PD-AAP-821

APPENDIX 3A, Attachment 1
Chapter 3, Handbook 3 (TM 3:43)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number:

DOCUMENT CODE: 3

COUNTRY/ENTITY: INDIA

3. PROJECT NUMBER: 386-HG-002

4. BUREAU/OFFICE: ASIA.

5. PROJECT TITLE (maximum 40 characters): Private Housing Finance for Low-Income Famili

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 06 DD 30 YY 89

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 84 B. Quarter 4 C. Final FY 88

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

A. FUNDING SOURCE	FIRST FY 84 B. FX	FIRST FY 84 C. L/C	FIRST FY 84 D. Total	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. Total
AID Appropriated Total						
(Grant)	(120)	( )	(120)	(250)	( )	(250)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1. HG Loan				60,000		60,000
Other U.S. 2.						
Host Country		80,000	30,000		60,000	600,000
Other Donor(s)						
TOTALS	120	80,000	80,120	60,250	60,000	660,250

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED central THIS ACTION 1. Grant	E. AMOUNT APPROVED central THIS ACTION 2. Loan HG	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan HG
(1)	720	850	866			120	20,000	250	60,000
(2)									
(3)									
(4)									
TOTALS									

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

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

Provide long term housing finance to lower-income households and broaden the exposure of the private housing finance sector to lower income borrowers and depositors. To enhance the ability of the private sector to raise domestic capital for housing finance activities.

14. SCHEDULED EVALUATIONS

Interim MM 11 YY 85 MM 11 YY 87 Final MM 11 YY 89

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

Title: Director, USAID/New Delhi

Date Signed: MM 05 DD 03 YY 84

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PD-AAP-821

GUARANTY AUTHORIZATION

PROJECT NO. 386-HG-002

PROVIDED FROM: Housing Guaranty Authority

FOR : India - Private Housing Finance

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 to eligible U.S. investors (Investors) acceptable to A.I.D. of guaranties pursuant to Section 222 of the FAA of not to exceed Twenty Million United States Dollars ($20,000,000) in face amount. The guaranties shall assure against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans, including any refinancings thereof, made to finance housing projects in Ind'a. These guaranteed loans shall be made to the Housing Development Finance Corporation Limited (Borrower) to provide long-term finanicng for low income housing.

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

1. Term of Guaranty: The loans and any refinancing thereof 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 the first disbursements 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 or rates 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. <u>India Guaranty</u>: Prior to disbursement of any loan amounts pursuant to this Guaranty Authorization, a written 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 shall be provided in a form satisfactory to AID by a publicly-owned bank in India authorized by the Government of India to provide such a guaranty and approved by A.I.D.

4. <u>Fee</u>: 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.

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

Charles W. Greenleaf, Jr.
Charles W. Greenleaf, Jr.
Bureau for Asia

6/21/84
Date

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I SUMMARY AND RECOMMENDATIONS

A. INTRODUCTION AND PROGRAM HISTORY

The Housing Development Finance Corporation Ltd. (HDFC) is the first, and so far only, 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 Corporation (ICICI) of India, a leading development bank which receives considerable support from the World Bank. HDFC attracted foreign support from the International Finance Corporation (IFC) and the Aga Khan group, each of which subscribed to 5% of the equity along with the ICICI. The remainder of the shares were taken up by government-owned commercial banks and insurance companies, cooperative banks, private companies and individuals.

After almost six years of operation, HDFC's performance has been remarkable. Through March 31, 1984, the corporation will have approved loans for 68,851 units amounting to some Rs 2,453 million ($231 million) and disbursed almost Rs 1,608 million ($151 million)*.

HDFC's corporate objectives include: providing long-term finance to middle and lower-income households; promoting home ownership; contributing to the mobilization of savings for housing investment; supporting the development of a national system of housing finance; promoting the growth and development of the capital market; and supporting the growth of a diversified building industry and the development of appropriate building technology.

AID's contacts with HDFC go back to the time of its incorporation when HDFC approached AID's Office of Housing (PRE/H) concerning possible assistance. More formal discussion of assistance to India's housing sector was initiated by AID at the Joint Indo-U.S. Economic Subcommission meeting held in Washington in the spring of 1980. Subsequent discussions were held with the Ministry of Finance (MOF), the Ministry of Works and Housing (MWH) and HDFC by 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 project identification. The resultant PID proposed a $30 million program (HG-001) to support HDFC. The first tranche of $20 million was authorized in August 1981. Because of high interest rates in the US capital market in 1981-82, HDFC waited until January 1983 to actually consummate a loan agreement. The full $20 million was drawn down in February 1983.

Technical and operational evaluations undertaken in late 1982 by RHUDO consultants, indicated significant project progress toward stated objectives. RHUDO therefore began preparation of a Program Memorandum to support authorization of the second tranche of $10 million. In June 1983 HG-001 Phase II was authorized. A loan agreement was signed and the $10 million was disbursed in January 1984.

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* Exchange Rate used for 1984: $US 1 = Rs 10.6

AID's intention has been to develop a long-term relationship with HDFC as a means of assisting in the development of a formal private sector housing finance system in India and, consequently, creating increased opportunities for homeownership by low-income households.

B. THE PROBLEM TO BE ADDRESSED

The shelter deficit in India exceeds 30,000,000 units. Public sector efforts in India, although not wholly ineffectual, have provided only a small proportion of current needs for both production and financing of housing. These efforts are unlikely to increase significantly in the foreseeable future. Therefore the private sector must supply the great bulk of capital and productive capacity required if the current shelter deficit is to be reduced and future needs accomodated. However government policies have precluded effective formal private sector responses to the housing problem.

It is not realistic to expect the array of public policy impediments to private housing production to vanish in the face of compelling argument or even an increasing need, particularly if the sources of the argument and needs assessments are international agencies. Therefore a narrower statement of the problem is the lack of an influential, domestic voice speaking in favor of the rationalization of housing finance and production.

C. SUMMARY PROGRAM DESCRIPTION

The $20 million HG proposed here, is part of a larger program to be authorized over a five-year period. It is designed to support HDFC's transition to a more active pursuit of its low-income client group and to support the institution's stable financial growth through the provision of additional long-term capital. It is based on the PID which was approved in March 1984. The project proposed for authorization is comprised of two basic elements:

1. A Housing Guaranty loan of $20 million to HDFC in FY84; and

2. Technical assistance to include: a) a proposed $120,000 from central funds administered by PRE/H, (part of a proposed $250,000 to be obligated incrementally over a two-year period) to fund a resident adviser who will develop specified elements of a housing finance strategy and, b) training for housing finance staff and management to be funded through the PRE/H FY83 obligation of $100,000 made for these purposes.

The loan guaranty will be used to increase HDFC FY 84-85 resources roughly 17% and to permit a corresponding increase in their residential lending. This increase in capacity will allow HDFC to expand its operations geographically by opening new branch offices and to increase its already significant efforts to finance homes for lower-income households.

The technical assistance will contribute to the overall program goal of housing finance system development and will contribute to HDFC's staff and management development efforts. It is calculated to assist in the growth of existing and new markets for unsubsidized, formal sector housing finance; to develop new financial instruments to serve low-income consumers; to decentralize formal private sector lending and deposit-taking for housing; to support activities directed toward tapping domestic resources for housing activities; and, to increase HDFC's staff and management capabilities.

The long-term goal of the HG Program is to develop a fully functioning private housing finance system in India which raises its capital internally and which makes long-term shelter finance available to households with a wide range of income levels including lower income households. An expanding HDFC is the first building block in such a system. To achieve the goal, additional $20 million authorizations will be requested in FY's 86 and 88. A detailed analysis leading to a more specific strategy will be undertaken during 1984 which, coupled with an evaluation of HDFC's continuing operations, will determine the composition of the subsequent authorizations.

The initial authorization will finance more than 8,000 units for households which have incomes below the urban median and will leverage roughly $40 million in other resources generated by benefitting households. It is also expected that HDFC's enhanced importance as a housing lender will further expand its influence in the process by which policy is formulated by central, state and local governments in India.

D. ISSUES IDENTIFIED DURING PID REVIEW

1. Issues Critical to Project Approval

The only Category A issue(i.e., critical to approval of the project), raised by the APAC in its review of the PID concerned the appropriateness of HDFC lending to employers for the provision of worker housing whereby ownership of the housing remains with the employer.

HDFC's loans to corporations comprise about 18% of all HDFC disbursements. Borrowers include plantations, and commercial and industrial companies. In some cases, these loans are actually made to employees but are guaranteed by the corporation; in others, corporations borrow from HDFC and re-lends to employees, usually with interest rate subsidies and/or for extended terms. Finally, HDFC makes loans to corporations for the construction of housing to be occupied by workers but owned by the employer. The first two programs, although related to corporations, appear as individual borrowing in HDFC reports since their effect is to promote individual homeownership. It is only the third facility which HDFC calls "corporate loans" and which is the subject of PID-related concerns.

Almost all of HDFC's "corporate loans" have been to industrial concerns newly located in underdeveloped areas of the country or to plantations. Therefore the program supports the government's policy to decentralize industry away from the existing population centers. Additionally, the income level of beneficiaries under HDFC's corporate loan program is also much lower on average than that of HDFC's individual borrowers.

As part of PP development, Maser Private Limited was retained to do a report on Corporate Housing with Special Emphasis on Certain Projects Finance by HDFC in India. The summary of this report is presented as Annex 6F.

The study confirmed that there is an extreme housing shortage in India and that there is little data on housing provided by private corporations for workers. By law housing must be provided for all plantation workers. However, investment in employee housing by other employers usually enjoys a low priority and there is no general norm.

Information gathered from the corporations surveyed indicated that they differ in their policies regarding employee housing. Generally, however, the survey found that other private housing is usually not available in GOI designated "underdeveloped areas" and that most workers do not wish to buy their own housing in these areas because they do not regard it as their permanent place of abode. Workers get significantly better housing as part of the terms of their employment than they could otherwise afford because such housing contains a full range of amenities, is more spacious, and is maintained by the companies.

Employees who had not been provided housing expressed a desire to live in employer-provided housing. In some cases employers provided a Housing Rent Allowance or transportation allowance to workers who did not get housing. While the GOI takes 10% of an emplcyees salary for rent for government provided housing the private corporations surveyed did not charge a rental fee. Other benefits (i.e. medical, community facilities etc.) were the same for workers with or without housing. In the corporations surveyed the ownership of the house stayed with the corporation and employees would have to vacate the pre- mise within a week or 3 months (depending on the corporation) after stopping employment. At such time as workers wished to leave they were free to do so.

Results from this initial survey and other anecdotal evidence indicate exploitation of workers who are provided with housing by their employer is not a problem. In fact workers look upon housing as an extra or expected benefit. The problem of losing ones accomodation upon leaving employment is not considered a problem by the workers since most of them prefer to return to their region of origin rather than remain in the region of employment.

While HDFC is not in a position to dictate housing policy of private/ corporations it has taken a position that corporate loan applications which include the provision of housing for lower income workers will be given priority for loan approval. This is significant since employers who do provide employee housing often neglect this group.

While there do not appear to be any issues of concern with regard to HDFC's corporate housing loans, as a matter of prudent project management AID will request HDFC to secure from borrowing corporations statements of their housing policies and terms and conditions under which workers receive housing. AID will review these statements prior to approval of HG disbursement. As part of AID's evaluation of this first phase of the project

AID will review these corporate practices. If it appears that there are problems, or the potential for serious problems, AID will (1) eliminate corporate loans from the HG program, (2) reduce the percentage of eligible corporate loans or (3) establish criteria which provide the minimal corporate housing policies which will be acceptable to AID.

The PID approval cable concluded that HG financing for HDFC's "corporate program" should not exceed the 44% level of HG-001. This condition will be incorporated in the Implementation Agreement.

2. Additional Project Review Comments

The APAC review produced a number of additional comments and suggestions to be considered in the preparation of the PP as appropriate. These issues are covered extensively in Section III of this paper:

(a) Local resource mobilization and management capability were identified as areas upon which AID efforts should be concentrated. HDFC has recently developed new sources of funds and increased its deposit-taking activities. Most important of these new efforts have been its recent successful $10 million bond issue and approval by the Reserve Bank of India for increased lending to HDFC by commercial banks. Plans for opening new offices should lead to increased deposits and will be supported by AID as appropriate and needed.

The management capability of HDFC is well-documented. Improvements in organization, personnel practices and procedures are discussed in Section III.

(b) The application of AID technical assistance and training funds to support HDFC's development of an in-house training capacity and related efforts will continue AIDs involvement in the development of resource mobilization and management capabilities. HDFC has recently completed two weeks of training seminars for all its staff with the assistance of the Institute for Financial Education funded by AID. The seminar was considered a major success and is the first step in setting up a formalized in-house training program. HDFC's pro- posed training activities through 1985 are presented as Annex 6H. These efforts will be supported by $100,000 of central funds obligated for this purpose in FY 83.

APAC suggested that the level of technical assistance proposed in the PID was inadequate for a $60 million program and that efforts should be made to find other resources for this propose. For this first phase of the project with HDFC, AID's prior unexpended obligation of $100,000 is considered sufficient. The need for additional TA which may be required for Phases II and III will be evaluated prior to preparation of the project authorization documents for those phases.

(c) The approval cable also outlined the need for a clearer understanding of India's shelter sector and potential beneficiaries, and suggested that key studies be identified to provide the basis for future HG programming. It is recommended here that a resident advisor develop such studies and to focus on the areas suggested (see Annex 6G). A detailed strategy for long-term goals and assistance for private housing finance development in India is currently in preparation. Information to be assembled by the proposed resident advisor is the first step and will provide the basis for refinement of the strategy.

(d) Participation of women in HDFC lending is covered in the Social Soundness Analysis (Annex 6E). Our review shows that there are no formal barriers to the participation of women in HDFC's lending programs.

E. RECOMMENDATION

It is recommended that a $60 million Housing Guaranty Loan be approved in principal to support HG Private Housing Finance for Low-income Families in India program. It is further recommended that a $20 million Housing Guaranty Loan to the Housing Development Finance and Corporation Limited of India be approved and authorized in one tranche in FY84. Subsequent authorizations of $20 million in FY86 and FY88 will be based on an assessment of private housing finance institutional development, including management objectives and capabilities, in FY85 and FY87 respectively.

II. DETAILED PROGRAM RATIONALE AND DESCRIPTION

A. THE HOUSING SITUATION IN INDIA

The 1981 Census of India estimated the population of India to be 685 million, an increase of 25% from 1971. Because the average household size decreased during that decade from 5.6 to 5.2 persons, the rate of increase in the number of households (34.5%) exceeded that of population. By 1981, there were 131.7 million households in India.

Also in 1981, there were approximately 108.5 million dwelling units. It has been estimated that 6.3% (6.8 million) of these units are vacant and, for the most part, unavailable as a consequence of either deterioration or unwillingness of owners to subject themselves to rent control. This leaves 101.5 million dwellings available, for an apparent shortfall of 30.2 million units. Because two or more households sometimes share a single unit, not all of these households are necessarily without housing. However, the data available indicate that perhaps 20 million households (on the order of 50-100 million persons) are homeless.

Unsurprisingly, in view of the preceeding, occupancy densities are high. In 1970, the latest year for which data is available, the average residential density was 2.8 persons per room, as compared with 2.6 in 1960. Since that time, it is likely that densities have increased because the surplus of households over occupied dwellings has increased at a much faster rate than could likely be off-set by the relatively small decrease in average household size.

The gross data, even allowing for likely inaccuracies, describe a problem of Himalayan proportions. However the full measure of the imbalance between supply and demand can be taken only after a look at what is included as housing in these figures. In general, the supply comprises four types of dwellings:

(1) Pucca: constructed of superior quality materials in a manner which will withstand foreseeable natural conditions and normal use for an extended period of time;

(2) Semi-pucca: constructed of a combination of pucca and kutcha materials and therefore likely to require more than ordinary maintenance to withstand normal conditions and use;

(3) Kutcha: thatched-roof, mud-wall construction likely to require major, although inexpensive, annual repairs;

(4) Semi-kutcha: constructed of thatched roof and walls and unlikely to survive foreseeable weather.

Roughly one-third of the housing supply is of the kutcha or semi-kutcha type. It is generally accepted that the 2.4 million such units located in urban areas provide inadequate housing for their occupants. An additional 10 million units are rural semi-kutcha dwellings and are also considered inadequate. Thus, without any adjustment for deterioration in pucca, semi-pucca or rural kutcha houses, and without any correction for overcrowding, the housing deficit in India is on the order of 32 million units.

Of equal importance are data concerning the availability of basic services to existing dwellings. A survey done in 1973-1974 showed that only about two-thirds of urban households had access to tap water, either in their own dwelling or communally. One-third of urban households had no access to any type of latrine facility, communal or otherwise. Thus, many units which are adequate from a structural standpoint are deficient in terms of basic services. Infrastructure and serviceable dwellings are in even shorter supply in most rural areas.

B. PROGRAMS STRATEGY AND OBJECTIVES

1. Government of India Shelter Policies

India's national development planners are becoming increasingly aware of both the enormous shortfall of shelter production compared with need and the major role that the private sector must play if the housing deficit is to be reduced. The current Five Year Plan (running through FY85) suggests that the problem can be addressed over a 20-year period and proposes an investment in shelter over the Plan period of Rs 129 billion ($16.1 billion). The Plan prescribes the production of 18.7 million dwellings including 13 million rural and 5.7 million urban units.

The central government's strategy to date has been to allot to the private sector 85% of the responsibility for investment in housing. This prescription would not be unusual if it was accompanied by the legal and policy changes necessary to encourage the private sector to produce and market housing with reasonable freedom. However, governments at all levels in India have erected barriers in the form of rent controls, land use and building standards restrictions and tax provisions which combine to steer investment away from housing and towards other investment or consumption.

Recently, there have been signs that the central government is willing to start to remove some of these barriers. This is evidenced by a number of policy and regulatory changes granted to permit HDFC to issue its first bonds and by changes in tax law to put HDFC depositors in a more favorable position.

In addition, at least tacit support for changes in the more sensitive obstacles, such as rent controls and the Urban Land Ceiling Act, seems to be common. However, fundamental charges in these restrictions are unlikely until the state governments charged with their implementation are convinced that their constituents are willing to tolerate such improvements.

2. Program Goal and Purposes

The long-term goal of this program is to develop a fully functioning private housing finance system in India which raises its capital internally and which makes long-term shelter finance available to households with a wide range of income levels including lower-income households. The basis for the achievement of such a goal is in the Housing Development Finance Corporation (HDFC).

The purposes of the program include are:

(a) To provide long-term housing finance to lower-income households and to broaden the exposure of the private housing finance sector to lower-income borrowers and depositors;

(b) To provide geographically dispersed private housing finance facilities;

(c) To enhance the ability of the private sector to raise domestic capital for housing finance activities;

(d) To create direct and indirect employment.

3. Program Strategy

HDFC is at the core of AID's strategy for achieving the long-term goal and each of the purposes subsidiary to it. It is essential that a private housing finance system be developed in India because the GOI approach to development assumes that the great bulk of housing finance will be by a private sector. Since the formal private sector is currently in an early stage of development, HDFC, as its sole successful actor, is the only institution upon which an effective system of private housing finance could be based.

As HDFC begins to capture a significant segment of the unsubsidized housing market and this demonstrates the efficiency of private sector remedies for housing supply problems, its political influence will increase correspondingly. Most importantly, though, neither AID nor any other international agency can hope to have much direct influence on GOI policies which are currently inhibiting housing development. It is only by assisting the development of Indian entities which have intrinsic interest in rationalizing the development process that AID can hope to improve the policy environment in any fundamental way. HDFC's effective advocacy on behalf of policy changes sup- ported by AID is an important precursor to the development of other needed housing institutions in the private sector.

In large part, HDFC is influential because it is successful, both in terms of its profitability and its social utility. The $20 million HG authorization and technical assistance proposed by this Project Paper is necessary to continue HDFC development on both fronts. From the profitability standpoint, AID assistance will allow an expansion of loan volume needed to support the opening of two new offices and to meet increases in demand throughout the HDFC system. From the perspective of sccial policy, conditions precedent in the Project Authorization and periodic dialogue with HDFC in the context of AID project monitoring and technical assistance activities will insure that HDFC maintains its attention to the needs of lower-income households.

Expansion of HDFC is therefore important to AID's short-term strategy. In the longer run, it will be necessary for AID to assist in the development of other needed housing finance and development institutions. This is important to expand the reach of the private sector in housing, to permit specialization and market segmentation, to encourage competition, to promote financial deepening, and to increase the number of private sector voices advocating needed policy charges.

4. Relationship to CDSS

One of the components of the overall USAID approach in India as described in the CDSS, is to support the expansion of established private enterprise initiatives in sectors such as housing finance where the government has been predominant.

The application of this approach involves assistance in strengthening the capital markets. The expansion of housing finance can be considered an integral part of capital markets growth, particularly in view of the capacity of a housing finance institution to raise equity financing, to issue its own debt instruments such as bonds or perhaps eventually, to sell its mortgages in a secondary market.

HDFC is a focal point of this approach to expand private sector activities into areas where government is predominant. Because of its own relationships and contacts in the private sector, HDFC has been able to assist USAID in assessing opportunities and making contacts with key individuals or organizations. Additionally, HDFC has become an innovate player in India's capital markets. The corporation has some 14,000 stockholders. It's stock is traded on the Bombay Stock Exchange and it has just (March) issued its first bonds. Finally, HDFC is considering certain ancillary activities bearing on capital market formation. For example it has under consideration the formation of a leasing company with joint venture partners. Over the long term, implementation of the capital markets portion of the CDSS in the shelter areas will require the development of additional private sector institutions.

C. PROGRAM DESCRIPTION

1. The Program

The Asia Bureau's approval of the PID endorsed the further dev... of a $60 million program for housing finance in India of which the first $20 million is contemplated for authorization in FY84. This Project Paper provides a detailed description, analysis and justification for that $20 million authorization.

The $20 million HG to the Housing Development Finance Corporation of India (HDFC) proposed here is a follow-on to previous authorizations of $20 million and $10 million which comprised Phases I and II of HG-001 in March 1981 and June 1983, respectively.

The project will provide HG financing for HDFC housing loans which benefit households with incomes below the urban median. It will reach this target group through three types of lending by HDFC: (1) housing loans made to individual borrowers who fall into AID's target group; and (2) that portion of HDFC corporate loans which are devoted to housing occupied by workers in underdeveloped areas, to a limit of 44% of total HG disbursements; and, (3) through the use of at least 15% of HG resources for special low-income initiatives.

