE:

			Budget 1981-82
IDBI	...	11.0%	14%
IFCI	...	11.0%	14%
ICICI	...	11.0%	14%

VII UNIT TRUST OF INDIA:

(i) Dividend Rate	...	10.0%
(ii) Yield Rate	...	8.56%

* * *

LOANS FOR HOUSING BY SCHEDULED COMMERCIAL BANKS :

(i)	Scheduled Castes	upto and inclusive of Rs. 5,000.00	4%
(ii)	Others - Upto and inclusive of Rs. 5,000.00		12.5%
(iii)	Over Rs. 5,000.00 upto Rs. 50,000.00		13.5%
(iv)	Above Rs. 50,000.00		15.0%

Recommended in 1981-82 Budget

Financial Express

BOMBAY: FRIDAY, JUNE 19, 1981

Resort to IFC loans to be encouraged

From Our Special Correspondent

NEW DELHI, June 18.

CONTRARY to its earlier stance, the Government will henceforth "encourage" private sector companies to seek external finance from the World Bank affiliate, the International Finance Corporation, on commercial terms.

Stating this, a Finance Ministry spokesman said today that apart from an IFC loan for Tisco's modernisation, the Government had already cleared loan applications from two fertiliser companies – Coromandel and Deepak Fertilisers.

He said talks were on with various other parties and the new Government policy was to give permission for IFC loans liberally, provided the projects were viable.

In fact, according to the spokesman, IFC had the reputation of having an efficient project assessment system. Another merit of IFC lay in its willingness to arrange residual finance from other banking sources.

While appreciating the recent aid commitment of $3.45 billion by the Aid-India Consortium at Paris, the spokesman said the climate for foreign aid had "considerably deteriorated" because of the economic problems being faced by donor countries and also because of the weakening of the aid lobbies in some of the countries.

Even though the aid commitment for this year marked an increase of 3.7 per cent over last year's consortium pledges, the increase was lower than the general rate of inflation. However, considering the aid climate, the outcome of the recent Paris meeting should be a matter of satisfaction, the spokesman said.

A significant realisation at the consortium meeting was that India would need aid to soften the strain on its balance of payments position. In this context, the World Bank and various donor countries promised to enlarge the content of united aid for its quicker disbursement.

The spokesman, however, conceded that the overall pace of disbursement also depended on indigenous capability. The position in this regard had improved lately and last year total aid utilisation was higher than the previous year's level.

The Ministry spokesman also discounted the view held in some quarters that India was stuck more on account of lack of viable projects rather than on external funds. He said for the World Bank alone, projects worth $11 billion with a foreign aid component of $5.6 billion were already in the pipeline.

The prospects of getting quasi-commercial loans from the World Bank were good, he said. Last year, such loans amounted to $430 million. The precise picture in this regard should, however, be clear by October next, when the general capital increase of the World Bank would become effective.

Although the interest on these loans was in the range of nine to 17 per cent, the major advantage was that the loans were long-term with lower annual repayment burden.

As regards fresh IMF borrowings, the spokesman said that no final decision had yet been taken by the Government.

Giving an account of the consortium deliberations, the spokesman said that was a general appreciation of the recovery in India's economy last year, particularly in agriculture and infrastructural facilities. The structure and priorities of the Sixth Plan were also appreciated by various members. It was, however, noted that India still continued to be dependent on the weather to a considerable extent.

Garments export

THE TIMES OF INDIA 6-19-81

India to seek more foreign aid

By Our Special Correspondent

NEW DELHI, June 18.

THE government has not taken any decision so far on raising loans from the International Monetary Fund. But it is anxious to secure further external credits in addition to the pledges of $3.45 billion made at the aid India consortium meeting in Paris last week.

Mr. R. N. Malhotra, economic affairs secretary and leader of the Indian delegation to the Paris meeting, told newsmen on his return today that the government would seek quasi-commercial credits of around $430 million — about the same as last year.

Mr. Malhotra affirmed that India's credit rating had improved and its chances of borrowing more funds from the World Bank would brighten if the bank expanded its programme. "We will be a good risk for the World Bank," he said.

The World Bank borrowings were on a long term and the burden of debt servicing was much lower from year to year.

The government would also encourage the private sector to seek assistance from the International Finance Corporation, which was ready to lend money at a rate of interest of 13 to 14 per cent. The IFC assistance was essentially for the private sector. The investments in the public sector were generally of a high order so as to be outside the scope of the IFC.

Mr. Malhotra said the IFC had already sanctioned $38 million for TISCO, $15.8 million for Coromandel Cement and $7.5 million for Deepak Fertilisers.

India had submitted a list of 30 major projects with a total cost of $11 billion for assistance from the World Bank and the International Development Association this year. The total cost included the share of $5.5 billion from these two agencies.

There was no dearth of projects in the pipeline in India. As one World Bank expert pointed out, the first ten projects alone would consume all the aid given.

A major advantage of the Paris discussions was the common perception among the donor countries of the performance of the Indian economy. It was agreed that the economy had to a very large extent overcome the major setback suffered in 1979-80. The expected record production of foodgrains after a major disruption showed the extent of resilience of the Indian agricultural economy.

At the same time, it was realised that the economy continued to be vulnerable to the weather since 75 per cent of the gross cropped area had no irrigation facilities.

The Paris meeting shared India's view that the balance of payments would be a strain in the medium term and that it was caused by external sources, principally by the major increase in the prices of crude and related commodities like fertilisers.

It was noted that the current account deficit last year was marginally lower at Rs. 2,300 crores than the increase in the oil bill (Rs. 2,400 crores).