HDFC has ambitious plans to continue its expansion as a nation-wide housing finance institution. To do so will require opening a number of new branches and increasing lending activities and the mobilization of resources. At present, HDFC's overall financial projections carry through June 1986 but it has done detailed projections of potential resources, including this proposed HG, only through June 1985. The approved PID envisions follow-on authorizations of $20 million in both FY86 and FY88. Because HDFC's capacity to generate new domestic resources is expected to increase rapidly, final determination of the use of the follow-on $40 million will be kept open. If it appears that HDFC can usefully employ additional HG funds and that they would be required to achieve HDFC and AID objectives, such an allocation of all or part of the additional resources may be recommended. If, on the other hand, it is determined that other investments will be a more productive use of HG resources to achieve AID's goal of a viable private national housing finance system, then other recipients will be recommended.

2. The Borrower

HDFC will administer and implement the project and will be the borrower of the HG funds. The exact details remain to be worked out but one option it is that HDFC will be the borrower of record in the U.S. and the dollars will be converted to rupees by the Reserve Bank of India. The RBI will guaranty the availability of dollars for repayments and HDFC will obtain a guaranty of the loan to AID by one of the government-owned commercial banks. (See Section IV A and C on borrowing procedures and conditions)

3. Inputs

a. Capital

Capital inputs would take the form of $20 million in HG funds converted to rupees for HDFC lending. At the current exchange rate, this would amount to Rs 212 million, or about 28% of HDFC's projected disbursements in HDFC's FY85 (July 1 - June 30).

In FY85, HDFC will be raising additional resources amounting to, approximately $80 million. In addition, HDFC requires down payments of 30% from its individual borrowers and 50% from its corporate borrowers. Individual borrowers often make down payments of as much as 60% in order to qualify for loans or to lower their monthly payments. This means that beneficiaries also will be contributing a substantial part of the initial capital invested in the housing financed under the program.

b. Technical Assistance

Under HG-001, $200,000 in central grant funds were authorized for technical assistance. To date $100,000 has been utilized to assist in the development of a staff training program for HDFC and to fund HDFC senior staff attendance at shelter workshops. The remaining $100,000 (obligated in FY83) will support the continued development of HDFC's staff training capacity and to fund training for key staff in support of HDFC's institutional development.

In addition, it is proposed that a total of $250,000 of FY84 and FY85 central funds will be utilized to fund a resident technical advisor for 2 year period to develop specified elements of a housing finance strategy.

Annex 6G provides a scope of responsibilities for the proposed resident advisor. Annex 6H presents an evaluation of the technical assistance provided to HDFC to date and HDFC's proposed training programs and management goals through 1985. The latter provides the framework for AID's technical assistance activities with HDFC.

4. Outputs

The proposed project will have the following outputs (indicators):

- An increased number of lower-income units financed annually by the formal private sector (10% annual increase in the number of HDFC loans made to lower income households);

- Expanded private sector operations, both in terms of locations served and loan applications approved (HDFC opens 1 new branch office every 18 months and a 30% annual increase in the value of individual loans sanctioned);

- Increased locally-generated resources available for private sector housing finance activities (HG represents a decreasing percentage of HDFC's long term capital requirement);

- Provision of housing finance in newly-developing areas to support the development dispersion strategy of the GOI (not less than 80% of H corporate loans are for housing construction in newly developing areas);

- Increased opportunities for homeownership (30% annual increase in value of HDFC loans sanctioned for individual borrowers);

- Enhanced institutional and management capability of HDFC (training for ±200 HDFC staff).

5. Replicability

Important measures of the success of AID projects are the extent to which they are sustainable and replicable without further AID assistance. Certainly in the case of HDFC the potential for sustainability without AID resources is very high, as evidenced by its history of rapid development and its sound management and corporate strategy.

Replicability is somewhat more difficult to demonstrate in the absence of actual replication. There appears to be growing evidence, however, that HDFC's success will inspire imitators. For example there are presently four instances where private interests are considering the possibility of creating new housing finance institutions. Although they are local in nature and connected with larger groups, they appear to have been motivated by HDFC's success. A brief description follows to indicate some idea of the possibilities.

(a) In Delhi, an organization which is mainly in development activities wants to start a housing finance company. This organization's strategy is to tie housing finance into its overall organization, an approach being tried by some builders in the U.S. today.

(b) In Madras a big industrial house which has interests in tea, coffee, electronics and other manufacturing also owns an investment company, Investment Corporation of India (ICI). ICI wants to form a housing finance subsidiary. ICI is fairly liquid and is looking for good investment possibilities. Housing finance seems like a good potential.

(c) In Andhra Pradesh (Hyderabad) there is a large industrial group which, during the last couple of years, has formed a hire purchase company, a leasing company, a finance company and a mutual fund. It feels the next logical extension is a housing finance company.

(d) The Tata industrial group in Bombay has already established the Tata Housing Development Company. Tata has a large number of charitable trusts which have excess land which is available for development. The Tata Housing Finance Company was created to help solve the problem of housing for Tata employees using this excess land. Several projects have been started with construction financing provided by the Company. Before offering any housing to the public, Tata advertised the availability of these projects to all Tata employees. Tata is not providing the long-term financing although their intent is to do so. For now, Tata wants HDFC to provide the long-term financing directly to individual home purchasers.

Except for the Tata group, these institutions are only in the planning stage, but demonstrate the likelihood that the HDFC model will be replicated. They have all approached HDFC for technical advice and, in some cases, for equity capital.

It is perhaps an equal reason for optimism concerning the replicability of the HDFC model that it is designed to capitalize on an enormous effective demand for housing by leveraging market rate loans with household resources which would otherwise remain outside the formal economy. These conditions appear to prevail throughout India. Replicability will, of course be further enhanced to the extent that GOI policy changes which have benefitted HDFC are extended and other counter-productive restrictions are eliminated.

6. Beneficiaries

The direct beneficiaries under this project will be the approximately 8,000 families with household incomes of less than Rs 1,800/ month in Bombay and Rs 1,400/month elsewhere who benefit from HG financing. The target group are families below the urban median family income. The computation of median -income levels and further discussion of beneficiaries is contained in Annex 6A and E. Assuming an average urban family size of 4.8, approximately 40,700 people will directly benefit from better housing financed through the HG.

Other direct beneficiaries of the project will be HDFC staff who will receive training through technical assistance activities. Indirect benefits to consumers in the Indian housing market are expected to materialize in at least two ways:

(a) A growing recognition of HDFC's success on the part of at least some GOI official has led to HDFC playing a major role in policy discussions such as those currently underway in connection with the development of the Seventh Five Year Plan. The potential policy changes resulting from this type of involvement will benefit a wide range of housing consumers.

(b) If HDFC and its potential imitators are able to expand the private housing finance system, there will be a better balance between demand and supply in at least some segments of the housing market. The effect will be to reduce the unfavorable discrepancy between inflation rates in housing prices and the prices of other goods.

D. EVALUATION OF HDFC PERFORMANCE TO DATE

The 1981 Project Paper outlined a strategy of supporting the growth of HDFC through a large infusion of capital to assist it to expand its operations more rapidly than would otherwise have been possible. Underlying this strategy was the concept of a nationwide system of private housing finance institutions strong enough to adequately serve low-income households.

In 1981, it was recognised that a new institution attempting to raise resources at market rates and to lend these resources at rates which covered costs and made a reasonable profit for stockholders might have some difficulty making direct loans to AID's target group. It was therefore assumed that most, if not all, of the initial HG resources would be utilised to support HDFC's corporate loan program in newly developing areas of India. These borrowers were prepared to pay a relatively high rate of interest over a shorter term, which enabled HDFC to operate with less risk and at a lower cost while at the same time financing houses for lower-income workers. The intent was that as HDFC strengthened and broadened its operations, AID would also work with them on alternative ways to reach low-income families. Thus, as a condition for the authorization of HG-001 Phase II, HDFC was required to adopt a specific policy increasing the extent to which it reached lower-income borrowers. In addition prior to the Phase II disbursement, HDFC was required to adopt a low income action plan (see Annex 5A and B).

HDFC has had unanticipated success in reaching lower-income borrowers in its individual loan program. Thus, while assumed that such households would be served exclusively by loans to employers, some 56% of HG001 Phase I and 60% of Phase II financing went to individual borrowers who were below the median urban family income (defined at that time as Rs 1,200 per month). This is in the context that some 80% of HDFC's outstanding loans, by amount, has gone to individual borrowers and of these borrowers about 15% were earning below Rs.1,000/month.

What this reflects is that HDFC has made a concerted effort to reach low-income borrowers and that demand from such borrowers is effective under current market conditions. HDFC processes all applications on a "first come, first served" basis without regard to income. HDFC staff have worked with lower-income borrowers to help structure their loans and to suggest what kind of unit they can best afford. HDFC has also been prepared to permit payment-to-income ratios in excess of the 25% standard normally imposed. The result has been that HDFC has reached a higher number of lower-income borrowers than originally anticipated.

As to its overall operations, HDFC has expanded more rapidly than projected while achieving profit margins which allow it regularly to pay dividends to its stockholders. The Project Memorandum for HG 001 Phase II compared HDFC's performance as of June 1983 to original projections by AID and by the IFC. The project memorandum shows that HDFC has substantially met AID projections and exceeded those of IFC on a consistent basis.

With regard to the development of a national system of private housing finance, two points are relevant to an evaluation of the program goals so far. In the first place, HDFC has increased its number of branches to 10 covering 8 states and will open two more in states not now served during this calendar year. Its operations are accordingly taking on a more national scope. Secondly, there are currently a number of proposals being considered for additional housing finance institutions to be created, modelled in varying degrees after HDFC and growing out of HDFC's perceived success. Thus, one of AID's more important objectives, replicability, seems to be achievable.

While it would be unfair to say that HDFC would not have been commercially successful without AID participation through the HG program, it is clear that the HG resources, coupled with the technical assistance provided through the grant funds, have contributed to HDFC's more rapid growth and to its greater responsiveness to serving low-income families.

E. COOPERATION WITH OTHER DONORS

The principle international development agency in India is the World Bank, which in FY83 provided more than $2 billion in IDA and IBRD funds to development projects in a variety of sectors of the Indian economy. With respect to urban development, the Bank's approach in recent years has been to fund infrastructure and urban management projects in major metropolitan centers. In FY83, $147 million in IDA funds were approved for the third in a series of comprehensive development projects in Calcutta. Bombay has been the recipient of similar attention and is scheduled for possible additional funds (perhaps $180 million) in FY84 and FY85.

A second and more recent approach by the Bank has been to focus on a state rather than a single metropolitan area. In FY83, for example, $24.1 million was allocated to area development, slum upgrading, sanitation, policy development and project implementation in ten cities in the State of Madhya Pradesh. A similar approach is contemplated in Gujarat.

In the housing sector, the Bank's approach has been to support public programs which emphasize sites-and-services and slum upgrading for the urban poor while encouraging government sponsors to move in the direction of full cost recovery.

The Bombay urban development project is of particular interest in the context of this Project Paper because one of its outputs will be 85,000 serviced sites upon which client households will be expected to construct dwellings. Project planners contemplate sites varying in size from 25 to 100 M^2 (70% will be smaller than 30 M^2) which will be leased for terms of 60 years. The Bank is currently negotiating with HDFC to provide unsubsidized financing to some of the prospective occupants. The Bank's motivation for seeking this arrangement results from their experience in the Madras Urban Project in which many of the serviced sites allocated to qualified families remained unimproved as a consequence of the unavailability of financing. Should such an arrange- ment materialize, it financing could be extended to such households. The Bombay Project, which also includes the construction of 55,000 units over the four-year life of the project, is the biggest housing scheme ever financed by the Bank.

Among other, much smaller, international aid programs in India is a British grant of approximately $35 million to the Housing and Urban Development Corporation to be used for soft loans to state housing boards and authorities throughout India. The grant is actually in the nature of forgiven interest payments on previous loans to India. The British approach does not appear to emphasize cost recovery and is, to that extent, inconsistent with the approach of AID and the World Bank.

A German program currently being discussed with HDFC would provide as yet unspecified technical and financial assistance to the corporation to establish a deposit-linked below-market-rate home finance program. In general, this scheme requires households to make low-yield deposits accumulating to a specified minimum amount for a specified minimum period of time before they can receive a home purchase loan at below-market rates. Since low-income house- holds usually receive low or no returns on their investible assets anyway, the approach contemplated by this program should be attractive to potential HDFC clients and should increase HDFC's capacity to mobilize resources. This program will allow a potential borrower who does not have a credit history adequate to justify a conventional loan, to establish credit worthiness through a consistent savings record.

III. PROGRAM ANALYSIS

A. THE INSTITUTIONAL FRAMEWORK

1. The Government Sector In Housing

The housing problem in India is a consequence of an array of public policies. The practical consequence of these policies has been to seriously distort the housing market. This, in turn, has encouraged disregard for the most stiffling of these measures. There remains in place a web of public constraints on development which, although imperfectly enforced, create a good deal of uncertainty and unnecessary cost for investors, developers, and ultimately consumers. These include:

(a) Rent controls. The most obviously counterproductive intervention in the shelter sector is rent control, which was first introduced in 1918 and reintroduced in 1938 by the Rent Control Act of that year. The current Act is not binding on states, which are free to accept or ignore it as they enact their own state-level legislation. Thus, there are currently 21 different rent control acts among the States and Union Territories.

Most Acts apply to both residential and commercial units. Many Acts exempt units constructed after a specified date from controls, although in some of these the exemption is good only for a limited period (usually between 5 and 10 years). Evictions are generally controlled by separate statutes which, in combination with a dilatory legal system and rent controls, make it impossible for landlords to legally earn a profit from rental units in most jurisdictions.

(b) Capital and Credit Controls. Through a variety of controls, including direct annual allocations of lending authority to banks and other lenders, the Reserve Bank of India pushes capital towards industrial, agricultural and energy resources development. This approach had its origin in the goal of the First through Fifth Development Plans to nationalize the industrial and financial sectors in order to promote exports and import substitution.

Among the most important nationalizations were the life insurance companies (nationalized and consolidated into the Life Insurance Corporation of India in 1972) and major commercial banks (1969 and 1981). Combined with government development and operation of the postal savings system and the Unit Trust of India (an investment fund), these nationalizations have left little room for private entrepreneurial activity in the formal capital market system.

The capital allocation targets which guide these public financial institutions derive from the investment objectives in the five-year Development Plans. From 1950 through 1980, the cumulative planned investment in housing was about $11.5 billion or 14.3% of overall investment. The trend through this period was downwards. The Sixth Plan, running through FY85, reduces the proportion of investment in housing to 7.5%.

Increasingly apparent problems with this approach began, around 1975, to receive recognition in the central government, which in turn, began to promote policies to increase employment and production through private enterprise. Although the Seventh Plan has yet to be released, advance publicity indicates that it may include a greatly increased emphasis on housing construction and rehabilitation which may, in turn, result in a liberalization of constraints on the private development industry. Encouraging signs include the recent authorization for HDFC to raise capital in the bond market and changes in tax laws to make HDFC competitive with commercial banks in its deposit-taking activities.

(c) Land use and ownership controls. The Urban Land Ceiling Act was enacted in 1976 at the request of 11 States and the Union Territories with the objective of eliminating speculative ownership of vacant urban land in the face of a scarcity of sites for housing and other "social" needs. The Act provides for public acquisition of all vacant urban land owned by any person in excess of a ceiling amount (ranging from 500 to 2,000 M^2, depending upon the size of the urban area in which it is located). Acquisition is at a price below market value as defined in the Act, which contrasts with the provisions of the earlier, and now optional, Urban Land Acquisition Act which requires payment of a 15% premium over market value by acquiring public agencies. In addition to certain stipulated categorical exemptions, the Act allows an implementing state to exempt any landowner if such an exemption would serve the public interest or prevent undue hardship to any person.

The granting of exemptions has been a source of controversy, leading in many jurisdictions to near total paralysis of the market for vacant land subject to the Act. This has had the effect of inflating the price of sites not covered by the Act.

The Ministry of Works and Housing (MWH) is the central government's principle vehicle for the development of housing policy and programs. The bulk of the MWH housing budget is devoted to housing for central government employees. The Central Public Works Department, the largest construction company in India, sets standards for and builds all G.O.I. buildings, including employee housing. Occupying households are charged 10% of their salary for rent for housing which they can occupy only during the period of their employment.

There are a number of public and quasi-public organizations which report to MWH, 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 by providing project financing to state and local agencies. HUDCO's primary objective is to provide financing for the construction of houses for low-income groups. Therefore, it insists that its borrowers adopt HUDCO guidelines with regard to material and cost specifications, income groups and differential interest rates. HUDCO obtains the bulk of its resources from the Life Insurance Corporation of India (LIC) and through the issue of government-guaranteed debentures and bonds. The latter are offered at lower-than-market rates of interest and are purchased mainly by commercial banks who are permitted to count them towards minimum reserve requirements.

Most of the 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. They include programs for govern- ment employees, village housing, low and middle-income housing, land acquisi- tion and site development, slum improvement, and sites and services programs.

2. The Private Sector in Housing

Private sector housing development in India is largely informal and frequently extra-legal. Its informality is the result of the low level of household incomes and cultural resistance to personal debt financing. The informal development process in India, as elsewhere, is labor-intensive, relies upon locally available materials, and works best on relatively inexpensive and unregulated land in rural areas and urban squatter settlements. The products of such development, except for government sites-and-services or slum upgrading schemes, tend to be impermanent (kutcha and semi-kutcha) and under-serviced dwellings.

Informal housing development may involve both informal construction (generally construction by owner-builders or unlicensed contractors without building permits or occupancy certificates, frequently employing nondurable materials and using sites not owned by either the builder or the purchaser) and informal finance (e.g. the conversion of personal property to cash or borrowing from friends, relatives or "indigenous" lenders). Roughly, 80% of gross domestic capital formation in the housing sector is informally financed in India.

The frequent resort of developers and consumers to a now pervasive system of "black money" to support the production and consumption of housing is mostly a consequence of the considerable obstacles to formal development erected by governments at all levels in India. Thus, both formal and informal development rely upon incomplete enforcement of land use, rent control, tax, materials and credit allocation, and other public restrictions. For example, payments by builders for both land and building materials is frequently divided between a recorded payment and an unrecorded cash payment. This allows sellers to avoid taxes on at least a portion of any gains realized in such transactions. Subsequently, when the builder sells completed units to housing consumers a similar arrangement allows him/her to avoid taxation as well. Analogous devices are used to avoid rent controls.

These contortions are, of course, means by which market forces assert themselves in an overly-regulated economy All actors in this market place, including HDFC, must accept the fact that housing costs and values are usuall much higher than is apparent from official records and that purchaser eq (or non-HDFC borrowing) is likely to be very high in proportion to financing.

One important market force is urbanization, which ought to encourage a greater formalization of the shelter sector and the investment of an increasing proportion of household incomes in housing. The maturation of formal housing finance and development institutions will be accordingly more important to meet future housing needs in India than it has been. Efforts of the GOI to divert urbanization away from current metropolitan centers to new or existing secondary growth centers has created severe housing supply/demand imbalances in such new centers. These imbalances and the willingness of employers to help correct them by financing employee housing create opportunities for both developers and lenders to extend the reach of the formal sector. AID policy ought to encourage this extension.

Formal sector residential development activity can be divided into three not entirely exclusive categories: market housing; cooperative development; and employer-assisted development.

(a) Market Housing. The private sector developer of market rate housing faces three major challenges. At the outset, she/he must find buildable sites. In urban areas, site costs have increased by as much as 300% since 1980. Effects of the Urban Land Ceiling Act and zoning restrictions imposed by municipalities have helped to increase per unit land costs and, therefore, housing costs faster than incomes. Accordingly, unsubsidized urban developers are inclined to target an increasingly wealthy market segment, lower their product standards (e.g. by building smaller units), and/or require greater investments by purchasers.

Secondly, the developer must have financing. Few developers are well-capitalized, so receiving money at the front end is usually critical to project feasibility. One common approach taken by developers is to pre-sell some or all of the units in a project, requiring a pre-construction payment of say 20% of the purchase price and additional payments at stipulated points during construction. Larger projects are likely to be phased so that early cash flows can be used to sustain later construction. Site investments are sometimes reduced by joint venture arrangements with property owners.

Thirdly, developers must be able to obtain construction materials at competitive prices. Although substantial recent capacity increases in the cement industry have eased prices (from Rs 80 to Rs 60 per 50 kg bag) and increased availability somewhat, steel continues to be in periodic short supply. Transportation problems cause occasional local shortages for both and encourage expensive stockpiling.

(b) Cooperative housing. Cooperative housing development in India is the primary function of state level organisations known as apex housing cooperative finance societies of which there is usually one in each state and union territory (a total of 19, nationwide). Apex societies make housing construction and permanent loans to primary cooperative housing societies of which there are roughly 30,000. Apex societies obtain the bulk of their funds from share capital purchases and state-guaranteed borrowing from LIC.

Housing cooperatives have contributed an estimated 6 million units to the national housing stock, with an additional 4 million under construction. Because roughly half of construction costs are contributed by members, cooperative financing, in effect, leverages a large amount of personal savings. However, a significant portion of this contribution is, in effect, financed by LIC, through share purchases financed by a portion of LIC housing loans. The majority of the beneficiaries of cooperative housing schemes are households having incomes below Rs 1,000 per month. (Housing cooperatives are discussed at greater length in Annex 6C).

(c) Employer-assisted Housing. Employees in certain sectors of the Indian economy are customarily provided housing or housing assistance payments. The law requires that all plantation employees be provided housing. State and central government agencies usually provide either housing at below-market rates or an allowance in lieu of housing. Industries in outlying areas fre- quently provide housing as a recruitment inducement because skilled laborers and professional staff are not available locally. Commercial banks often pro- vide loans to their employees for the construction or purchase of housing. It is nonetheless far from ordinary for lower paid employees to be provided hous- ing by their employers. As a means of encouraging more depth to employee housing programs, HDFC uses as an application evaluation criterion the extent to which an employer/borrower will provide housing for lower-income employees.

Conceivable disadvantages associated with employer-provided housing appear not to have materialized in India despite several decades of experience. In particular, the "double jeopardy" of an employee threatened with the loss of both his/her job and housing does not appear to be an issue, as indicated by the lack of organized labor actions, which are a common feature of the Indian commercial landscape, related to this concern. Nor do employer-owned units develop into company towns in the American sense. This is partly a con- sequence of the fact that the commercial activities that service such develop- ments remain outside the control of the employer.

What is reported as a problem is that employees lose their right to occupy employer-provided units upon retirement. The shortage of housing in most parts of India results in difficulties for many retirees when, as their incomes fall to pension levels, they must increase their outlays for housing. For this reason, HDFC provides loans for retirement units and is experimenting with a specialized loan program in which loans are secured by government-provided insurance policies and are piggy-backed on to government loans.

3. The Financial Sector and Housing Finance

Formal financial institutions are largely instrumentalities of the which sets long term financial policy through the five year plans produced by the Planning Commission and short term policy primarily through the Reserve Bank of India (RBI). Although RBI's proportionate share of total formal sector assets has declined in recent years as a consequence of higher growth rates in other institutions, its influence has steadily increased as its regulatory controls have become increasingly pervasive. Its basic tool is the prescription of lending and borrowing rates and amounts for all financial institutions.

Beneath the RBI, financial institutions are divided by Indian law into banks and non-banking financial institutions. The most important banks are the scheduled commercial banks such as the State Bank of India, regional banks such as the State Bank of Maharashtra, and the co-operative banks. With few exceptions, the formal institutions which can provide credit and capital for housing are dominated by the Government. (See Annex 6D for additional information on the Indian banking system).

The largest single investor in housing is LIC. At the end of FY 83, 10.36% of its assets (which total $7.8 billion) were invested in housing. By law, 25% of LIC's annual "net accretions" must be invested in specified socially-oriented schemes including housing. Some portion of an additional 10%, set aside for private sector investment, could also find its way into the housing market. During FY83, LIC made $124 million in housing loans, with the largest portion going to cooperatives. (See Annex 6B for additional information).

The General Insurance Corporation (GIC), although it also has substantial premium-based revenues is less useful than LIC as a source of housing finance. This is because its liabilities are generally shorter term and it is accordingly required to maintain greater liquidity than is consistent with major investments in mortgage lending. Nevertheless, GIC is statutorily required to invest 35% of its net accretions in: (1) loans to State Governments for housing; and (2) loans to, or the purchase of the bonds, debentures and preferred stocks of HUDCO. At its present rate of accretion, GIC will invest roughly $150 million per annum in housing.

HUDCO is the apex public housing finance institution in India. However, most of its resources come from other public institutions in the form of loans, equity capital or proceeds from the sale of debentures. HUDCO does not make direct loans to individuals. Less than 1% of its loaned funds directly enter the private sector; virtually all go to state housing boards (62%), development authorities (16%) and other public agencies (21%). The total amount of loans sanctioned by HUDCO in its thirteen years of operation was $1.095 billion. FY 83 loan volume was $131 million.

Housing co-operative societies are an important channel of housing investment. Apex societies can accept credit (usually as loans) both from the banking side of the co-operative system (i.e. from State and District Central Co-operative Banks) and from outside the co-operative universe (e.g. from LIC). In addition, the housing societies themselves raise capital from their members in the form of dues and share capital and act as aggregators at the household level for down payments and construction progress payments. Because funds obtained from LIC and coop members are currently cheaper than those borrowed from within the system, loans from coop banks make up a small proportion of the resources of apex societies.

Commercial banks, although not prohibited from housing investments, are not active in this sector. The Bank of India, for example, has less than .1% of its assets invested in housing. Total direct housing finance by commercial banks is around $100 million per annum, three-fourths in the form of HUDCO and state housing agency bonds. About 20% goes to individual mortgage loans (mostly to bank employees) and the balance to HDFC.

Provident Funds are a significant source of housing finance for individuals who after a 5 years may withdraw their contribution for specified purposes, one of which is housing. Roughly 1% of total Provident Fund resources (on the order of $15 million) are devoted to housing.

In the formal private sector, HDFC is the only specialized housing finance institution. HDFC is primarily a retailer which mobilizes domestic resources both inside and, more significantly, outside of the public finance system. After nearly six years of rapid growth, HDFC is now approaching $100 million/year in loan approvals. More than 20,000 units of housing will be financed by HDFC in FY84. While this provides a relatively small impact on the supply of housing in India, HDFC's business success and responsiveness to social needs provide a useful model for government policy-makers as they struggle with an increasing shortage of adequate shelter.

B. ADMINISTRATIVE AND TECHNICAL ANALYSIS OF HDFC

1. Creation of the Housing Development Finance Corporation

Consideration of the possibility of establishing a private housing finance institution in India began in 1975 within the Industrial Credit and In- vestment Corporation of India (ICICI), under the guidance of the latter's Chairman (now Chairman of HDFC). An early participant in these considerations was the International Finance Corporation (IFC) and, subsequently, the Aga Kahn 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-subsidized programs which were concentrating increasingly on sites and services, core housing, and upgrading at the very lowest income level. These efforts culminated in the registration of the HDFC on October 17, 1977 under the Indian Companies Act and commencement of operations in May 1978.

2. Ownership and Financial Structure

HDFC has an authorized share capital of Rs 250 million ($31.25 million, 1979 equivalent) 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 promotors, i.e., ICICI, IFC and the Aga Khan Group each invested Rs.5 million. Over 25% of the equity was subscribed by government-owned banks, insurance companies and other financial institutions.

Among the major shareholders are the Central Bank of India (Rs.2.2 million), one of the major commercial banks, and the Life Insurance Corporation of India (Rs 2.5 million). One hundred nineteen companies hol[illegible] least 1,000 shares indicating a broad base of corporate support. In ad[illegible] HDFC has over 11,000 shareholders, most of them individual or small accounts.

In addition, as of 12/31/83, HDFC had reserves and surplus of Rs.59 million, had raised Rs 583 million through term debt and had deposits of Rs 882 million. Thus, total resources amounted to some Rs 1,623 million ($153.1 million 1983 equivalent).

3. 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 units. Their purpose is to increase the housing stock in the country primarily through loans to individuals and to promote homeownership in general.

Until 1983 HDFC did not have a set of policies or programs specifically geared towards low income households. Since the initial HG authorization in 1981, PRE/H, through the RHUDO, has had a continuing dialogue with HDFC about more active pursuit of its lower-income target group. As part of this process and as a condition precedent to authorization of Phase II of HG-001, HDFC adopted a low-income policy statement. In fulfilment of a CP for disbursement, HDFC submitted its first annual action plan for implementation of this policy. Continued active pursuit and updating of this plan will be a Condition Precedent to borrowing.

Another HDFC objective is to mobilize long-term resources in the form of deposits and term debt and to 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 and relatedly, to support the growth and development of the capital market in general.

In addition to its individual housing finance activities, HDFC, as its name implies, also intended to play a broader development role. Thus HDFC finances housing facilities in new industrial zones and in agricultural and mining enterprises, thereby contributing to regional development as a whole. HDFC formed a development subsidiary to test the assumption that better quality construction can be obtained at the same or lesser cost than currently offered by developers. Plans include ventures with: a charitable trust for a large scale urban residential project; the public sector (HUDCO) for demonstration projects for the International Year of the Homeless; and other finance institutions to form a leasing company specializing in equipment designed to enhance environmental quality. HDFC also actively participates in task forces and working groups formed by the National Planning Commission to study and make recommendations on housing policy.

An overriding HDFC concern, however, and related to all of the above, is to operate on a sound and commercially viable basis and to provide a reasonable rate of return on shareholders' equity. Without this, HDFC cannot succeed as a private sector initiative.

The original statement of Operating Policies agreed to by HDFC and IFC is contained in Annex 5C. Annexes 5A and 5B, respectively, contain the special low-income policy statement and the action plan to implement that policy.

4. Organization, Administration and Staffing

HDFC is 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. Responsibility for overall operation of the Corporation is divided between two Executive Directors who are responsible for the overall operations of the Corporation and its subsidiary.

At HDFC's head office in Bombay there are four departments:

(1) Operations which is responsible for credit evalution, technical appraisals and monitoring, and the preparation of loan documents; (2) Finance and Planning, which is responsible for corporate planning and development as well as the accounting function; (3) Resource Mobilization, which is responsible for all resource mobilization activities; and (4) Human Resources, a department which is being created to include administration, personnel and training. In addition, there are staff positions for an Economist, an Internal Auditor and a Corporate Secretary.

In addition to the head office in Bombay, HDFC has nine branch offices located at Ahmedabad, Bangalore, Calcutta, Cochin, Dadar (Bombay), Hyderabad, Madras, New Delhi and Pune. Both Pune and Dadar are located in the same state as the corporate headquarters in Bombay. HDFC is currently planning to open an office in New Bombay, where HDFC is proposing to put up its own building, as well as branches in three new states, Uttar Pradesh, Rajasthan and Madhya Pradesh.

Each branch is headed by a branch manager, who is professionally qualified in one of HDFC's fields of operation. Each branch office essentially duplicates the head office in terms of its organization and functional responsibilities, except that head office Departments have ultimate authority over branch operations with respect to their areas of concern. Branch managers review loan applications and forward their recommendations to the head office for approval. They do not yet have authority to approve loans; however, the Board has approved a plan for decentralization of loan approvals to the branches and this will be implemented in a phased manner.

At the end of February 1984, HDFC had a total staff of 327, of which 155 were at headquarters in Bombay. The staff includes the whole range of individuals necessary to run a housing finance institution, including loan officers, engineers, architects, lawyers, accountants, individuals with business degrees, etc. Key personnel are well-experienced. However, because of the rapid growth of HDFC, a number of the junior staff, while well-qualified by education, lack experience. This is due to the fact that since HDFC is the first specialized private sector housing finance institution in India there is no existing labor pool from which to draw exprienced personnel.

HDFC, with technical assistance from AID, is currently in the process of formalizing a training program for both existing staff and new hires. This has become necessary to support HDFC development. To date a total of $100,000 of PRE/H central funds have been spent on HDFC training-related activities. The majority of these funds went for: a training assessment team from the Institute for Financial Education (IFE); sending two senior HDFC staff to work with the US team to adapt IFE training materials to the India context; and conducting two weeks of two-day human resource development seminars for HDFC's officers and staff (over 250 people). These seminars, conducted in February and March 1983, provided HDFC's management with the input required to develop specialized staff training programs. Additional AID funds will be used for the continuation of this process which is to result in a capacity within HDFC to develop, conduct, and refine ongoing activities to meet its staff training and human resource development needs. (See Annex 6H)

5. Subsidiaries

In 1981, HDFC created a wholly-owned subsidiary, HDFC Developers Ltd, to develop housing estates and integrated projects. Their intent was to broaden HDFC's role in the delivery of housing by becoming directly involved in the design and construction process. The idea was to demonstrate that HDFC could deliver housing projects (or office buildings) that would be of a higher quality and lower cost than other private developments.

HDFC Developers now has three projects underway; (1) 600 flats in a newly developing industrial area in the city of Pune, along with commercial facilities and shops; (2) 200 flats in New Bombay; and (3) an office building in New Bombay which will be partly occupied by HDFC. It also has under consideration a venture with a charitable trust. This would be for a 10-15,000 unit low-middle income housing development which would include the rehabilitation of an existing squatter settlement in the Greater Bombay area on land owned by the trust.

More recently HDFC has entered into negotiations with one of the large commercial banks and an international leasing company to set up a leasing venture. The new company will differ from existing leasing companies, which tend to concentrate on industrial equipment and machinery, in that it will specialize in leasing equipment and machinery related to environmental pollution control, garbage removal, sewage disposal, water treatment, fire-fighting, health care, infrastructure etc. Major clients are expected to be metropolitan development authorities, municipal corporations and local government authorities whose annual operating budgets limit direct capital financing activities.

Both HDFC Developers and the leasing company are consistent with HDFC's efforts to improve the overall quality of life in communities where it is involved in financing housing. In addition the leasing company promotes HDFC's interest in the overall strengthening of the capital market.

6. Types of Loans

HDFC has three major types of housing finance loans: individual, project, line of credit and corporate. Each of these lending programs is described below. However it should be kept in mind that HDFC groups these programs into two major categories, individual ownership and corporate bodies and these are the groupings used in determining eligible HG disbursements.

Loans to Individual Borrowers: HDFC makes loans to individuals to acquire residential accommodations. The loan amount is based mainly on the creditworthiness of the individual and the value of the dwelling unit, but may does not exceed 70% of the value. The maximum loan is Rs 150,000 ($14,150). The repayment period is from five to fifteen years up to the age of 65, or retirement, whichever is earlier. Monthly repayments generally do not exceed 30% of the individual's gross monthly income.

Loans are made for acquisition of apartments which are secured by a mortgage on the underlying apartment, and for the construction and acquisition of individual houses secured by a mortgage of the land and building. HDFC financing is not available for resort houses or for repaying loans taken for housing purposes.

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

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

Group Projects: HDFC also makes loans to registered cooperative societies and associations of apartment owners. In the case of cooperatives, the total loan amount is determined by aggregating the eligible loan amount for which each member is eligible. In the case of apartment associations, each apartment owner actually signs a loan document. As with individuals, the loan-to-value ratio generally does not exceed 70%.

The security for such loans is a mortgage on all of the underlying property. Individual members may have terms varying from 5 up to 15 years. The age and income of the members are tne primary criteria for determining the maximum for a particular member's term. The rate of interest for such projects also ranges from 12.5 to 14.5 percent.

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. Two approaches are used:

(1) Line of Credit "through" the Employer. 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 %. The security for the loan is an unconditional and irrevocable guarantee from the employer in addition to a mortgage on the property financed. In most cases employers make some contribution to the payment, thus lowering the effective amortization burden on the employee and enhancing his/her eligibility for a loan. The employer's guarantee is not terminated if the employee leaves his/ her job during the term of the loan.

(2) Line of Credit "to" the Employer. 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 13.5 to 14.5% with a maximum term of 15 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. Typical interest rates, for example, are in the 4-6% range.

Corporate Loans: To meet the demand for housing in newly-developing areas HDFC has a program whereby it makes loans to corporations for construction of worker housing and related facilities. The property to be financed is owned by the corporation. HDFC exposure in such cases is generally restricted to a maximum of 50% of the value of the property; the term is restricted to 3-7 years. The current rate of interest charged is between 14.5 and 16%. Security for the loan is a mortgage on the property and/or any other security HDFC may deem necessary. A discussions related to beneficiaries of this program is contained in Annex 6E and F.

7. Loan Processing, Disbursement and Services

Loan applications from individuals generally are subjected to the following reviews: (1) an appraisal of the potential borrower's creditworthiness; (2) a technical evaluation of the property with a view to determining, inter alia, the adequacy of security; and (3) a legal review to insure that documents are in order and that procedural and other requirements have been met.

Loans to individual members of cooperative societies or corporations follow a similar process with an extension of the review to cover the society or corporation and its proposed project.

HDFC's disbursements usually start after the individual, society or corporation has expended its contribution. The Technical Section then reviews the work in place before the initial disbursement is approved and before each subsequent disbursement.

Interest only is paid during the construction period; equal monthly payments (principal and interest) for the term of the loan commence after construction 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 low delinquency rate and no defaults. This is partly due to the high downpayments that HDFC requires and to HDFC's rigorous credit review process and loan collection procedures. HDFC recognizes, however, that foreclosure is a very difficult and lengthy process in the Indian legal system and that, should late payments increase to the point where foreclosures were required, it might not be possible to recapture the HDFC investment within a reasonable period of time.

8. Types of Housing and Housing Construction Finance

A study of FY83 individual loan approvals for households earning Rs.1200 month or less was done as part of the PP development. This study indicated that 51% of the units financed were apartments, 43% were "bungalows" (detached houses) and 6% were row or town houses. This varied considerably, however, from one location to another. In Dadar, Bombay and New Delhi, almost all of the units were apartments. In other cities a larger proportion of the units were detached. This tends to hold for all income levels. With regard to employer-provided housing, the units are usually apartments although accompanied by all amenities without regard for the incomes of occupying workers.

Almost all of the housing units financed by HDFC are constructed of permanent materials. As an experiment in attempting to reach lower-income households, HDFC is financing very basic units utilizing some impermanent materials in one of the more rural areas. The problem in such construction is, of course, that it requires continuing maintenance.

With regard to size and cost, through January 1984, the average size of all units financed by HDFC on an individual basis was 70 M^2 at an average cost of Rs 92,000. The comparable average figures for corporate housing financing by HDFC, which is designed for a generally lower income group, were 47 M^2 and Rs 43,000. Although unit size is stable the cost per unit is rising, reflecting rising costs of labor, materials and land.

The study done for the PP design (Annex 6E) looked more specifically at individual lower-income borrowers. For such borrowers the unit size tended to be below 40 M^2 with the cost ranging between Rs 40-60,000. Geographic variations from this norm were substantial, however. In Bombay, for example, about 70% of the units financed by HDFC for lower-income households were smaller than 40 M^2, and only 4% were large than 60 M^2. In Cochin, on the other hand, less than 10% were smaller than 40 M^2 while 55% exceeded 60 M^2.

HDFC finances loans which cover four general types of owner-con relationships:

Owner Self-Help: An owner can construct his own dwelling, purchasing building materials directly and investing his own labor in construction as long as professional control is maintained through the hiring of an architect or engineer as supervisor. Such an owner can save up to 35% of the standard cost of a house.

Owner as General Contractor: The purchase of all building materials by the owner can save up to 15% of the building cost. In this case the owner contracts for the labor to construct, on an individual basis or through a general contractor.

Contracted Construction: In this case the owner chooses a contractor to fully supervise and construct the house. Apartment projects, typical of Bombay, for instance, would fall into this category.

Corporate Housing: In most cases, at the time employers apply to HDFC for direct financing of a project, they have a detailed project proposal which contains plans, specifications, and cost estimates along with the phased schedule of construction. After project appraisal and approval, the employer arranges to let construction contracts and for supervision of the contracts. In group projects or line-of-credit to or through corporations, similar procedures are followed.

9. Technical Review

The head of HDFC's Technical Section 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 receive technical supervision from headquarters. Where there is no branch office within a suitable distance of a project, a panel of registered valuers is employed to inspect and evaluate projects, submitting the reports to the branch office in charge.

Technical review and appraisal is done with varying frequency, depending on the size and type of the project. The first review provides an input to the loan approval process and occurs after the credit appraisal work is completed. The Technical Section is consulted concerning the suitability of plans, reasonableness of the estimate and, in some metropolitan cities, the reliability of the builder. (HDFC has compiled a builders' performance file and occasionally recommends that a loan should not be approved unless a reputable and reliable builder is employed). The final amount of the loan is decided after confirmation of credit and completion of the technical appraisal.

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.

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

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

10. Sources of Funds

Until recently HDFC funded its operations through long-term borrowing on commercial terms and through two deposit schemes. In March 1984, HDFC floated its first bond issue and by the end of 1984 it will start a new closed system deposit scheme.

HDFC's current deposit facilities are a Certificate of Deposit Scheme (CD) and a Loan-Linked Deposit Scheme (LLD). 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 of up to four times their accumulated savings after a minimum period of three years from the date of their first deposit. The maximum amount that can be saved is Rs.50,000, exlusive of interest. The current rate on such savings is 9%.

The CD scheme attracts short and medium term (6 months to 5 years) deposits from institutions, trusts, cooperatives and companies and to a lesser extent, from individuals. It is competitive in these activities with public institutions, especially the commercial banks. The current rate being paid ranges from 9-12%, depending on the maturity period, with a minimum deposit of Rs 2,000. The average cost to HDFC of all deposits as of June 1983 was 10.39%.

Since significant amounts of funds are available for deposit by charitable trusts and cooperative institutions, HDFC has lobbied and obtained changes in the various provisions of the Income Tax Act and the Indian Trust Act in order to be able to mobilize such funds for housing. Income from deposits with HDFC is exempt from income tax up to Rs 3,000 for such income. Deposits are exempt from the Wealth Tax up to Rs 150,000.

HDFC plans to commence a contractual savings program starting in July with the assistance of the DEG, a German development bank. It will be set up as a separate pool or fund. HDFC will contract with an individual to receive some specified sum. The individual would have to save 40% of this and would then receive a loan for the remaining 60%. The minimum savings period will be 18 months. HDFC will pay 5% on savings and make loans for 7%. A contractual savings scheme would also be open to companies. This scheme assumes that there will be a constant influx of new money from which to make the loans. DEG is providing TA on the scheme and may also provide some amount of seed money to the fund. HDFC will also seek additional seed money from its shareholders and allot money from its reserves.

HDFC long-term loans (up to ten years) have been obtained from the two nationalized insurance companies, the Life Insurance Company (LIC) and the General Insurance Company (GIC) and from eleven Commercial banks.

HDFC also obtained a one-time term loan from the International Finance Corporation in connection with IFC's initial equity investment. It has, of course, also obtained $30 million in loans under the HG Program prior to the current proposal.

HDFC's first bond issue was sold in early 1984 at 12.5%. HDFC was authorized to issue Rs 100 million of bonds at a par value of Rs 5,000. The issue was fully subscribed even though HDFC did not use an underwriter. Maturities range from 1992 (8 years) to 1996 (12 years). The marketability of this issue was to a large extent the result of HDFC's success in obtaining changes in regulations which implement the Indian Trusts Act and the Income Tax Act and its increasing profitability. The effects of thse changes were to permit certain public agencies such as port authorities to buy HDFC bonds and to increase the after-tax yield of such investments. It is particularly noteworthy that HDFC's issue was the first by any financial institution without a government guaranty.

C. OPERATIONAL REVIEW AND ASSESSMENT OF HDFC

From the outset HDFCs operations increase dramatically. The rapid build-up in staff and expansion of branch operations and resource mobilization efforts have enabled HDFC to sustain this increase in its activities. Detailed financial and operational statistics are contained in the latest balance sheet, and profit and loss statement, appended as Annex 5E, and F.

1. Portfolio Analysis:

HDFC was established with a basic objective of encouraging individual homeownership. The number of individual applications received by HDFC from prospective homeowners increased from approximately 1,600 in the first year, FY79, to almost 9,000 in FY81 and to almost 18,000 in FY83. Through the first three-quarters of the current fiscal year almost 12,000 additional applications have been received. HDFC received 55,773 applications for individual loans through January 1984, of which almost 44,000 were approved loans with another 4,300 still under process. Thus, the approval rate is roughly 85%. Approvals for group projects totalled 78 through January, 1984. Fifty-five corporate projects had been approved by that date.

The value of total loans approved grew from Rs 71 million in FY79 to Rs 314 million in FY81, Rs 440 million in FY82 and reached Rs 726 million in FY 83. That represents increases of 40% in FY82 and 65% in FY83. Through January of this year an additional Rs 528 million had been approved for a cumulative total to that point of Rs 2.3 billion ($217 million). This represents the financing of nearly 70,000 units by HDFC through January 1984. Total disbursements amounted to Rs 1.5 billion ($141.5 million).

In terms of HDFC's lower-income clientele, 9% of all units financed for individual ownership during FY83 were for households having monthly incomes under Rs 1,000. Households whose monthly incomes ranged from Rs 1,000 to Rs 2,000 represented 42% of the FY83 units financed. The average loan approved for individuals in these two categories was Rs 20,000 and Rs 29,000, respectively. The percentage of individual borrowers below Rs 1,000/month income on a cumulative basis is 14%, showing a trend toward somewhat higher incomes for individual borrowers. These increases are due to inflation in both costs and incomes.

HDFC corporate has activity reached more lower-income households per Rupee invested than have the individual loan programs. The average income of beneficiaries from this type of financing has been at the Rs 1000/month level. However for FY83 the average income was Rs 1,300, again indicating increasing income levels. Through January 1984, 82% of all corporate program beneficiaries earned under Rs 1,000/month. Significantly, however, the year to date percentage is up to 89%. (A more detailed treatment of beneficiaries is contained in Annex 6E).

In terms of the geographic distribution of HDFC's lending portfolio, there has been a deconcentration of activity. HDFC commenced operations in 1978 with its headquarters 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 of India. With the opening of additional branches in different parts of the country the cumulative breakdown for all loans by value by the end of FY83 was 29% in the south, 12% in the north, 5% in the east and 54% in the west.

2. Financial Analysis

Operations to Date: During the Fiscal Years 1979-1983, total income grew from Rs 3.8 million to Rs 15.1 million, Rs 34.8 million, Rs 84.5 million and Rs 144.6 million, respectively. In HDFC's first year of operations, as it began to build up its portfolio, only 10.5% of its income came from interest in housing loans with nearly 82% coming from investment income and the rest from fees and charges. However, with HDFC's rapid growth in lending activity, by FY81, interest on housing loans contributed 63% of total income while invest- ment income had been reduced to 19%. This shift in the major source of income has continued. FY83 interest on housing loans amounted to Rs 104 million or 72% of total income of Rs 144.6 million. Investment income dropped to only 17% of the total.

Interest expense totalled Rs 87 million in FY83 and the average cost of debt amounted to about 12%. The average return on loans was about 13.5% givir HDFC a positive spread in their loan portfolio of 1.5%.

General and administrative expenses have shown a gradual increase because of the rapid expansion in new branches and staff, reaching Rs 14.3 million in FY83. These expenses are completely covered by fees and charges (amounting to Rs 15 million in FY83) HDFC applies to its processing of loan applications.

Profit after taxes has increased steadily from a modest Rs 600,000 in the first year of operations to Rs 10.7 million in FY81 and Rs 28.9 million in FY83. Dividends were not distributed in the first two years of operations but HDFC declared its first dividend of 5% of par value in FY81. This was followed by dividends of 7.5% in FY82 and 10% in FY83. Declaration of these dividends is important to HDFC as it seeks to demonstrate its financial viability to potential investors and depositors. HDFC's stock trades on the Bombay Stock exchange at slightly below its issue price. The most recent dividend of 10%, represents a rate of return of 11% on current value.

Mobilization of Resources: Certificates of Deposit represent HDFC's largest source of funds. Funds from this source reached Rs 666 million at the end of FY83 and rose further to Rs 873 million ($82.4 million) by December 31, 1983.

The Loan-Linked Deposit Scheme had attracted only Rs 4.7 million through FY 1982-83 and by the end of December the figure stood at only Rs.6.3 million. This relatively poor performance is due to less competitive rates of interest coupled with a lack special incentives for investment (HDFC borrowers need not to be depositers in order to secure a mortgage loan).

As a long-term lender, HDFC is interested in stretching out the average maturity of its liabilities. To this end it must increase its long-term borrowing.

As of December 31, 1983, after 5 1/2 years of operation, term debt stood at Rs 583 million ($55 million) at December 31, 1983. Of this, $20 million was HG funding. At the end of FY81, term debt represented 34% of total debt; this increased to 37% at the end of FY83 and to 40% by December 31. HDFC's first bond issue in March 1984 represents a major step forward in HDFC's long term resource mobilization efforts. Subsequent bonds issues, when coupled with the new HG, will provide a solid long-term basis for HDFC's debt.

Projections for the Future: HDFC makes financial forecasts for a three-year period, based on projections of loan approvals, disbursements and repayments. Projections for FY84-86 are contained in Table 1 which shows that loan approvals are expected to grow by 44.6%, 36.2% and 29.3% in FYs 84, 85 and 86 respectively. This appears to be realistic given HDFC's past and year-to-date performance. Repayment projections are based on the value of loans outstanding and the repayment terms. Disbursements are assumed to remain a constant function of the value of loan approvals. Year-to-date figures indicate that the disbursement assumption may be too low. In the first nine months of FY 84 (July-March) the rate of increase for disbursements was 51%.

Table 1
PROJECTED CASH FLOW STATEMENT

(Million of Rupees)

	1982-83 (Actual)	1983-84	1984-85	1985-86
Sources				
Profit after interest and tax	28.9	36.6	46.8	59.5
Add: Non-cash charges	.2	.1	.2	.2
	29.1	36.7	47.0	59.7
Net increase in deposits	272.0	300.0	300.0	400.0
Increase in term loans/bonds	235.0	400.0	700.0	900.0
Repayment of principal	57.0	93.2	151.6	236.4
Others	-	-	.2	-
TOTAL:	593.1	829.9	1,198.8	1,596.1
USES				
Loan disbursements	478.4	750.0	1,150.0	1,540.0
Net increase in fixed assets	.4	10.0	7.5	7.5
Decrease in term loans	3.5	24.3	4.2	8.4
Net increase in investments	2.2	10.0	10.0	10.0
Dividend	10.0	12.0	14.0	15.0
	494.5	806.3	1,185.7	1,580.9
INCREASE/(DECREASE) in NET CURRENT ASSETS	98.6	23.6	13.1	15.2
Opening NCA balance	84.8	183.4	207.0	220.1
Closing NCA balance	183.4	207.0	220.1	235.3

ASSUMPTIONS FOR THE PROJECTED CASH FLOW STATEMENT

(Million of Rupees)

Years	Sanctions	Disbursement	Repayments
1982-83	725.9	478.4	
1983-84	1,050.0	750.0	93.2
1984-85	1,430.0	1,150.0	151.6
1985-86	1,850.0	1,540.0	236.4

With regard to the mobilization of resources, HDFC attempts to do detailed planning one year into the future and to make assumptions based on continuing sources for the remaining two years. Table 2 contains HDFC projections for the upcoming fiscal year i.e. 1984-85 with regard to net resource mobilization.

Table 2
(Rs in millions)

Deposits	300
Long-term debt	
Commercial banks	200
Bonds	200
Life Insurance Corporation/ General Insurance Corporation	100
Housing Guaranty	200
Repayments	150
	1,150

These projections are based on the following: Lending by commercial banks to HDFC has already been approved by the Reserve Bank of India at Rs.200 million for FY84 and should continue at no less than this level in FY85. Recent discussions with the insurance companies indicate Rs 100 million is forthcoming. This year's response to the HDFC bond issue indicates that HDFC could double this next year. With regard to deposits, HDFC projections called for total deposits to be Rs 1 billion by June 30, 1984. This figure was actually reached in March. It represents a net increase over the end of FY 83 figure of Rs 334 million. Thus, the projected net increase in deposits of Rs.300 million for FY85 appears conservative.

In fact, HDFC intends to concentrate its efforts on increasing individual deposits in FY85 to supplement its corporate and trust deposits. It will do this by employing a large number of agents to sell CDs on a commission basis to obtain a much wider coverage than it has heretofore. To this can be added increased efforts on the Loan Linked Deposit Scheme and the initiative of the German Contract Savings Scheme.

Rounding out the picture will be the $20 million in HG resources. This represents slightly over 17% of the total resources HDFC expects to raise in 1984-85 and 28% of its term-debt resources. The HG is not dominant but does provide the capacity to HDFC to continue its rapid expansion.

3. Assessment of Operations

Monitoring of HDFC's performance is done by the RHUDO through regular visits from Bangkok. With regard to formal evaluation, two financial analyses have been done. The first was done in November 1982 by a savings and loan executive under the auspices of the National Savings and Loan League. The second, a Financial and Mortgage Portfolio Analysis, was done in September 1983 by an analyst from the Federal Home Loan Bank Board. Both gave HDFC high marks and neither identified any significant problem areas. Both noted that although the number of HDFC borrowers who are low-income has increased steadily, the percentage of all borrowers who fall below AID's median income standard has declined. To a great extent, of course, this is attributable to the fact that the income standard had not been increased in step with income inflation in India. Nevertheless, it argues for continuing pressure on HDFC to develop new facilities and projects which will reach low-income households.

On the technical side, a consultant from PADCO prepared an evaluation of HDFC's projects and operations in August 1982. This report confirmed that HDFC's technical operations were sound.

In addition to AID's evaluations, the IFC conducts regular annual supervisory visits to HDFC in connection with its equity investment and loan. These reports have been consistently favorable. They have noted, however, that HDFC needs to make a number of management changes and to review its interest rate policies in order to increase efficiency and profitability.

AID, IFC and HDFC have all made projections of HDFC financial performance. HDFC has substantially met or exceeded all of these forecasts, demonstrating their ability to achieve corporate targets.

4. Problem Areas and Management Response

The 1981 Project Paper cited several improvements which needed to be made in HDFC operations. It noted that the projected growth in lending activities, branching and staffing would require HDFC to rationalize its organization and formalize its policy and procedural guidelines. The IFC had identified similar needs. An additional problem cited was that loan approvals were running ahead of the resources being raised. That is, HDFC was issuing com- mitments which exceeded obligated resources. Thus, special attention had to be focussed on the problem of resources mobilization. Other management needs, noted in connection with the Phase II authorization, were decentralization of authority to the branches and the development of a formalized training program for HDFC's rapidly expanding staff. Finally, both PP's argue for increasing attention by HDFC to lower-income borrowers but recognized that HDFC must remain profitable.

HDFC has made substantial strides in all of these areas. A revised organizational structure is in place which addresses most of these weaknesses. The credit, technical and legal functions have been consolid in an Operations Department. A Finance and Planning Department ha created. A Resource Mobilization Department and a Human Resources Department is being established.

The latter will estabish at the department level the responsibility for all personnel and administration. Through the initial AID grant of $100,000, HDFC has undertaken to set up a formal staff training program. The first formal workshop was held in February-March 1984. A system for recruitment based on projection of future needs is being established. HDFC will take on eight management trainees this year.

On branch operations, progress is slower and delegation is proceeding on a phased basis. HDFC is implementing a "profit center" approach whereby each branch will be responsible for raising resources sufficient to cover its operating expenses. Increased branch authority will be based on individual branch performance. The concept of setting up regional centers for branch operations is being explored.

For the first time, HDFC's mobilization of resources has begun to come abreast of its lending approvals. This has been accomplished in a variety of ways including increased term lending from the commercial banks, increased use of certificates of deposit and the floating of its first bond issue.

With regard to low-income lending, the results are encouraging. HDFC has adopted a low income policy and developed an action plan which is to be updated annually. HDFC continues to seek ways in which it can be more responsive to low-income families, particularly those who may never have had access to formal housing finance.

The most interesting effort in this regard is an experimental program with a voluntary agency in a rural area of Gujarat State. Here HDFC is lending at a slightly subsidized rate to about 400 families whose incomes are as low as Rs.10 per day for housing constructed from impermanent and salvaged materials. People are encouraged to save a small amount each day and deposit it in a local bank once a month for remittance to HDFC. The security for loans on such houses is low, collections are cumbersome and credit appraisal is difficult, so the risk and cost to HDFC is obviously greater than normal. However, it is a useful test of the extent to which HDFC can extend its financing facilities to households who currently rely exclusively on the informal sector.

HDFC, through HDFC Developers, is exploring the possibility of a joint venture with a charitable trust on the trust's land to develop a large-scale project of low-income housing. The project will also include upgrading the housing and related infrastructure of squatters already living on a portion of the land.

HDFC has recently been approached by and is considering working with the Housing and Urban Development Corporation (HUDCO) to develop a project serving low-income families for the United Nation's Year of the Homeless in 1987.

These examples demonstrate HDFC's commitment to seek innovative approaches to expand its services to lower-income families.

5. Special Achievements

Among the factors contributing to HDFC's success has been the ability to obtain important concessions from the government. In an economy such as India's where the government plays a large role, particularly in the financial sector, it is crucial for a private sector institution such as HDFC to be able to create a favorable legal and policy environment for itself. Most noteworthy among such achievements by HDFC have been the following:

(1) Being given trustee status, thereby permitting charitable and other trusts to deposit money with HDFC.

(2) Amendments to the income tax law to exempt trusts from taxation on interest earnings on HDFC deposits.

(3) Obtaining from the Reserve Bank of India an HDFC allocation for a portion of the commercial banks' lending which must go for housing.

(4) Obtaining permission under the Companies Act to advertise for deposits.

(5) Obtaining approval from the Ministry of Finance for a bond issue, the first such issue by a private financial institution without a government guaranty.

6. Conclusions

HDFC has expanded as a private instituion into a sector where government institutions play a dominant role. It has done this successfully by expanding rapidly, operating at market rates and earning a reasonable profit. It has reached low-income families through on even-handed approach and some imaginative schemes.

In the larger context, HDFC is contributing to the broader expansion of capital markets as a private sector intermediary, transforming savings into long-term investments in housing, issuing its stock in the Bombay Stock exchange and, most recently, successfully issuing its bonds without guaranty.

AID can take some of the credit for this success as a result of it capital contributions and its technical assistance to strengthen HDFC's management and staff capabilities. As HDFC moves into its next phase of expansion by increasing its lending operations and opening new branches it will become increasingly more national in scope. HDFC's intent is to continue efforts to broaden its appeal to lower-income households through both new deposit schemes such as the contract savings plan and through lending for activities such as rural housing program and large-scale, low-cost project

For the next several years additional inputs of HG resources can help speed this process while giving AID sufficient access to HDFC's policy development process to insure that the corporation continues its efforts to serve lower-income households.

D. SOCIAL ANALYSIS SUMMARY

The Social Soundness Analysis which provides background on the socio-cultural context and social analysis of the program is included as Annex 6E. Summarized here are findings relevant to beneficiaries and women in development, issues raised in the PID approval cable.

1. HDFC Beneficiaries

AID has recently undertaken studies of the beneficiaries of both HDFC's individual and corporate housing programs. In the study of individual borrowers, only HG-eligible households were included while in the corporate housing research, the general features of all beneficiaries of the programs of four employers were examined.

The individual borrower analysis showed that roughly 18% of HDFC's approvals for individual borrowers during 1983 were given to households with incomes below the median. The typical low-income borrower was male or a male with a male co-borrower (82%) and came from a household with a monthly income between Rs 801 and Rs 1,200. Fourty-four percent of HDFC's low-income clients had monthly incomes between Rs 1,001 and Rs 1,200, 40% were between Rs 801 and Rs 1,000 and 16% had incomes less than Rs 801. These figures indicate the considerable success HDFC has had in reaching households across a wide range of incomes and the depth of the effective demand for housing in urban India.

A large proportion (78%) of low-income borrowers purchased units valued at less than Rs 1,500 M^2 ($13/sq.ft) of floor area. Higher costs in cities such as Bombay and Dadar are largely attributable to site costs. Two-thirds of the units were no larger than 50 M^2. Thus, the value of most of the units purchased by these households was less than Rs 75,000.

Fourty-six percent of low-income borrowers devoted 26 to 30% of their household incomes to the amortization of their loans. An equal number paid between 21 and 25%. The balance paid less than 21%. The relatively high proportions of income which borrowers are budgeting for housing indicates both their great need for housing and HDFC's confidence in the creditworthiness of their low-income clients. This last conclusion was confirmed by an analysis done by the Federal Home Loan Bank Board in September, 1983 which showed that the delinquency rate on HDFC's loans was very low and that there was no significant correlation between income levels and HDFC loan rejections nor between income levels and delinquences.

In the survey of corporate housing projects (see Annex 6G) a somewhat different picture emerges, partly as a consequence of the different approaches taken in the two studies. Eighty-three percent of the workers studied were between 22 and 30 years old and 85% were married. The weighted average household size was 3.25 persons as compared with 5.2 persons per household for all of India. Fourty-seven percent had dependents who resided in their community of origin rather than with the borrower. This may help explain why only 20%

of the surveyed employees indicated an interest in purchasing an employer-provided unit. With respect to one of the employers (a plantation), however, a better explanation is that since the law requires that all employees be provided housing for free, there could be little incentive to purchase. Units provided by the four employers studied were almost always smaller than 30 M^2. Two of the employers provided rent allowances to employees who did not receive employer-provided housing, but those employees were frequently disadvantaged by long commute requirements because housing close to their jobs was frequently unavailable. Moreover, sewage, water and electrical service to employer - provided units tended to make them much more attractive as dwellings. In addition to housing benefits, three-fourths of the employees surveyed received salary increases of at least 20% as an additional inducement to relocation, indicating the bargaining power of employees willing to relocate even in India's job-poor economy.

In summary, the studies of HDFC beneficiaries undertaken in conjunction with this Project Paper support the following conclusions:

(a) HDFC experience has demonstrated that many lower-income households can afford unsubsidized housing financed by the private sector;

(b) HDFC has been able to consistently increase the number of lower-income households served by its loan programs;

(c) Possible problems with employer-provided housing such as those associated with "company towns" in the U.S. have not materialized.

2. Impact on Women

HDFC is committed to equal opportunity in terms of its lending and employment 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. Women also occupy key HDFC positions.

In summary, women face no formal barriers in either the loan application procedures or in the employment practices of HDFC.

E. PROGRAM FINANCIAL ANALYSIS

One of the central objectives of this project is to stimulate the expansion of the formal private housing finance sector in which HDFC is currently the only specialized actor. It is accordingly necessary to consider the l... of effective demand for HDFC's financing facilities among households at a range of income levels. In view of AID's statutory confinement to households with incomes below the median, the feasibility of AID participation will depend upon the depth of effective demand given present market conditions.

The approved PID describes the methodology employed to establish median household income levels for Bombay (Rs 1,778) and all other urban areas (Rs.1,403). Assuming that a household at the 1983 Bombay median can afford to spend 30% of its gross income on amortization, such a household borrowing at a fixed rate of 13% for a term of 13 years (typical of HDFC loans) could afford a loan of roughly Rs 40,000. In other urban areas the comparable amount would be Rs 32,000.

The propensity of households in India to devote a high percentage of household incomes to savings (approximately 25%) means that a potential home purchaser is likely to bring a considerable cash resource to such transactions. While there is no conclusive statistical basis for an assumption that low-income households save at the same rate as others, there is unanimous anecdotal evidence that all but the poorest families make great consumption sacrifices in order to accumulate savings. These savings are frequently held in the form of personal property such as jewelry rather than cash. It is not surprising, then, that studies of households in several Indian cities indicate that, on the average, more than half of household investment for housing came from personal assets*. Other sources are also frequently available, including unsecured loans from family and friends, provident funds and borrowings from indigenous money-lenders. Thus, the typical HDFC client can be expected to borrow less than half the purchase price of his/her home. Assuming 40% formal sector financing, .3 income to payments ratio, 13 year loan terms and 13% interest, Table 3 shows hypothetical purchase prices for households at 60, 80, and 100% of the median income level for Bombay and other urban areas.

TABLE 3

Affordable Purchase Price for Median and Below-Median Income Housholds:

	Median	80% of Median	60% of Median
Bombay	Rs 100,000	Rs 80,000	Rs 60,000
Other Urban	Rs 79,000	Rs 63,000	Rs 48,000

Whether these expenditure capacities are adequate to create effective demand by lower-income households is, of course, a question of prevailing house prices. As has been noted in the Social Analysis, most lower-income HDFC borrowers pay less than Rs 75,000 for their homes. At the prevailing rate of Rs.1500 M^2, including site costs, this amount would, on the average, produce a 50 M^2 (540 square foot) unit. At 40 square meters, the purchase price would be on the order of Rs 60,000 which would be affordable at 60% of the Bombay median and 80% of the other urban median.

While these generalized calculations do not describe the reality of particular projects on particular sites or actual households, they do help to explain what is shown forcefully by HDFC's actual experience which is that it is feasible from a financial and a market standpoint for HDFC to make unsubsidized loans to lower-income households without ignoring either profit or prudence.

F. PROGRAM ECONOMIC ANALYSIS

An analysis of the proposed project from the standpoint of economic efficiency must consider whether it is the most cost-effective means of achieving the project's proposed goals. If so, a second consideration should be whether the repayment burden incurred as a consequence of the proposed loan guaranty will be manageable from the standpoint of the Indian guarantor and the economy as a whole.

With respect to the first of these issues, the initial question should be what other approaches might achieve the same goals. Among the options is to have no HG program in India, on the theory that the unassisted development of the housing sector will produce most of the benefits anticipated from a HG investment. Although the competence with which the managers of HDFC execute their responsibilities makes this option something more than a straw man, the history of AID's relationship with that organization make it untenable for a couple of reasons.

In the first place, HDFC owes its shareholders the duty to earn the highest returns consistent with reasonable levels of risk. There is acordingly a fair amount of pressure on management to minimize the extent to which their portfolio becomes socially oriented. AID participation in HDFC's resource pool and its provision of technical assistance provide a business rationale for programs targetted to lower-income households. At some point, of course, HDFC will have a sufficient operating history with a variety of financing facilities to be able to demonstrate the profitability of serving that market segment. AID support may then be less important from a policy perspective.

Secondly, projected HDFC resources, exclusive of HG loans, will not be adequate to allow the rate of expansion warranted by projected levels of demand. Thus, disapproval of the project proposed here would reduce the number of units to be financed in FY84-85 by about 8,000 and the amount of other capital leveraged by roughly $50 million. This assumes .40 loan-to-value ratios (consistent with HDFC experience) and that AID's contribution could not be obtained from other sources which would otherwise not be invested in housing.

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* Lall, Vinay D. Some Aspects of Economics of Housing in India. The Times Research Foundation, 1982. pp 74-76.

Put generally, then, the no-project option is not desirable because it is not possible to achieve any significant portion of the purposes of the program without some kind of housing sector investment. A more substantial question is whether the option proposed here of a HG loan to HDFC is the most efficient vehicle for achieving AID aims in India. Three other possibilities are worth considering:

(1) Guarantee of loans to HUDCO.

It is difficult to compare HUDCO efficiencies with those of HDFC because HUDCO does not provide housing finance directly to housing consumers and because it makes no attempt to operate market rate programs designed to make a profit from the satisfaction of effective demand. Because HUDCO capital is provided at subsidized rates, there is much less than full recapture and recycling of loaned funds. Therefore, continuous subsidized capital inputs are required to keep HUDCO operational. It would, of course, be possible to use HUDCO as the administrative entity for a market rate program similar to HDFC's or to allow them to blend AID capital with their other sources in order to expand their lendable resources. However, HUDCO does not currently have the administrative capacity to operate a retail lending program and its program operating agents (mostly state housing boards) have been somewhat disappointing in their efforts to administer HUDCO programs. Moreover, providing funds to HUDCO would do nothing to strengthen the private housing finance sector or to create a constituency for rationalization of the housing market.

(2) Guarantee of loans to LIC.

The Life Insurance Corporation of India has several programs through which it provides direct loans to policy holders and employees from more than 800 branches throughout India. One scheme, which is generally comparable to HDFC's individual loan programs is LIC's "Own-Your-Home" (OYH) program. In FY 83, LIC approved 1,215 OYH loans in the total principle amount of Rs.61.3 million. The average loan was approximately Rs 50,500. In a similar scheme for its own employees, LIC's average loan was Rs 60,000. This compares with the HDFC average of Rs 40,000. Thus, in terms of housing units produced per Rupee loaned, HDFC is about 25% more efficient than LIC's best efforts in similar programs. Because LIC's lending criteria (13% interest, 15 year terms, .70 loan-to-value ratio) are no less stringent than those of HDFC, the average loan comparison also indicates that LIC is serving higher income borrowers than HDFC since a Rs 50 - 60,000 loan obviously requires a much greater amortization capacity than a Rs 40,000 loan. In addition, LIC is a nationalized company so that it stands in no better place than HUDCO in terms of the objective of strengthening the private house finance community.

(3) Guarantee of loans to one or more apex housing cooperatives.

The possibility of using one or more cooperatives as borrowers in an India HG program has somewhat more appeal than the LIC and HUDCO options. Although apex cooperatives vary greatly in their levels of activity, the most productive societies are competitive with HDFC in their use of capital. For example, the average loan of the Gujurat State Cooperative Housing Finance Society (the biggest of the apex societies) is about Rs 25,000, or Rs 15,000 less than HDFC. In addition, the clients of cooperatives appear, on the whole, to have lower incomes than HDFC. Unfortunately, however, serious problems in loan collections, as evidenced by delinquency rates over 25% in the largest apex societies, along with other management weaknesses, mean that any AID involvement with these organizatons ought to be preceded by a good deal of analysis of what is needed to permit AID to guarantee loans to them within ordinary standards of prudence. It is likely that technical assistance would be required in advance to any agreement on an HG program. Thus, although, cooperatives could conceivably prove to be as economically efficient as HDFC, their management problems currently preclude such a judgement, but argue for serious attention to an evaluation of them as potential borrowers following a period of management development encouraged by technical assistance.

The second consideration, that of debt service capability. The analysis in Annex 7 shows that the $20 million HG loan would be advantageous to India's debt situation if a GOI institution is the effective borrower. The interest charge will be less than for funds it would otherwise borrow from commercial sources in the coming year. The underlying premise in making such a guarantee is that India will continue to show discipline in borrowing from international capital markets and coincidentally continue to maintain its excellent credit rating.

IV. PROGRAM IMPLEMENTATION, MONITORING AND EVALUATION

A. BORROWING PROCEDURES

HDFC will be the implementing institution and borrower of record for the HG loan. A government-owned bank will guaranty the borrowings. Detailed procedures have yet to be determined. One option is that HDFC will be the borrower of record in the U.S. and that the dollars will be converted to Rupees by the Reserve Bank of India. The Bank will guaranty the availability of dollars for repayment and HDFC will obtain a guaranty of the loan in favor of AID from one of the government-owned commercial banks.

Prior to seeking a U.S. lender HDFC will submit to AID a written proposal which includes the India entities and their roles in the borrowing process. AID's agreement shall be forwarded in writing to HDFC prior to entering the U.S. capital market for a HG borrowing.

B. PROJECT PLANNING, APPROVALS AND DISBURSEMENT

HDFC, using its normal lending procedures, will approve and disburse loans to individuals, associations of individuals, and corporate bodies for the purchase of housing. HDFC will process all applications in accordance with established procedures.

Once applications have been approved, it may seek reimbursement from HG sources for loans to those borrowers whose household incomes do not exceed the urban median.

Loans disbursed by HDFC after May 1, 1984 to individuals in the target group may be eligible for reimbursement under HG-002.

AID, through its Regional Housing and Urban Development Office (RHUDO) in Bangkok, will identify those portions of HDFC-approved "corporate loans" for worker housing which may be considered eligible for HG reimbursement. That portion of any corporate loan eligible for the HG program will be computed by multiplying the number of units constructed for below-median-income households, times unit costs, times the HDFC loan-to-cost ratio for that project (usually around 50%). In any one project, of course, the HG amount will represent only a portion of the total project investment, which often includes funds for an array of community facilities as well as non-eligible units. Corporate loans approved by AID as eligible for disbursement under HG-001 but not disbursed under HG-001 will be eligible for HG-002 reimbursement. However all such reimbursements will be subject to the limit that not more than 44% of HG-002 proceeds can be used to finance such employer-provided housing.

In addition, RHUDO will approve loans sanctioned by HDFC through its individual group, line of credit or corporate, or other programs which will be eligible for disbursement as special low income initiatives which demonstrate efforts to serve progressively lower income groups. At least 15% of any HG disbursement must be for loans made as AID approved special initiatives.

For both special initiatives and corporate projects, Project Implementation Letters shall define the name of the sub-project and amount of the loan eligible for HG refinancing. Projects proposed in HDFC's Low-Income Action Plan will be eligible under the special initiatives category by virture of AID's approval of the Plan.

The planning and approval of projects will be done in contemplation of the stated objective of HDFC to provide "long term finance to middle and lower - income individuals, associations of individuals... for housing in India, and to promote home ownership". AID's Office of Housing and Urban Development has had a continuing dialogue with HDFC with the aim of encouraging a more active pursuit of lower-income borrowers. Continued active pursuit and updating of HDFC's Low-Income Action Plan will help to insure that the planning and approval of projects is guided by policies which, within the limits of prudence, encourage attention to the shelter needs of the target population.

HDFC files and reports will provide evidence of the eligibility of beneficiaries. In addition AID will conduct periodic surveys of HDFC disbursements to individuals in the target group. RHUDO/Bangkok will monitor the project.

Borrowing and disbursement of the first tranche of $20 million is projected for the second quarter of 1985.

C. CONDITIONS AND COVENANTS

The Conditions Precedent for the initial $20 million HG will be the following:

1. Condition Precedent: Prior to seeking a U.S. investor, for any amount pursuant to the Project Authorization, HDFC shall adopt, in a form satisfactory to AID, an updated Low-income Action Plan which shall describe in detail its plans, including, where practicable, measurable objectives and timetables, for increasing the extent to which it provides benefits to lower-income households.

The reason for this condition is to insure that in addition to conforming to the requirement that all HG beneficiary households have income below the median, HDFC will look more generally at what it can do to provide housing to an increasingly lower-income clientele.

2. Condition Precedent: Prior to seeking a U.S., investor for any amounts pursuant to the Project Authorization, HDFC shall permit and assist AID or its agents to conduct a study using HDFC files, reports or other information available from HDFC to determine the current percentage of HDFC resources which are disbursed to households having incomes below the median urban income levels prescribed by AID and to determine the current percentage of HDFC's clients comprised by such households.

The reason for this condition is to determine the extent to which actual current HDFC disbursements as opposed to loan approvals, are benefitting HG eligible households.

3. Condition Precedent: Prior to seeking a U.S. Investor for any funds pursuant to this Project Authorization, AID and HDFC shall agree in writing to the process by which loan funds guaranteed pursuant hereto shall be guaranteed and disbursed to HDFC. That agreement shall specify to the satisfaction of both parties hereto at least the following:

(a) The allocation of foreign exchange risk;

(b) The entity other than AID that will guaranty payment of the loans;

(c) The borrower of record and any entities having authority to receive, hold, use or disburse the proceeds of AID guaranteed loans.

4. Condition Precedent: Prior to disbursement of any amounts pursuant to this Project Authorization, HDFC shall demonstrate to the satisfaction of AID that no more than 44% of all amounts actually disbursed shall be applied to loans designated as "corporate loans" which do not result in individual ownership.

The reason for this condition is to implement the direction provided in the PID guidance cable (Annex 1).

5. Condition Precedent: Prior to disbursement of any amounts pursuant to this Project Authorization, HDFC shall demonstrate to the satisfaction of AID that no less than 15% of the HG loan amounts to be disbursed shall be applied to special low income initiatives agreed to in writing by AID and designed to reach progressively lower-income borrowers.

The reason for this condition is to insure continuing efforts on the part of HDFC to develop new programs and financing facilities which will benefit households having the lowest incomes practicable, consistent with lending prudence and a fair return to HDFC.

In addition a covenant will be included in the Implementation Agreement which will require HDFC to obtain, from each corporation for which it will seek HG loan reimbursement, a statement of the corporation's housing policy and terms and conditions under which workers receive housing. This covenant is included so that AID may have a clearer understanding of the variety of private corporate policies presently in effect and to insure that there are no undue burdens or restaints placed on workers who receive the housing.

D. AID MANAGEMENT

Management and administration of this project will be the responsibility of RHUDO/Bangkok and will be accomplished through periodic visits to Bombay, Delhi and selected 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 designate one person as the contact for this project who, where desired, may accompany RHUDO staff for field review of the project at HDFC offices and project sites. The proposed resident advisor will be responsible to the RHUDO; work plans and priorities will be mutually agreed upon by RHUDO and USAID.

Summission 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 be the responsibility of RHUDO. However, the Mission will make all policy decisions, following consideration of the recommendations of RHUDO.

E. PROGRAM MONITORING AND EVALUATION

The HDFC management reporting system is based upon a monthly operations report which displays essential characteristics of its borrowers and loans, including mean loan amounts, status of applications received, loan approvals and disbursements by region, distribution of borrowers by income group, size of shelter units approved and other factors. In addition, HDFC will make such information available with respect to the class of its borrowers who are HG beneficiaries. RHUDO will visit Bombay, Delhi, and project sites to review program progress, and will prepare trip reports with copies to USAID/Delhi.

RHUDO and HDFC will prepare a detailed monitoring plan which will include the dates of visits to India, places of visit, and the general nature of the monitoring to be accomplished during these visits. Information copies will be provided to USAID/Delhi. The project will not require site visits by the Mission's engineer.

Program evaluation will take place on a periodic basis. The first program evaluation will take place one year following the signing of the Implementation Agreement. RHUDO will be responsible for this evaluation. However, it will be conducted jointly with HDFC, which will provide necessary staff support and information. This evaluation will concentrate primarily upon:

1. Progress towards the objectives in the Logical Framework.

2. Major accomplishments of the program and assessment of implementaion of HDFC's Low-Income Policy and Action Plan.

3. Major problems in the program and corrective actions to be taken by HDFC and RHUDO.

4. Recommendations and/or expectations for the next year.

F. AUTHORIZATION IN PHASES

This $60 million program will be authorized in three phases. $20 million will be authorized in 1984 following approval of this project paper. Prior to recommending subsequent tranches for authorization an evaluation of the program to date and a Program Memorandum will be prepared.

G. 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 and after all Conditions Precedent have been met, HDFC will seek guidance from its guarantor and investment advisor on the best time to enter the capital market. 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, to the extent permitted by AID policy, and will encourage U.S. lenders to participate in the program.

The contracts to be executed into in connection with this project 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 participating Indian bank.

H. PROGRAM IMPLEMENTATION SCHEDULE

CY 1984

Second Quarter

1. Authorization for HG $20 million for HDFC Phase I HG-002 signed.
2. Letter of Advice issued

Third Quarter

1. Draft Implementation Agreement prepared for review.
2. HDFC completes adaptation of IFE training programs.
3. Draft Project Delivery Plan prepared by HDFC.
4. Approvals obtained for Resident Advisor and PIO/T issued.
5. HDFC updates Low Income Action Plan.
6. HDFC technical staff go for short term training in U.S.

Fourth Quarter

1. Implementation Agreement signed.
2. Resident Advisor in place and completes one short term housing finance study.
3. Project Delivery Plan Approved.

CY 1985

First Quarter

1. Resident Advisor completes survey of HDFC disbursements.
2. AID Certifies compliance of all CP's.
3. External consultant completes report on HDFC staff appraisal system and completes related training sessions.
4. HDFC seeks U.S. Investor.

Second Quarter

1. HG loan and Guaranty Agreements negotiated and signed.
2. Loan fully disbursed to HDFC.
3. HDFC staff attends Shelter Workshop.
4. Resident Advisor completes one short-term study.

Third Quarter

1. HDFC prepares updated Low Income Action Plan.
2. HDFC Management Trainee Program for potential Officers in place.
3. HDFC second corporate-wide human resource development training session held.
4. Resident Advisor completes one short-term study.

Fourth Quarter

1. Evaluation of Phase I completed.
2. Resident Advisor completes one short-term study and prepares interim summary of activites and identifies priority activities for next year.

<u>CY 1986</u>

First Quarter

1. Preparation of Project Memorandum for Authorization of Phase II.
2. Resident Advisor completes one short-term study.

Second Quarter.

1. Authorization for HG $20 million HG-002 Phase II signed and Letter of Advice issued.
2. Resident Advisor completes one short-term study.
3. Implementation Agreement drafted for review

Third Quarter

1. CP's for Phasee II met.
2. Borrower seeks U.S. investor.
3. HG loan and Guaranty Agreements negotiated and signed.
4. Resident Advisor completes final short-term study.

Fourth Quarter

1. HG Phase II disbursed.
2. Resident Advisor completes summary Report. Contact ends.

<u>CY 1987</u>

1. Evaluation of HG Phase II.

CY 1988

1. Preparation of Project Memorandum for Phase III.
2. Authorization Signed and Letter of Advice issued.
3. Implementation Agreement signed.

CY 1989

1. Loan and Guaranty Agreements signed
2. HG Phase III disbursed.
3. Project Completion Date 6/30/89.
4. Final Evaluation of HG-002.

TABLE OF ANNEXES

(09) ACTION AID4 INFO AMB DCM2 ECON CHRON

VZCZCFSA435ESC185
PP RUMTBK
DE RUEHC #0910/01 0701012
ZNR UUUUU ZZH
P 100557Z MAR 84
FM SECSTATE WASHDC
TO RUEHNE/AMEMBASSY NEW DELHI PRIORITY 7189
INFO RUMTBK/AMEMBASSY BANGKOK PRIORITY 4680-01
BT
UNCLAS STATE 070910

LOC: 96 080
10 MAR 84 1013
CN: 24556
CHRG: AID
DIST: AID

C&R RECEIVED

12 MAR 1984

AIDAC BANGKOK FOR RHUDO

E.O. 12356: N/A
TAGS:
SUBJECT: PRIVATE HOUSING FINANCE FOR LOW INCOME FAMILIES PID (386-HG-002)

REFERENCE: A. NEW DELHI 02363; B. STATE 026635

1. SUMMARY. PID IS APPROVED FOR DEVELOPMENT OF PP. ASIA BUREAU HOWEVER REQUESTS MISSION LIMIT OUR INVOLVEMENT IN CORPORATE HOUSINGRENTAL PROGRAM TO ITS PRESENT PROPORTIONATE LEVEL AND INCREASE INVOLVEMENT IN LOCAL SAVINGS MOBILIZATION, MANAGEMENT IMPROVEMENT AND LOW INCOME SHELTER PROGRAM. END SUMMARY.

2. IN ACCORDANCE WITH ASIA BUREAU EXPERIMENT THE FOLLOWING COMMENTS ARE ORGANIZED IN (A) ISSUES CONSIDERED CRITICAL TO APPROVAL OF PROJECT (B) ISSUES ON WHICH WE WOULD LIKE ADDITIONAL INFORMATION OR DIALOGUE WITH THE MISSION AND (C) SUGGESTIONS FOR DESIGN OF PROJECT.

A. CORPORATE HOUSING PROGRAM. BUREAU REVIEWED IMPORTANCE OF CORPORATE HOUSING PROGRAM TO HDFC'S INSTITUTIONAL RESERVES AND IMPORTANCE OF THIS PROGRAM TO GOI INDUSTRIALIZATION PROGRAM. APPROPRIATENESS OF THIS PROGRAM TO AID HG ACTIVITIES WAS EXAMINED AS WELL AS APPARENTLY POSITIVE IMPACT ON AVAILABILITY OF LOW INCOME HOUSING. NEVERTHELESS, SINCE A MAJOR OBJECTIVE OF THE SHELTER PROGRAM IS HOME OWNERSHIP, WE CONCLUDED THAT MISSION SHOULD LIMIT AID INVOLVEMENT IN HDFC CORPORATE PROGRAM FOR WORKER RENTAL HOUSINGTO ITS PRESENT PROPORTIONATE LEVEL WHICH PID IDENTIFIED AS 44 PERCENT OF HG FINANCING. AID'S RESOURCES SHOULD BE FOCUSED IN FOLLOWING AREAS: LOCAL RESOURCE MOBILIZATION, IMPROVING HDFC MANAGEMENT CAPABILITY, AND LOW INCOME HOME OWNERSHIP PROGRAMS. EVEN THOUGH WE ARE LIMITING AID INVOLVEMENT, WE ENCOURAGE MISSION NEVERTHELESS TO CONDUCT PLANNED REVIEW OF THE SOCIO-CULTURAL CONTEXT OF THE CORPORATE HOUSING RENTAL SCHEMES INDICATED REF A TO DETERMINE BENEFICIARY IMPACT AND ANSWER OTHER QUESTIONS RAISED IN REF B.

DISTRIBUTION

ACT		INFO
	D	✓
	DD	
	EXO	
	O/FIN	
	O/PRO	
	O/PES	
	O/PE	
	O/ARD	
	O/HPN	
	O/HRT	
	O/RCH	
✓	O/RHUD	
	OTEC	
	EMB	
	C&R	✓

B. THERE WERE NO B LEVEL ISSUES DISCUSSED AT APAC.

C. ADDITIONAL COMMENTS AND SUGGESTIONS RAISED DURING THE PROJECT REVIEWS ARE PRESENTED FOR DEVELOPMENT OF PP AS APPROPRIATE.

3. LOCAL RESOURCE MOBILIZATION. BUREAU ENCOURAGES MISSION DEVELOPMENT OF GREATER SUPPORT FOR LOCAL SAVINGS MOBILIZATION ACTIVITIES AND FURTHER ELABORATION OF POLICY FRAMEWORK TO ENCOURAGE CONTINUED DEVELOPMENT. PP SHOULD FULLY DESCRIBE HDFC PLAN FOR LOCAL SAVINGS MOBILIZATION INCLUDING MOBILIZATION OF SAVINGS FROM HOUSEHOLDS, INSTITUTIONS AND CORPORATE SECTORS, AND EXPLAIN BRANCH OFFICE SCHEMES AND GROUP/ORGANIZATION PLANS. PP SHOULD ALSO DESCRIBE WHAT IS NECESSARY TO SUPPORT LOCAL SAVINGS MOBILIZATION PROGRAM AND WHAT TECHNICAL-ASSISTANCE, TRAINING AND OTHER RESOURCES WILL BE PROVIDED.

4. MANAGEMENT CAPABILITY. IN OUR VIEW, EXPANSION OF HDFC OPERATIONS, EMPHASIS ON LOW INCOME OWNERSHIP PROGRAM, LOCAL SAVINGS MOBILIZATION AND INCREASES IN NUMBER OF LOANS SANCTIONED WILL PLACE SIGNIFICANT MANAGEMENT BURDEN ON HDFC. WE SUGGEST MISSION DESCRIBE IN PP HOW MANAGEMENT CAPABILITIES WILL BE IMPROVED AND LIST THESE ACTIVITIES AS PROJECT OUTPUTS.

5. TECHNICAL ASSISTANCE. TECHNICAL ASSISTANCE, TRAINING AND GRANT FUNDS APPEAR TO BE INSUFFICIENT TO SUPPORT DOLS 60.0 MILLION PROJECT AND LEVEL OF DEVELOPMENT ACTIVITIES PROPOSED IN PID. WE DISCUSSED POSSIBILITY OF JOINT PRE/H AND MISSION FUNDING FOR TECHNICAL ASSISTANCE AND TRAINING ACTIVITIES. WE ENCOURAGE MISSION AND RHUDO BANGKOK EXPLORE WAYS TO INCREASE GRANT FUNDING AND INCREASE AMOUNT OF TA AND TRAINING RESOURCES PROVIDED TO THIS PROJECT. WE SUGGEST MISSION MIGHT IDENTIFY TRAINING GRANT FUNDS UNDER DEVELOPMENT AND MANAGEMENT TRAINING PROJECT (386-0487) TO HELP ALLEVIATESHORTAGE INTHESE AREAS. PRE/H WILL AGAIN REVIEW POSSIBILITIES FOR INCREASED GRANT FUNDING WITHIN WORLDWIDE HG BUDGET.

6. PARTICIPATION OF WOMEN IN HDFC PROGRAM. REQUEST MISSION REVIEW HDFC PROCEDURES AND REGULATIONS TO DETERMINE IF THERE ARE ANY FORMAL BARRIERS TO PARTICIPATION IN HDFC LOANS BY FEMALE HEADS OF HOUSEHOLDS. PLEASE COMMENT ON THIS REVIEW IN PP.

7. TARGETING. WE DISCUSSED THE NEED FOR CLEARER UNDERSTANDING OF INDIA'S SHELTER SECTOR AND OF POTENTIAL
BT

Best Available Document

BENEFICIARIES. WHILE IT MAY NOT BE POSSIBLE TO CARRY OUT A FULL-SCALE SHELTER SECTOR ASSESSMENT, THE PP SHOULD IDENTIFY A SET OF KEY STUDIES WHICH WILL BE CARRIED OUTIN ORDER TO PROVIDE THE BASIS FOR FUTURE HG PROGRAMMING, TO IMPROVE LOW-INCOME TARGETING, AND TO IDENTIFY ADDITIONAL CHANNELS FOR HG-BACKED SHELTER ASSISTANCE. ACTUAL BENEFICIARY SURVEYS SHOULD BE CONDUCTED AS PART OF THIS EXERCISE TO HELP INSURE THAT HG RESOURCES ARE DIRECTED TOWARD THE LOWEST PRACTICABLE INCOME GROUPS.

8. DEBT SERVICE AND CREDIT WORTHINESS. APAC DISCUSSED DEBT SERVICE ANDCREDIT WORTHINESS CONCERNS AND WHILE MISSION SHOULD PRESENT THOROUGH ANALYSIS OF THESE ISSUES IN PP, THEY WERE NOT CONSIDERED CRUCIAL TO PID APPROVAL. SHULTZ
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THE HOUSING GUARANTY PROGRAM
DRAFT
STATUTORY CHECKLIST

PROJECT NO. 386-HG-002

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

(2) is intended to assist in marshalling resources for low-cost housing; — YES

(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

(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

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, 1985? — YES

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

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(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

(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? — [redacted] NA

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 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared: ________

Project Title & Number: ________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targets:
To develop a fully functioning private housing finance system which raises its capital internally and which makes long-term shelter finance available to households with a wide range of income levels, including lower-income households.	1. Increase in amount of formal private sector investment in housing. 2. Increase in percent of all formal sector investment in housing which is private. 3. Increase in percent of all housing finance which is from formal private sector. 4. Increased availability of affordable financing to lower-income households.	1. Historical comparison of annual reports for HDFC. If other private sector institutions are created, comparison of totals from annual reports in the year of operation with totals from previous years. 2. Determine total formal sector investment from LIC, GIC, HUDCO, Commercial banks, etc. annual reports. Compare with (1) above on a year-to-year basis. 3. Determine number of lower-income households served by HDFC & compare on a year to year basis.	1. Continuing regulatory and po accommodation by GOI. 2. Continuing availability of l and building materials at pr which do not inflate at a ra greatly in excess of wages.

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ANNEX 3

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

AID 1020-28 (7-71)
SUPPLEMENT 1

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY ______ to FY ____
Total U.S. Funding ______
Date Prepared: ______

Project Title & Number: ______

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIC
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targ-
To develop a fully functioning private housing finance system which raises its capital internally and which makes long-term shelter finance available to households with a wide range of income levels, including lower-income households.	1. Increase in amount of formal private sector investment in housing. 2. Increase in percent of all formal sector investment in housing which is private. 3. Increase in percent of all housing finance which is from formal private sector. 4. Increased availability of affordable financing to lower-income households.	1. Historical comparison of annual reports for HDFC. If other private sector institutions are created, comparison of totals from annual reports in the year of operation with totals from previous years. 2. Determine total formal sector investment from LIC, GIC, HUDCO, Commercial banks, etc. annual reports. Compare with (1) above on a year-to-year basis. 3. Determine number of lower-income households served by HDFC & compare on a year to year basis.	1. Continuing regulatory a accommodation by GOI. 2. Continuing availability and building materials which do not inflate at greatly in excess of wa

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AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ________ to FY ________
Total U.S. Funding ________
Date Prepared: ________
PAG

Project Title & Number: Private Housing Finance for Low Income Families (386-HG-002)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs: (C-1)	Magnitude of Outputs: (C-2)	(C-3)	Assumptions for achieving outputs: (C-4)
1. Increased number of lower income units financed annually by the formal private sector.	1. 10% annual increase in number of loans made to lower income households by HDFC.	1. Program monitoring and evaluation.	1. Continued efficient operation of HDFC.
2. Expanded private sector operations, both in terms of locations served and loan applications approved.	2. HDFC opens 1 new office every 18 months and a 30% annual increase in value of loans sanctioned.	2. HDFC records.	2. Continued GOI support of HDFC
3. Increased locally generated resources available for private sector housing finance activities.	3. HG resources represent a decreasing percentage of HDFC's long term capital requirements. Targets Phase I 30% Phase II 20% Phase III 10%	3. RA reports.	
4. Provision of housing finance in newly-developing areas to support the development dispersion strategy of the GOI.	4. Not less than 15% of HG loan amounts sanctioned by HDFC will be used for special low income initiatives		
5. Increased opportunities for homeownership.	5. No less than 80% of HDFC ... ewly-		
6. Enhanced institutional and management capability of HDFC.	6 ... IG ... ership		
	7 ... ing specific ... C staff.		
	8 ... lementation.		

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AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY ________
Total U.S. Funding_
Date Prepared:______

Project Title & Number: Private Housing Finance for Low Income Families (386-HG-002)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSU
Inputs: (D-1)	Implementation Target (Type and Quantity) (D-2)	(D-3)	Assumptions for providing I
1. HG loan. 2. Local HDFC investment. 3. Training and technical assistance.	1. $20 million HG authorizations in FY84, 86, 88 for a total of $60 million. 2. A total of $600 million from 7/1/83 through 6/30/89. 3. Centrally funded Resident Advisor and USAID funded training and short term technical assistance.	1. AID records. 2. Program monitoring and evaluations.	1. HG's authorized. 2. Timely completion agreements [illegible] 3. Timely HG borrowi drawdown. 4. HDFC providing lo

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HOUSING DEVELOPMENT
FINANCE CORPORATION LIMITED

Ref : H/...93

May 1, 1984

Ramon House,
169, Backbay
Reclamation,
Bombay 400 020.

Mr Peter Kimm
C/o USAID
United States Embassy
New Delhi.

Dear Mr Kimm :

Sub : Request for further guarantees of $ 60 million

As you are aware, HDFC has raised US $ 30 million so far under the USAID Housing Guaranty Program in two phases. We are now completing final disbursements of Rs 10 crores in respect of the US $ 10 million raised in the U S capital market earlier this year. The Rs 30 crores thus made available to HDFC has been utilised to finance low income families for housing all over India. Approximately 12,000 units have been financed under the programme.

We now request you to authorise housing guarantees of $ 60 million to enable us to borrow that amount in the United States and use the funds thus made available for further increasing our financial assistance for low income households. We expect that approximately 24,000 households would stand to benefit under this program. Once you have indicated your approval in principle to our request for a housing guarantee of $ 60 million under your Housing Guaranty Program, we will approach the Government of India and the Reserve Bank of India for permission to raise funds in the United States against these guarantees.

Yours sincerely,

PRADIP P SHAH
General Manager

c.c. Mission Director, USAID
New Delhi.

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ANNEX 5A

HDFC Policy Statement on Low Income Housing Finance

1. HDFC will, as part of its general lending policy, ensure that access to lower income groups as individuals and as employees of the corporate sector is actively encouraged.

2. Wherever possible, HDFC will attempt to link longer term loans (over 15 years) with the mobilization of long term resources, especially for lower income people. This will help to increase the average loan/cost ratio for low income beneficiaries.

3. HDFC will strengthen its technical capabilities so as to be in a position to influence housing project design, extent of implicit subsidies, the use of non-traditional materials, optimum use of land with required densities in order to reduce the cost per unit. This type of capability will enable HDFC to study housing projects more closely and offer advisory services to corporate and other institutional clients who wish to broaden the beneficiary groups which they wish to serve.

4. HDFC will play a more active part in urban shelter projects being undertaken by city development authorities in conjunction with international institutions primarily for low income people. A strong technical/financial input by HDFC would be a crucial factor not only in the planning and financing of projects but in actual construction control and monitoring.

5. HDFC's participation in large urban projects may be through direct financing of a lower income target group for the construction or improvement of permanent homes and/or by offering a service facility in originating mortgages with funds provided externally.

6. HDFC will also put in place a systematic training programme for its existing and new staff. The training programme will, in addition to job specific training, acquaint staff with the overall issues in housing policy and finance.

Emphasis will also be given to train staff to give special attention to individual applicants from low income groups. This training will make HDFC's staff more sensitive to the special requirements and problems that low income applicants face in procuring housing loans.

7. HDFC will make a systematic effort to reach smaller towns in order to increase accessibilityn of lower income groups of people to HDFC's lending programme.

8. HDFC will work towards the setting up of an Institute for Housing Research. The Institute would study new technical methods by which to lower housing costs and would also examine innovative methods of financing low income housing projects.

ANNEX 5B

HDFC ACTION PLAN FOR IMPLEMENTATION OF LOW INCOME HOUSING POLICY STATEMENT (1983-84)

I. General Lending policy and Low Income Projects

Sections one and two of the Policy Statement are being implemented.

Over the period 1983-84, HDFC will help finance several projects targetted specifically to low income households.

(1) In the June Board Meeting, the Board noted various methods by which loan eligibility to low income households could be enhanced. These involved the following factors:

(a) Step up repayment Plan (SURP)
(b) Increase Term of Payment
(c) Lower rate of interest
(d) Linking Loan to Demonstrated Saving Capacity (to help mainly low income and self employed people).

(2) HDFC is also actively considering a loan to sugarcane farmers in the State of Maharashtra. These farmers presently reside in thatched houses built with local materials spread over 44 villages. They are all members of a sugar co-operative begun in 1960 called the Pravara Sahakari Karkhana Limited (PSS). The co-operative plans to construct 1,500-2,000 houses of which 125 will be built in the first phase for which HDFC will provide Rs50,00,000 (US$500,000).

To be implemented November 1983.

(3) Rural Project Finance

In the 39th Meeting of the Board of Directors of HDFC, a proposal to finance a rural project was approved which covers 5,500 poor families in 40 villages of Valod Taluka in Gujarat.

The loan of Rs500,000 (US$50,000) for about 150 units costing an average Rs3,000 (US$300) at a rate of interest of 10% per annum will benefit mainly landless tribals and small and marginal farmers.

To be implemented October 1983.

(4) With the recent flood devastation in Gujarat, HDFC has agreed to help the State Government of Gujarat reconstruct houses that have been severely damaged or destroyed. HDFC will provide Rs1,00,00,000 (US$1,000,000) at 12-1/2% per annum to be utilised through State Government agencies (through the Gujarat Housing Board and the Gujarat Rural Housing Board). The average assistance per unit will be Rs7,500

(US$750) and the loan would benefit appi oximately 1,350 families with incomes between Rs500 and Rs1,000 (US$50 - US$100) per month.

Under both (3) and (4), HDFC will waive all processing and other fees.

II. Technical Services

Under Section 3 of the Policy Statement, HDFC intends to strengthen its technical department so as to enhance its technical advisory capabilities.

November 1983: HDFC will appoint an overall supervisor in the technical department of Head Office and one assistant.

October-February: HDFC will recruit technical personnel for three of its Branch offices (Ahmedabad, Bangalore and Delhi).

May 1984: HDFC will put in place an advisory service for corporate clients which encompasses technical advice on construction methods, plot layouts, cost reduction methods, project design and effective use of subsidies. For this purpose a team consisting of an architect/engineer and a fiancial appraiser will be available.

III. Shelter Projects

Sections 4 and 5 of the Policy Statement is already under active discussion with the State Government and the World Bank under which HDFC has agreed to finance a portion of the beneficiaries under the Bombay Urban Development Project - I. HDFC will be involved in beneficiary selection (mainly for plots earmarked for households earning between Rs850-1,250 (US$85 - $125), and will finance the superstructure component of the sites and services project (the plot being offered on a hire purchase basis). Lower income households will thus be able to finance a core house on plots provided to them by public sector agencies. In this manner, public sector funds will help finance the plots while HDFC will be able to provide finance for construction. The total HDFC commitment of funds would be of the order of about Rs250 million (US$25 million) over a period of five to seven years.

IV. Geographical Spread

As HDFC will consolidate its existing operations vis-a-vis its present branch network during the year 1983-84 no new branch offices are likely to be established. However, HDFC will use its existing branches to make periodic visits to smaller cities and towns to provide customer service on lending and deposit operations.

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Longer Term Perspective 1983 - 1988

1. Targetted Beneficiaries. HDFC will ensure an increase of at least 10% each year from June 1983 to June 1988 in the number of units targetted specifically to lower income households at or below the median income level as determined jointly by HDFC and USAID.

2. Legislative Amendments

(i) HDFC will seek to introduce mortgage insurance by either working jointly with the insurance corporations or through the Deposit Insurance and Credit Guarantee Corporation of the Reserve Bank of India. Mortgage insurance would help HDFC broaden its beneficiary group by reducing the risk associated with particular types of lending.

(ii) HDFC will also seek legislative amendments which would provide positive incentives for greater housing activity for those in lower income groups. For example, Section 32 of the Income Tax Act provides an incentive to companies to build low income housing as they canclaim accelerated depreciation to the extend of 40% in the first year if the housing is targetted to workers earning less than Rs10,000 per year. By increasing this figure slightly, a large number of targetted beneficiaries would become eligible.

3. New Saving and Loan Schemes

HDFC will attempt to introduce saving schemes such as the type operated by the Bausparkessen in West Germany in order to make housing loans more accessible to lower income groups and those households that have irregular income atreams.

The preliminary outline of the scheme to be introduced by HDFC wll be discussed later this year and the scheme is likely to become operational some time toward the end of 1984 or early 1985.

4. Institute for Housing Research

HDFC, over time, will require to be actively involved in housing development programmes of the counrtry. For this purpose it proposes to establish an Institute for Housing Research which will be actively associated on the problems of Housing Finance, low cost housing, innovative technologies etc.

A preliminary proposal for this type of Institute will be drafted and its objectives outlined in mid 1984. The Institute will be formally registered early 1985 and will commence sometime later that year in HDFC's new premises in New Bombay.

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5. Training

A preliminary proposal has already been discussed with the Institute of Financial Education in Chicago, USA, to provide HDFC with a comprehensive "internal" training programe for new and existing employees at all levels in the Organization.

November 1983: Two persons to visit HDFC for initial discussions on the formation of an appropriate training progrmme.

December 1983: Two persons from HDFC to visit Chicago to finalize training material and presentations.

January 1984: Implementation of initial training programme in Bombay and Bangalore

September 1983

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ANNEX 5C
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 mobilization 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 grantec for the construction of new residential units for or by one borrower, the acquisition of new or existing housing or the substantial improvement or extension of building housing units. HDFC may also consider financing nursing homes, shopping premises are the amenities which go with housing schemes.

C. Distributing - 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 region of the country so that not more than 18% 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 Rs70,000 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 assistances 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 term 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

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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) 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 Insurances 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 times, 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 practionable after acquisition.

III. RESOURCES

A. General - HDFC will diversify the 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.

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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 affects of inflation.

V. MANAGEMENT

A. General - In all its operations, HDFC will seek to develop a reputation for operating efficiency and acceptances by the public consistant with optimising the mobilization 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 consistant with the provision of a high level of professional services 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 leases. Appropriate general and statistical information of 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. Staff - HDFC will endeavor 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 and limits required for the effective appraisal and supervision of the

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creditworthiness of borrowers and the condition of property financed. Branch managers and senior management will be given autonomy in accordance with their experiences and qualifications for credit approvals up to limits fixed from time to time by the Board of Directors.

E. Geographic Expansion - In pursuit of the 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 of 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.

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

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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 individual members of co-operative societies. If all or a majority of the members of a society are interested in a loan then each member so interested, fills out the normal individual application form and submits it together with the processing fees and the other documents as applicable to individuals. Certain details such as property details, title clearance reports etc. which are common to the property, need not be submitted by each member. The process of evaluation, approving and conveying the decision of the applicant is essentially the same as in the case of individual loan applicants.

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.
- A brief write-up on the past and future of the Company, with respect of its background, areas of operations, expansion programmes, its housing activities, etc.

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 an 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 whiche he is constructing 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-oridnator is forwarded to the Legal Department for further action.

C <u>Corporate Bodies</u>

In case of 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 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 corporation have fully utilised their own contribution, the technical appraiser then inspects the property, assesses the progress of work, and verifies whether the corporate body have utilised their own contribution. The appraiser's report verified by the co-oridnator is then forwarded to the Legal Department for necessary action.

LEGAL REVIEW

<u>Individuals</u>

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. It may be a flat from a registered co-operative 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.

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 disbursement memo is prepared in each case duly authorised by the Assistant Manager (Operations)/ Assistant Manager (Legal)/ Branch 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 co-operative/corporate cases, a similar set of documents is required.

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. However, 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.

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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. 275.00
3. Between Rs. 50,001/- and Rs. 1,00,000/- (both inclusive)	Rs. 400.00
4. Over Rs. 1,00,000/-	Rs. 600.00

(b) Group Projects:

Each individual pays the fees as per the scale above for the amount that he applies for.

(c) Corporate Bodies:

1/2% of the loan amount applied for subject to a minimum of Rs. 1,000/-

LEGAL AND TECHNICAL FEES

(a) <u>Individuals</u>

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

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

Each individual pays as per the loan sanctioned to him as per the scale above.

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

1% of the loan amount sanctioned.

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BALANCE SHEET AS AT JUNE 30, 1983

	Schedule	Rupees	June 30, 1983 Rupees	June 30, 1982 Rupees
FUNDS EMPLOYED				
SHAREHOLDERS' FUNDS				
Share Capital	1	9,98,02,000		9,97,76,625
Reserves and Surplus	2	4,25,97,259		2,37,30,944
			14,23,99,259	12,35,07,569
LOAN FUNDS				
Unsecured	3		107,05,27,219	56,70,35,646
			121,29,26,478	69,05,43,215
APPLICATION OF FUNDS				
HOUSING LOANS	4		98,52,91,465	56,39,26,154
INVESTMENTS	5		3,13,02,863	2,90,69,626
CURRENT ASSETS, LOANS AND ADVANCES	6 & 7	22,66,92,266		11,16,63,083
Less: CURRENT LIABILITIES AND PROVISIONS	8	4,32,41,236		2,67,75,161
			18,34,51,030	8,48,87,922
FIXED ASSETS	9			
Gross Block		45,27,594		38,12,701
Less: Depreciation		12,49,260		7,91,348
Net Block			33,78,334	30,21,353
Advances in respect of Fixed Assets (Note 5)			86,79,833	86,50,616
MISCELLANEOUS EXPENDITURE to the extent not written off:				
Preliminary Expenses		7,53,147		9,03,776
Public Issue Expenses		69,806		83,768
			8,22,953	9,87,544
			121,29,26,478	69,05,43,215
Notes forming part of the Accounts	17			
Accounting Policies	18			
Statement of Changes in Financial Position	19			
Statement pursuant to Section 212 of the Companies Act, 1956	20			

H. T. Parekh
Chairman

For S. B. Billimoria & Co.
Chartered Accountants

Hoshang S. Billimoria
Partner

Directors:
Keshub Mahindra
J. N. Saxena
S. B. Patel
N. L. Hingorani
Bhaskar Mitter
G. V. Kapadia
C. R. Ramakrishnan
S. S. Mehta

D. S. Parekh
Executive Director

BOMBAY, August 30, 1983.

Schedules 1 to 20 annexed hereto form part of the Balance Sheet and Profit & Loss Account.

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30, 1983

	Schedule	Rupees	Rupees	Previous Year Rupees
INCOME FROM OPERATIONS				
Interest on Housing Loans	10		10,42,29,047	5,36,45,488
Fees and Other Charges	11		1,55,89,248	95,73,646
Other Interest, Dividends and Discount	12		2,29,37,197	1,86,87,017
Profit on sale of Investments (Net)			11,34,732	20,14,704
Other Income			7,45,334	6,12,837
			14,46,35,558	8,45,33,692
EXPENDITURE & CHARGES				
Interest and Other Charges	13		8,71,20,463	4,79,78,440
Staff Expenses	14		46,02,586	33,29,828
Establishment Expenses	15		27,90,845	15,64,921
Other Expenses	16		52,32,846	39,94,648
Depreciation			4,57,912	3,46,503
Provision for Contingencies			10,00,000	—
Preliminary and Public Issue Expenses Written Off			1,64,591	1,64,591
			10,13,69,243	5,73,78,931
PROFIT BEFORE TAX			4,32,66,315	2,71,54,761
Less: Provision for Tax			1,44,00,000	89,70,000
PROFIT AFTER TAX			2,88,66,315	1,81,84,761
Add: Profit brought forward from Previous Year			20,37,944	21,71,183
PROFIT AFTER TAX AVAILABLE FOR APPROPRIATION			3,09,04,259	2,03,55,944
Less: APPROPRIATIONS				
Special Reserve		1,77,70,000		1,08,18,000
General Reserve		10,00,000		—
Proposed Dividend (at 10% subject to deduction of Tax)		1,00,00,000		75,00,000
			2,87,70,000	1,83,18,000
BALANCE CARRIED TO BALANCE SHEET			21,34,259	20,37,944
Notes forming part of the Accounts	17			
Accounting Policies	18			
Statement of Changes in Financial Position	19			
Statement pursuant to Section 212 of the Companies Act, 1956.	20			

As per our report attached

For S. B. Billimoria & Co.
Chartered Accountants

Hoshang S. Billimoria
Partner

BOMBAY, August 30, 1983.

H. T. Parekh
Chairman

Directors:
Keshub Mahindra
J. N. Saxena
S. B. Patel
N. L. Hingorani
Bhaskar Mitter
G. V. Kapadia
C. R. Ramakrishnan
S. S. Mehta

D. S. Parekh
Executive Director

Schedules 1 to 20 annexed hereto form part of the Balance Sheet and Profit & Loss Account.

ANNEX 5G

SUMMARY OF PERFORMANCE

HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

(RS. IN LACS)

SANCTIONS				DISBURSEMENTS		
Period	Current Year	Previous year	% Growth over Previous year	Current Year	Previous Year	% growth over previous year
JULY '83	857.55	669.25		763.04	307.02	
AUG. '83	1261.72	295.18		399.72	302.87	
Y.T.D.	2119.27	964.43	120%	1162.76	609.89	91%
SEPT '83	336.83	707.91		548.74	352.94	
Y.T.D.	2456.10	1672.34	47%	1711.50	962.83	78%
OCT. '83	871.75	483.96		529.71	304.76	
Y.T.D.	3327.85	2156.30	54%	2241.21	1267.59	77%
NOV. '83	729.48	387.76		464.19	518.00	
Y.T.D.	4057.33	2544.06	59%	2705.40	1785.59	52%
DEC. '83	66[illegible].73	845.44		562.10	258.78	
Y.T.D.	4718.06	3389.50	39%	3267.50	2044.37	60%
JAN. '84	559.88	439.10		526.80	368.32	
Y.T.D.	5277.94	3828.60	38%	3794.30	2412.69	57%
FEB. '84	786.32	661.74		650.71	348.50	
Y.T.D.	6064.26	4490.34	34%	4445.01	2761.19	61%
MARCH '84	*682.58	594.59	33%	**625.26	605.40	51%
Y.T.D.	6746.84	5084.93		5070.27	3366.59	

* Tentative figure

** Estimated

(Rs in Lacs)

	Sanctions	% growth	Disbursement	% growth
30th June 1979	708.51		130.73	
30th June 1980	2274.73	221%	905.81	593%
30th June 1981	3143.80	38%	2208.43	144%
30th June 1982	4401.70	40%	2979.77	35%
30th June 1983	7259.15	65%	4784.26	61%

AUDITORS' REPORT

The Directors
Housing Development Finance Corporation Limited
Ramon House
169 Backbay Reclamation
Bombay 400 020

S. B. Billimoria & Co.
Chartered Accountants
113 Mahatma Gandhi Road
Bombay 400 023

13th December, 1983

Dear Sirs,

We have examined the books and accounts of Housing Development Finance Corporation Limited for the five financial years ended 30th June, 1983 and its fully owned Subsidiary HDFC Developers Limited for the three financial years ended 31st May, 1983 being the last date to which the accounts of the Companies have been made up and audited by us and adopted by the members. In accordance with the requirements of Para 24(1) of Part II of Schedule II of the Companies Act, 1956, we report that:

A.I The profits of Housing Development Finance Corporation Limited for each of the five years ended 30th June, 1983 are as set out below. These profits expressed in lakhs of rupees have been arrived at after making such regroupings and adjustments as are, in our opinion, appropriate.

		FINANCIAL YEARS ENDED 30TH JUNE				(Rupees in lakhs)
		1979	1980	1981	1982	1983
INCOME						
Interest on Housing Loans		3.71	56.81	214.77	536.56	1042.28
Other Interest, Dividends and Discount		29.70	47.89	58.47	186.77	228.17
Fees and Other Charges		3.35	42.15	71.83	95.74	155.89
Other Income		0.82	7.33	2.48	26.27	18.80
	TOTAL	37.68	151.28	347.55	845.34	1446.35
EXPENDITURE						
Interest and Other Charges			18.24	111.82	476.78	871.20
Staff, Establishment and Other Expenses		27.76	39.72	67.10	94.01	142.49
	TOTAL	27.76	57.96	178.92	570.79	1013.69
PROFIT BEFORE TAXATION		9.92	93.32	168.63	271.55	432.66
Provision for Taxation		3.55	30.89	53.75	88.70	144.00
PROFIT AFTER TAXATION		6.37	62.43	114.88	181.85	288.66

NOTES:

1. [illegible] calculated at the rates applicable to the respective years on the profits shown above after taking into consideration the allowances/reliefs as per the Income Tax Act, 1961.

2. Profit after taxation is subject to allocation of the following amounts to Special Reserve [illegible] Section 36(1)(viii) of the Income Tax Act, 1961: 1978-79 Rs. 4,00,000; 1979-80 Rs. 32,27,000; 1980-81 Rs. 67,48,000; 1981-82 Rs. 1,00,30,000; 1982-83 Rs. 1,77,20,000.

II. We also report that the Assets and Liabilities of the Corporation as at 30th June, 1983 are as set out below. These Assets and Liabilities expressed in lakhs of rupees have been arrived at after making such regroupings as are, in our opinion, appropriate.

	HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED As at 30th June, 1983		(Rupees in lakhs)
HOUSING LOANS (Note 1)			11852.91
INVESTMENTS — At Cost			
Quoted (Market Value Rs. 207.05 lakhs)		195.27	
Unquoted			
In Subsidiary	5.00		
Others (Note 2)	112.76		
		117.76	
			313.03
CURRENT ASSETS (Including Loans and Advances)			
Accrued Interest on Investments/Deposits		24.63	
Sundry Debtors			
Secured	89.85		
Unsecured, considered good	1.24		
		91.09	
Cash and Bank Balances		1,374.73	
Government of India Treasury Bills		232.30	
Corporate Deposits		500.00	
Loans and Advances			
Unsecured, considered good		44.17	
		2,266.92	
Less: CURRENT LIABILITIES AND PROVISIONS			
Interest Accrued but not Due	149.76		
Sundry Creditors	44.07		
Other Liabilities (Including due to Subsidiary Company Rs. 1.28 lakhs)	8.12		
Provisions			
Taxation (net of advance payments)	120.46		
Proposed Dividend	100.00		
Contingencies	10.00		
		432.41	
			1,834.51
FIXED ASSETS			
Gross Block		46.27	
Less: Depreciation		12.49	
NET BLOCK			33.78
ADVANCES IN RESPECT OF FIXED ASSETS			86.80
TOTAL ASSETS			14,121.03

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SHARE CAPITAL			
Issued and Subscribed 10,00,000 Equity Shares of Rs. 100 each	1,000.00		
Less: Calls-in-Arrears	1.98		
		998.02	
RESERVES AND SURPLUS			
Special Reserve in terms of Section 36(1)(viii) of the Income Tax Act, 1961	394.63		
General Reserve	10.00		
Profit and Loss Account—Surplus	21.34		
		425.97	
		1,423.99	
Less: Miscellaneous Expenditure (Preliminary and Public Issue Expenses to the extent not written off or adjusted)		8.23	
			1,415.76
LOAN FUNDS—Unsecured (Including interest accrued and due)			
Term Loans (Notes 4 and 5):			
Schedule Banks	2,437.00		
Others	1,561.34		
		3,998.34	
Fixed Deposits		6,706.93	
			10,705.27
			12,121.03

NOTES:

1. Housing Loans, other than Bridge Loans are secured or partly secured by:
   (i) Equitable mortgage of property and/or
   (ii) Pledge of Shares, Units, other securities, assignment of Life Insurance Policies and/or
   (iii) Bank guarantees, Company guarantees or personal guarantees and/or
   (iv) Negative lien
2. Unquoted Investments include Units of Unit Trust of India—Rs. 79.88 lakhs.
3. Advances in respect of Fixed Assets include Rs. 40.18 lakhs paid in terms of agreements for the purchase of office and residential premises. Although possession of the premises has been taken by the Corporation, conveyance and other legal formalities have not been completed. No depreciation has been provided on these amounts.
4. Term loans to the extent of Rs. 3,975.84 lakhs are secured by a Promissory Note and/or a negative lien on all assets of the Corporation.
5. Term Loans—Others includes Rs. 238.84 lakhs being a US dollar loan from International Finance Corporation, Washington. Conversion at 30th June, 1983 would result in an increase in the liability of the Corporation by Rs. 86.04 lakhs for which no provision has been made in the accounts. Owing to constantly fluctuating exchange rates, and the fact that the loan is to be repaid in equal instalments over 10 years, the Corporation decided to account for foreign exchange fluctuations on a Cash basis.
6. No provision has been made for accrued liability for gratuity, since gratuity payable to the staff in accordance with the Corporation Rules and the Payment of Gratuity Act, 1972, is accounted on a cash basis. The actuarial valuation of the Corporation's estimated liability so ascertained as at 30th June, 1983 is Rs. 4,18,000.
7. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) amount to Rs. 8.29 lakhs.

III DIVIDENDS

We further report that in respect of the five financial years ended 30th June, 1983, the rates of dividend, subject to deduction of tax at source to the extent applicable, declared by the Corporation on its paid up Capital were as under:

Year ended 30th June	No. of Equity Shares of Rs. 100/- each	Rate of Dividend %	Amount of Dividend Rs. in lakhs
1979	10,00,000	–	–
1980	10,00,000	–	–
1981	10,00,000	5	50
1982	10,00,000	7.5	75
1983	10,00,000	10	100

B. I The Profits/(Loss) of HDFC Developers Limited, a wholly owned subsidiary of Housing Development Finance Corporation Limited are as set out below. These Profits/(Losses) have been arrived at after making such regroupings and adjustments as are, in our opinion, appropriate.

	HDFC DEVELOPERS LIMITED	
	FINANCIAL YEARS ENDED 31st MAY	
	1982 Rupees	1983 Rupees
INCOME		
Interest	1,71,558	1,15,704
Rent	20,000	1,20,000
Other Income	–	10,830
	1,91,558	2,46,534
EXPENDITURE		
Staff Expenses	1,74,611	2,22,929
Establishment Expenses	1,89,502	2,00,484
Other Expenses	1,26,200	1,02,034
	4,90,313	5,25,447
PROFITS/(LOSSES) BEFORE TAXATION	(2,98,755)	(2,78,913)
Taxation	–	–
PROFITS/(LOSSES) AFTER TAXATION	(2,98,755)	(2,78,913)

NOTE:
As the Company had not commenced active operations during the financial year ended 31st May, 1981, no profit and loss account was prepared. Preliminary Expenses incurred during this period have been carried forward for amortisation in subsequent years.

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FUNDS EMPLOYED			
SHARE CAPITAL			
50,000 Equity Shares of Rs. 10 each fully paid (The whole of the subscribed capital is held by Housing Development Finance Corporation Limited and its nominee)			5,00,000
			5,00,000
APPLICATION OF FUNDS			
FIXED ASSETS			
Gross Block		2,83,604	
Less: Depreciation		63,810	
Net Block			2,19,794
CURRENT ASSETS, LOANS & ADVANCES			
Inventories – at cost		14,83,886	
Construction Work in progress – at cost		370,86,677	
Book Debts – Unsecured Considered good			
Due from HDFC Limited	1,62,942		
Others	4,64,500		
		6,27,442	
Cash and Bank Balances		78,55,546	
Loans and Advances		87,37,281	
		568,00,832	
LESS: CURRENT LIABILITIES AND PROVISIONS			
Amount due to Contractors and Suppliers		27,71,008	
Progress payments		537,11,500	
Other Liabilities		7,40,886	
		572,23,494	
			(3,22,662)
Miscellaneous Expenditure to the extent not written off:			
Preliminary Expenses		25,200	
Profit and Loss Account		5,77,668	
			6,02,868
			5,00,000

NOTES:

1 The Company follows the completed project method of accounting for projects. Under this method, revenue is recognised only when the project is completed or substantially completed, that is, when only minor work is expected other than warranty work. Costs and progress payments received are accumulated during the course of the project but revenue is not recognised until the project activity is substantially completed.

2 The Company has commenced work on a project comprising an office and a residential complex at Vashi, New Bombay. All direct and a proportion of indirect expenditure incurred in connection with this project have been charged to the project.

III No dividend has been paid by the Company for any of the three financial years ended 31st May, 1983

Yours faithfully,
For S. B. BILLIMORIA & CO.
Chartered Accountants.

Sd/-
HOSHANG S. BILLIMORIA
Partner.

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ANNEX 6A

February 1983

MEDIAN INCOMES DATA UPDATE

A review of reports available from Government and Non-Government Organizations in Bombay and inquiries made of USAID, Delhi, failed to locate any more recent household incomes and expenditures studies than the NCAER's (National Council for Applied Economic Research) 1975-1976 survey of House-hold Income and its Disposition (which survey was not published until 1980 indicating some of the problems of data-processing in India) and the IBRD "Staff Appraisal Report. Second Bombay Water and Sewerage Project" (1978)* which was used to establish the 1981 median urban income of Rs1,200 (Private Sector Housing Finance Program, India. Project Paper, Project No. 386-HG-000, July 1981), in 1981.

Consequently, it was decided to follow the same method of updating incomes as that used in the Project Paper. The Centre for Monitoring the Indian Economy (CMIE: Basic Statistics, August 1982) forecasts a 7.3% increase in the consumer price index from December, 1981 - December, 1982 (Index Numbers of Consumer Prices for Industrial Workers, 1939 - 1982). Using simple extrapolation alone and not counting for any real increase in income levels, such an increase brings the current median income up from Rs1,200 to Rs1,288 in December, 1982. A further forecast increase of 9% (Dec. 1983) would bring the median urban income to Rs1,403. In 1981 the median income for Bombay was Rs1,520. Using the same forecasts for Bombay would give an estimated median income of Rs1,631 (Dec. 1982) and Rs1,778 (Dec. 1983).

It must be stressed that no real increase in income has been taken into consideration, and that this is a purely nominal increase adjusting for inflation; however, CMIE estimates a trend rate of growth of 3.3% in Real National Income 1971-83.

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ANNEX 6B

ROLE OF THE LIFE INSURANCE CORPORATION OF INDIA IN HOUSING FINANCE

The Life Insurance Corporation of India (LIC) is the largest institutional investor on the Indian housing market. LIC invests both directly, through loans to employees and policy-holders and indirectly through purchases of bonds and debentures of, and loans to, HUDCO, and cooperatives.

The $124 million in LIC housing investment during FY83 was used as follows:

1.	State Government for housing schemes	$30,000,000
2.	Apex Co-operative Housing Finance Societies	76,000,000
3.	HUDCO	Rs18,000,000
	TOTAL	Rs124,000,000

The Corporation's cumulative contribution to housing as of 31st March 1983 was roughly $1.4 billion, distribution as shown in Table 1.

Table 1

LIC Contribution to Housing Development Cumulative to 31st March 1983:

			Amount (Rs in crores)
1.	Loan to State Government		463.70
2.	Loan to Apex Co-operative Housing Finance Societies and other Authorities, for financing Co-op. societies		621.22
3.	Loans to Housing Boards		10.15
4.	Loans to HUDCO		73.00
5.	Loans to Mortgage of Houses/Properties		67.07
6.	Loans under 'Own Your Home' Scheme		91.43
7.	Loans to Public Limited Companies		5.43
8.	Loans to Co-operative Societies of employees of Public Limited Companies		2.19
9.	Loans to Co-operative Societies of the Corporation's employees		17.43
10.	Loans to individual employees of the Corporation		38.69
11.	The 'Own Your Apartment' Scheme		0.78
12.	Scheme for grant of loans to Agents (Club members)		0.66
13.	LIC Individual Employees Flat Scheme		0.28
14.	Corporation's own building constructions		
	Staff Quarter	13.65	
	Township Development	11.24	24.89
	Total		1,416.92

Under the "Own Your Home" and "Own Your Apartment" schemes, LIC has made home purchase loans to more than 27,000 policy holder households in principal amounts exceeding $91,000,000. The program for loans to public limited companies has resulted in 36 loans for approximately $5,000,000 for housing for 3,700 employees. Employee housing loans to co-operative housing societies formed by employees of public limited corporations have been made to 35 societies for 1,435 dwellings.

LIC housing loans to 6,890 of its own employees have also been passed through cooperative housing societies. 215 such societies have participated to date.

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Table 2

FY 83 LIC HOUSING INVESTMENTS:

Zone:	Property Mortgage Schemes:		Own your Home Scheme:		(LIC) Staff Societies Scheme:		LIC Individual Employees Schemes:		LIC Individual Employment Flat Schemes:		OYA Scheme		Agent's Scheme:	
	No. of Appli-cation sanc-tioned	Amount in lakhs of Rupees	No. of Appli-cation sanc-tioned	Amount in lakhs of Rupees	No. of Appli-cation sanc-tioned	Amount in lakhs of Rupees	No. of Appli-cation sanc-tioned	Amount in lakhs of Rupees	No. of Appli-cation sanc-tioned	Amount in lakhs of Rupees	No. of Appli-cation sanc-tioned	Amount in lakhs of Rupees	No. of Appli-cation sanc-tioned	Amo in lak of tio
Central	19	14.27	83	37.03	-	0.44	163	102.97	-	-	-	-	4	2.
Eastern	111	93.20	121	46.02	-	0.81	132	70.74	-	-	2	0.96	-	
Northern	204	220.05	163	97.27	-	-	335	218.96	-	-	-	-	3	2.
Southern	304	247.16	810	406.94	-	-	284	172.16	3	2.38	-	-	8	7.
Western	16	14.61	38	25.29	3	28.95	54	30.27	14	7.76	-	-	4	3.
TOTAL:	654	589.29	1,215	612.55	3	30.20	988	595.10	17	10.14	2	0.96	19	15.

Table 2 shows, among other things, the extent to which LIC investments have been concentrated in the southern and, to a lesser extent, the northern regions of the country. That table also shows that its investments are roughly balanced among the Own Your Own Home, Loans to Employees and Property Mortgage schemes.

ANNEX 6C
HOUSING COOPERATIVES IN INDIA

The original authority for the creation of cooperative societies was the Cooperative Societies Act of 1912 which has current effect only in states which have not adopted their own enabling ligislation. In states such as Gujarat and Maharashtra, state law grants to one or more state agencies the authority to contribute to the share capital of, or make loans and grants to, apex societies, to guarantee loans to them, and to regulate the terms of financing by societies at all levels.

The 19 apex housing cooperative finance societies and roughly 30,000 primary housing cooperative societies (including tenant-ownership, tenant co-partnership, house mortgage and house construction societies) are the basis for all cooperative housing development in India. Apex societies make housing finance loans to primary societies who in turn provide housing for their members. The states with the most active cooperative housing organizations are Maharastra, Gujarat, and Tami Nadu. Karnataka and Andra Pradesh are also important.

Apex societies obtain the bulk of their funds from share purchases by primary societies and loans from LIC. Much smaller amounts come from membership dues, the sale of share to scheduled and cooperative banks and to other investors and from fees. Share purchases are frequently amortized by being deducted from the proceeds of LIC loans. Loans and loan guarantees from state governments may be important in individual cases. In theory, apex societies could raise funds by issuing bonds and by taking deposits. Regulation of issuance authority by the central government has precluded the bond option because the government has not generally made housing a priority for capital allocation. HDFC's recent success in obtaining approval for a small bond issue may portend some relaxation of this policy. With respect to deposits, cooperative societies are statutorily prohibited from accepting deposits with terms of less than a year. Prevailing interest rates for such deposits are currently around 15% which is 1% higher than LIC's current lending rate. Since, in addition, the overhead costs of raising funds through deposits would be much higher than for borrowing from LIC, apex societies have thus far resisted deposit-taking as a means of resource mobilization.

Some intermediation in favour of apex societies may result from recent changes in Indian law which permit District Central Cooperative Banks and certain other scheduled banks to invest up to 10% of their total deposits or 25% of long term resources, whichever is greater, in housing.

The majority of the beneficiaries of cooperative housing schemes are households having incomes below Rs1,000 per month. While foreclosures are rare, as a consequence of the practical difficulty of pursuing that remedy in the Indian legal system, late payment rates are high for at least the largest apex societies. Table 1 shows basic fiscal and operating data for the two largest apex societies.

TABLE 1

COMPARATIVE DATA FOR TWO APEX COOPERATIVE HOUSING FINANCE SOCIETIES

	Gujarat*	Maharashtra**
Net Worth	Rs 245,100,000	112,592,000
Liabilities	1,724,306,000	1,340,524,000
Source of funds:		
LIC loans outstanding	1,286,893,000	1,000,000,000
HUDCO loan outstanding	2,942,000	
State Government loan	25,682,000	
State bank credit	370,027,000	
Other loans	23,214,000	
Share capital	181,523,000	110,100,000
Loans outstanding	1,880,373,000	1,115,561,000
Units for which loans sanctioned	195,789	125,335
Units constructed	84,901	68,111

* The Gujarat State Cooperative Housing Finance Society Ltd.
** The Maharashtra Cooperative Housing Finance Society Ltd.

ANNEX 6D
ORGANIZATION OF BANKING SYSTEM IN INDIA

All Indian Banks are organized in accordance with an "Area System" developed by the RBI in the mid-1970's. Under this system, "lead-bank" responsibility for all of India except Greater Bombay, Calcutta, Madras and the Union Territories of Delhi, Chandigarh and Goa is divided up on a district basis among the public sector banks (the State Bank of India and its 7 subsidiaries and the major nationalized commercial banks). In each of 338 districts, the Bank with lead authority is responsible for developing periodically a district development program with the advice of a committee of district lenders. This program should be based upon a survey of credit gaps and should include plans for the creation of new branches, satellites, mobile offices and the like and new credit facilities where needed to advance general economic development and welfare.

The imposition of the district-based area system on commercial banks made their structure congruent with previously established co-operative system. In general, there are two parallel co-operative systems in India, one for credit and the other for services and production. On the credit side, each State has an apex state co-operative bank, beneath which are arranged central co-operative banks in each district and a larger number of primary co-operative credit societies from which deposits are fed into the system. The organization of the production side is similar with state level apex organizations, secondary nd primary societies. Primary cooperative housing societies may and frequently do generate housing finance resources although they do not accept deposits.

Annex 6 E

Social Analysis
and Study of HDFC Individual Loan Clients

1. INTRODUCTION AND SUMMARY

This report provides a brief overview of the housing problems in India as related to HDFC and its lending programs. It incorporates the findings of three studies on low income beneficiaries of the Housing Development Finance Corporation (HDFC) and a supported field visit to India (March, 1984) to examine the social context for the proposed new housing guaranty (HG) loan with HDFC. The three studies include: 1) "A Socio-Economic Analysis of HDFC's Low-Income Beneficiaries", Office of Housing, March, 1984 herein referred to as the "1984 HDFC Low-Income Housing Study"; 2) "HDFC Low Income Applicants in Bombay and Bangalore", PADCO, February, 1983, herein referred to as the PADCO study and 3) "Report on Corporate Housing with Special Emphasis on Certin Projects Financed by HDFC in India", herein referred to as the "Corporate Housing Study". The findings of the "1984 HDFC Low-Income Housing Study" are presented at the end of this analysis.

The studies provide ample evidence that HDFC is serving the low income target population as outlined in the project design for HG loans in India. The studies show that the corporate housing program serves a large number of low income beneficiaries in an efficient and cost effective manner. Although corporate low income families do not typically benefit from the security of home ownership, the majority of corporate beneficiaries would not want to purchase a house even if they were offered one since their place of work is not considered by them to be their primary residence. Many of the corporations provide housing in "backward areas" far away from the workers' home state and in areas where adequate housing often is not available.

The individual loan program of HDFC serves more low income families than it did in the initial phases of the program. Although the low income portfolio as a percent of the total portfolio has decreased due to the rapid expansion of HDFC, the absolute number of loans to lower income households has increased annually. HDFC's individual loan program continues to serve low income persons who previously had no access to housing finance to purchase adequate housing.

Finally, the studies suggest some areas for further analysis and policy consideration. These include: 1) follow up on the Corporate Housing Study by collecting more data on the corporate housing policies and the type and extent of employer provided housing in India; 2) analyze what counseling techniques that might be employed to assist women to more actively participate in joint home ownership; 3) survey the HG beneficiary loan disbursements to obtain more detailed information on current disbursements to the target group.

2. THE SHELTER PROBLEM

There is a major housing shortage in India, with an estimated housing deficit of over 30 million units. India is primarily an agricultural country with approximately 76% of its population living in rural areas, and 80% of the country's housing deficit is in rural areas.

In recent years the urban population of India has begun to expand at a rapid pace from 107 million in 1971 to 156 million in 1981. If present growth rates continue, about 50% of India's population growth over the next twenty years will be in urban areas. The urban housing deficit ranges from a 1971 Census figure of 2.9 million to a projected urban housing need in the Sixth Five Year Plan of 12.8 million units.

The sheer size of the urban population problem becomes apparent when one considers that even for a predominantly rural country, the urban population of India is larger than the total population of Japan. The absolute size of the population coupled with rapid urban growth, 3.9% or approximately 4.3 million people per year has created serious deficits in urban infrastructure, services and shelter.

The Government of India is very concerned with the rapid increase in urban population and the 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 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 financing to new industries locating in these development zones. Infrastructure facilities such as roads, power, and water are also made available. Housing, however, has not been incorporated formally into the development plan. Industries moving into these areas are encouraged to hire local labor where available, however, a significant number of workers is also drawn from overcrowded urban areas which is one of the benefits. However this also aggrevates the already grave problem of lack of adequate shelter units in rural India.

The urgent need in India now is to increase the supply of available shelter. Lack of availability of housing finance, various adverse government policies and controls and land scarcity place major constraints on increasing India's housing supply in urban areas. In rural areas scarcity of building materials and financing are the major obstacles for increasing housing production. The common problem to both urban and rural areas is the lack of availability of financing for housing.

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3. HOUSING FINANCE

In India there is almost no formalized private housing finance system although housing is overwhelmingly privately financed. During the period 1978/83, the public sector contribution of the country's total estimated housing investment was only 19%. The vast majority of housing is produced by the informal sector and housing is financed largely through informal arrangements. Individual wealth and private savings are the major sources of housing finance throughout India.[1]

HDFC was created to provide a formal private sector source of financing for housing production in India. Until, until HDFC was established a typical working class person had almost no access to formal long term financing to supplement their savings in order to purchase a home. Various government sponsored programs serve only a fraction of the demand for housing finance.

It is important to reemphasize that the purchasing power of individual households living in inadequate shelter is sizeable. And it is the working lower class including formal sector workers such as welders, peons, clerks, assistant teachers, and self-employed people in the more informal sector such as seamstresses, drivers and mechanics who have moved into their own homes through the finance system offered by HDFC.

HDFC has been able to flourish within a government regulatory environment which pervades the national private finance system and a host of government controls which severely restricts private sector housing investment. HDFC experience with their individual low income clientele has demonstrated the creditworthiness of the HG target population and demonstrates the willingness of this population to devote a reasonable proportion of their savings and monthly income to housing.[2] Thus it provides evidence of an effective demand for private housing finance by the target population.

4. PROVISION OF HOUSING BY EMPLOYERS

Provision of housing or housing allowance by employers to its employees is an accepted practice in India. Most employees in India receive a compensation package made up of a number of elements: medical schooling, retirement fund, annual bonus, etc. The package, especially for public sector workers and for some private sector employees, may include a house, a housing allowance, or low interest loan for the purchase of a house. Higher paid employees, in both public and private sectors, are most often the recepients of these housing benefits. The employee and employer both look at the total wage benefit 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.

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1. Lall, VD. Some Economic Aspects of Housing Finance India. Times Research Foundation, September 1982.
2. Wu M. Financial and Mortgage Portfolio Analysis of HDFC. FHLBB September 1983.

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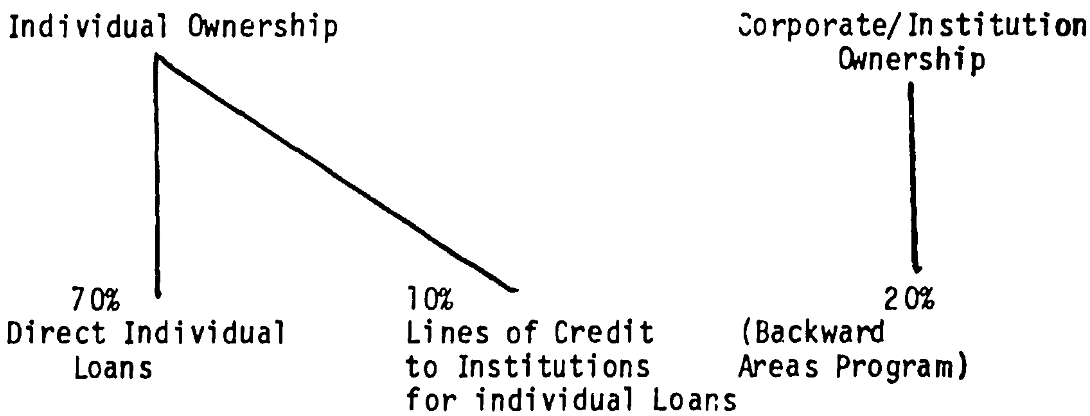
In terms of housing, private employers sometimes provide loans to the employees to buy their own homes, at rates of interest often lower than the cost of money to the employer. In some cases private employers may guaranty private loans obtained by its employees. Finally, there are private corporations who build or rent housing in order to provide accomodations to the employees. Financing under the HG loan has been made available to employers for all of the above purposes which lead to the construction of new units.

5. HDFC FINANCING OF EMPLOYER PROVIDED OR ASSISTED HOUSING ACTIVITIES

Of the total HDFC portfolio, approximately 30% is related to corporate and institutional housing finance. Seventy percent is for individual home ownership loans. Of the 30% related to corporate/institutional loans, one-third is for individual ownership loans guaranteed by the institution and two-thirds or roughly 20% of HDFC's total portfolio, is related to corporate ownership housing. Clearly, individual homeownership is the major form of housing finance offered through HDFC. Within HDFC's institutional housing portfolio, there are two basic lending mechanisms. One is what HDFC calls its "line of credit" scheme, which results in individual home ownership. The other is what HDFC calls its "corporate loan program" which predominately finances corporate owned units.

HDFC Portfolio



The "line of credit scheme" involves an arrangement with a company under which HDFC provides loans to individual employees or groups of employees nominated by the company, with the company guaranteeing the loans. Companies provide financial assistance for housing without the responsibility for owning and maintaining residential units. Interest rates for loan under the line of credit program range from 13.5% to 14.5% depending upon the size of individual loans processed under the program.

If the employee leaves the company, HDFC and the company work out alternative arrangements for loan repayment. To date there have been no defaults and employees who change employment have secured other means of financing through the HDFC individual loan or other corporate line of credit programs.

The institutions involved in these programs include not only private sector businesses and industries but also associations of workers such as the cotton growers, onion and potato workers, Sugarcane Growers Cooperatives and State and local agencies such as the State Industrial Promotion Agency The following provide examples of these types of HDFC activities.

Cotton Growers Cooperative

In the case of the cotton growers, the factories to which the growers supply cotton are providing HDFC with application data and a guaranty for housing loans made to members of the cooperative. HDFC estimates that processing this type of institutional line of credit applications takes approximately 25% of the time required for the same number of direct individual loans.

Bayer (India) Ltd.

In this case the company borrows HDFC funds and in turn offers subsidized housing finance for non-managerial staff. The amount of the loan provided is equal to one month's salary for every year of service with a maximum of 10 months salary or Rs. 10,000. The rate of interest for the employee is 4% per annum and the loan is repaid in monthly installments equal to 8.33% of basic pay.

Pravara Sahakari Sakhar Karkhana Limited (PSS)

PSS was the first sugar factory to be registered as a cooperative society in Maharastra State and now has 7,000 members. The cooperative undertakes social, educational and agricultural programs and provides medical services for the surrounding community. It is an example of the success of the rural cooperative movement in India.

PSS has recently promoted a 'house building society' and has negotiated with HDFC a scheme for financing housing for the rural farmers. In the first phase of this agreement 119 houses in over 44 villages, with an average cost of Rs. 60,000 and an average built up area of 45 square meters are being financed.

The examples above indicate that HDFC has been able to stimulate low income housing production under its line of credit scheme. By providing more favorable interest rates for smaller loans or more favorable terms for loan packages which include low income workers and through a variety of other institutional financing schemes HDFC has been able to assist low income households obtain access to formal housing finance.

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However the examples noted above represent only a small portion of HDFC's total portfolio. Since HDFC often provides concessions (i.e. lower interest rates or waiving application fees etc.) in order to access these lower income households, a significant increase in these types of activities cannot be expected unless they can be made profitable or can be balanced by other more profitable lending schemes in HDFC's portfolio.

HDFC's "corporate loan program" provides a mechanism by which HDFC can provide larger, shorter term, and higher interest loans for the production of corporate owned housing. As a part of the GOI policy to disperse industries to under-developed regions, companies are provided incentives to expand into sparsely settled "backward areas". However there is a critical lack of adequate housing in these areas. HDFC's corporate loan program addresses this major social problem in an efficient and cost effecitve manner by financing projects in rural zones of expansion in backward areas where the residents have relocated for employment purposes and where little or no housing is available.

The "corporate program" has several major advantages:

1) it addresses the problem of scale by meeting housing needs in a more cost effective, efficient manner;

2) loans to corporations are balanced by corporate deposits to HDFC which generate more capital for housing and permits HDFC to enter in ongoing dialogues with major institutions who can provide major resources for housing and permits HDFC to enter in ongoing dialogues with major institutions who can provide major resources for housing.

3) housing is provided in rural areas where shelter is in acutely short supply.

In March 1984 the Office of Housing sponsored a study of the HDFC corporate loan program entitled, "Report on Corporate Housing and Special Emphasis on Certain Projects Financed by HDFC in India", prepared by Maser Private Limited, an Indian management consulting firm. In this study housing projects in four categories were selected based upon the type of institution and representativeness of the projects selected, i.e. corporate housing by industry, by a public utility, by a plantation and by a city development body (CIDCO). They differed in terms of corporate policies and practices, location, and legal requirements. The summary of the report's findings is presented as Annex 6 H.

The HDFC's overall policy and portfolio give priority to programs resulting in home ownership. The corporate program is a response to both the market and the need to produce as many units as quickly as possible especially for low income households. Corporate projects have resulted in more units for more households lower down the income scale than has HDFC individual lending programs. Moreover, HDFC currently gives lowest priority to applications from corporations which do not contain construction of housing units for low income beneficiaries.

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6. HDFC's LOAN PROGRAM

Roughly 80% of HDFC's total portfolio provides for individual home ownership. HDFC's policy is to foster home ownership and to provide financing for middle and lower income families.

In 1981 when the first HG was authorized for HDFC, it was assumed that it would be extremely difficult for HDFC to reach AID's target group. This was due to the newness of HDFC as a unique institution, the high interest rates, and the high cost of housing in India's urban centers (especially in Bombay which is HDFC's headquarters and largest institutional center for servicing loans). The recently completed "1984 HDFC Low-Income Housing Study" was undertaken to examine HDFC's low income beneficiaries. It focused exclusively on the AID target population within HDFC's individual loan program. The findings of this study, summarized at the end of this analysis shows that HDFC's individual program is serving the low income target group and provides every indication the the size of this group can continue to grow as HDFC's overall portfolio expands. It confirms there is effective demand for housing finance by a portion of the lower income population. However, the depth of this demand is not yet clear.

While HDFC uses 25% as a guiding principle for determining how much of a household's monthly income can be devoted to housing, the overall financial condition of each low income household is reviewed and every effort is made to assist these families secure formal financing without subjecting them to undue financial burden. The process is designed to assure that the housing is affordable and that neither HDFC as an institution, nor the individual household assume an unreasonable financial risk. The study shows that almost half of the loans approved for AID's target group in 1983 would require the use of over 26% of monthly income to service loan repayment. The fact that HDFC approves such loans to lower income households indicates their willingness to try to work out a financial package for this group. A 1981 financial analysis of the HDFC loan portfolio demonstrated, through past HDFC experience, that families in the target group have been able to service these loans. (For details see: Financial and Mortgage Portfolio Analysis of HDFC, FHLBB, September, 1983).

On discussing with HDFC staff the ability to repay and credit-worthiness of low income borrowers, it appears that social and cultural factors influence both the willingness of many low income persons to borrow and the seriousness with which they assume responsibility for repayment. The perceived social stigma associated with indebtedness often acts as a deterrent for low income persons to even consider borrowing for housing. However, once the decision to borrow is made, the perceived social responsibility to repay is high.

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7. AFFORDABILITY

The major indication of the affordability of units financed for AID's low income target group is HDFC's record to date. That is, HDFC experience shows that loans have been disbursed to the target group and the loans are being repaid.

In terms of the affordability of units being purchased by the target group, the units are affordable when combined with a large initial investment by the borrower. This is true for all HDFC borrowers. Although HDFC will finance up to 70% of the cost of a unit, the average portion of financing provided by HDFC to individuals is only 45%. For FY 83 it was 42% and for FY 84 year to date it is 40%. This indicates that households use HDFC to cap off their financing needs rather than as a primary source of funding.

A study entitled, Some Economic Aspects of Housing in India (V.D. Lall, NIPFP, September 1982) included a survey of HDFC borrowers in Bombay and Bangalore to ascertain where HDFC borrowers obtained funds for the purchase of their homes. The data showed that 63% and 57%, for Bombay and Bangalore respectively, of the funding came from personal savings and disposal of assets. This and other city surveys of financing for housing indicated that these two sources were the predominate source of funding for private housing in India. The conclusion of the study was that while the data confirmed the high savings rate in India (approximately 25% of income) and the willingness of households to invest these savings in housing, there is a clear need to increase the availability of other sources of financing for housing.

The problem with affordability of housing in urban India is a growing concern. Due to the shortage of building materials in the late 1970's and early 1980's, the scarcity of available land and the chronic shortage of housing, the cost of housing in the past decade has increased at a far more rapid pace than incomes.

According to the Federal Home Loan Bank Board financial study of HDFC, the average cost per unit for individual ownership lending was Rs. 84,000 in FY 1980-81 and increased to Rs. 100,000 in FY 1982-83, a 19% increase in two years. However, because of the existence of a black market, especially in Bombay, the rate of inflation may not reflect the true market condition. The average cost per unit for HDFC corporate loan programs was Rs. 48,000 in FY 1980-81, and increased to Rs. 85,000 in FY 1982-83, a 77% increase in two years. Cost per square meter increased 68% in the same period. The unit cost for corporate bodies probably reflects more accurately market conditions.

Therefore, since housing price is the single most important factor affecting homeowner affordability, the affordability gap for the HG target group is still a serious issue. HDFC assists applicants by adjusting the allowable percent of monthly income which it will approve for a loan and, more importantly, works with applicants to try to adjust their expectations to more realistic levels.

HDFC offers financing on a demand basis and approves a level of financing which is in accord with what a household can afford. So while HDFC can set an affordability limit on financing it cannot set a limit on the cost of a unit a household wishes to purchase if the household can provide the funds to fill the cost gap. HDFC does not disburse its loan until a borrower has invested his share of financing in the unit to be purchased/constructed. This provides HDFC the assurance that the borrower can afford the unit and also decreases the likelihood of loan default. This last point is important since India law precludes foreclosures.

Given the adverse forces outside of HDFC's control, HDFC has still been able to assist AID's target group obtain housing. Given the data obtained in 1981 for HG-001 and the recent surveys and studies, it is evident that within the target group, HDFC has been able to maintain and even improve its effectiveness in reaching the low income population.

8. IMPACT ON WOMEN

HDFC is committed to equal opportunity in terms of its lending and employment 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 are a number of single working women, they are likely to benefit from HG and HDFC programs as much as men. Women also play a key role in HDFC management positions. For example, the new director of human resources, responsible for personnel management training and organizational development is a highly qualified woman.

In summary, women face no formal barriers in either the loan application procedures or in the employment practices of HDFC.

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1984 HDFC LOW-INCOME HOUSING STUDY
(A Socio-Economic Analysis of HDFC's Low Income Beneficiaries)

Background:

During APAC meetings on the PID, Private Housing Finance for Low-Income Families (386-HG-002), a series of questions were raised about the socio-economic characteristics of the HG target population (households with income less than Rs 1200) who are beneficiaries of the HDFC HG program. Although a detailed socio-economic analysis entitled "HDFC Low Income Applicants in Bombay and Bangalore" prepared by PADCO had been completed in February 1983, the project paper team determined that a more up-to-date analysis was useful. This report then, is one of a series of AID sponsored documents which is designed to provide continuing feedback to both AID and HDFC management regarding the social impact of HDFC's low income policy initiatives. The objectives are threefold:

1. to describe the income level, occupational status and size, cost and affordability of current HDFC mortgage financing;

2. to verify and/or update other related detailed reports and analyses which used smaller sample sizes, more limited geographic coverage and were implemented at an earlier date, e.g. the PADCO Study referred to above, the HDFC Sample Survey on HG beneficiaries, HDFC management reports, Federal Home Loan Bank Board Study, "Financial and Mortgage Portfolio Analysis of HDFC", September 1983;

3. to make recommendations regarding the implementation of HDFC's low income policies and programs based upon the results of the survey.

Methodology:

Data was extracted from the HDFC Agenda I loan sanction files from December 29, 1982 - December 28, 1983. These files are the record of the Board approved loans for HDFC during the period. Agenda materials are divided into five groups by type of loans (corporate, line of credit and individual) and for individual borrowers by loan amount. The Agenda I category includes almost all the individual loan applicants eligible for HG financing , i.e. households earning less than 1200 Rs. per month. However, in reviewing the records a few insignificant number of low income borrowers appeared in the Agenda II records. The total number of HDFC individual borrowers during the period were recorded by book, i.e., by date of meetings held and by each branch office. The total number of borrowers in the Agenda I was then recorded in the same manner. Out of the total Agenda I category, every fifth applicant whose income was 1200 Rs or less was selected. The data was then recorded by sex, income range, value per square meter, size per square meter, investment income ratio, occupation, and type of dwelling.

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Calculation of value per square meter is based upon the value of the improvements plus land at current estimated (by HDFC) fair market value. In some cases, actual purchase price of land is used. Values are not based on appraisals but rather upon the knowledge of HDFC staff of current values in project areas. This "current value", according to HDFC, does include the black market cost of the unit, i.e. additional costs paid in cash but not recorded by either party, a practice prevalent in many areas in India, especially large urban centers such as Bombay.

With respect to classification of borrowers by sex, joint purchases of two males were counted as male, by two females as female. The couple category was used only for male/female purchasers.

The study's sample size was 543 out of a total of 2589 loans approved for households who earned less than 1200 Rs. a month during the year under study. The sample size for each of the 10 branch offices ranged from a low of 10 to a high of 113. The sample size for any reporting period ranged from 20 to 69.

The sample pool for various characteristics differ for any sampling date because occasionally, loans are sanctioned without a prospective property being specified. In such cases, all available characteristics were recorded rather than deleting such households from the sample. Recalculation of results without such borrowers resulted in no statistically significant variations in the results.

Principle Findings of the Analysis

1. The 2589 approvals for HG eligible beneficiaries represented 18% of total HDFC individual borrowers for 1983. Of the 543 sample beneficiaries, 45% had monthly incomes of Rs. 1001 - 1200, 40% had monthly incomes of Rs. 801 - 1000; 13% were in the Rs. 601 - 800 range and 3% earned Rs. 600 or less (see Table 1). There are considerable regional variations in income levels below Rs. 1200. For example, in Madras, over 30% of the sample fell below Rs. 800. Although the sample was small for New Delhi (24), over 37% had incomes of Rs. 800 or below. This was contrary to the perception that income levels would be higher due to the large number of government workers in the capital. HDFC has been able to serve a substantial proportion of the target group below the highest strata included in the category Rs. 1001 - 1200. HDFC was able to reach even the lowest income levels on occasion and provide substantial value for the cost of housing.

TABLE I

Loan Approvals for Sample of HDFC Low Income Borrowers

Income Group (Monthly Income Rs.)	December 1982 - December 1983 No. of Loans	%
600 or below	15	2.8
601 - 800	70	12.0
801 - 1000	216	39.8
1001 - 1200	242	44.6
	543	100.1

2. Most of the low income beneficiaries obtain dwellings which are less than 50 square meters; 43% are less than 40 square meters. Except for Bombay and Dadar almost all of the dwellings have a value per square meter which is Rs. 1500 or less.

3. Variations in housing type are considerable depending on the region. 51% of the survey dwellings were flats; 43% were bungalow type houses and 6% were row or town houses. In the major cities like Bombay and New Delhi, the dwellings were almost exclusively flats.

4. The income investment ratio, (% of income devoted for housing), (IIR) was used to assist low income families to obtain housing by increasing the monthly payments to a level higher than the institutional procedural guideline of 25%. Over 46% of the sample households paid more than 25% of their monthly income for housing.

5. While the most recent Lall study of HDFC beneficiaries suggested a highly educated, upwardly mobile population profile, the low income survey demonstrated a wide range of occupational categories including both formal sector clerical workers and laborers, and informal sector, self-employed beneficiaries. Many of the participants in the program might eventually move to a somewhat higher income level over time. However, their job titles are those of the lower class, e.g., clerks, assistant teachers, fitters, sorting assistant, packing girl. Moreover, the income level category from Rs. 1200 to Rs. 2000 also includes persons with little more training or occupational status than the current HG program beneficiaries.

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6. The study included a much larger sample and much wider geographic coverage than the socio-economic analysis performed by PADCO in December, 1982. The 1982 study, however, included even more detailed information obtained from individual application and loan files. In comparing the findings available from the geographic areas included in the 1982 survey with the results of the 1984 study, the prior data conforms with the current information obtained. Therefore, one might expect the data on loan financing, sources of self-financing, age, marital status and family size would also be similar.

7. The sample shows that the overwhelming majority of the borrowers are male -- 91% for Bombay and 96% for Bangalore in the previous PADCO study and 86% and 90% respectively for this survey. In the current survey the percentage of couples borrowing was 14%, females 4% and males 82%. There are no formal barriers to women securing a loan and they would benefit from the more secure position that joint title would provide. Discussions with HDFC staff regarding the large percentage of males as sole borrowers indicate that social custom and cultural conditioning account for the practice. Men often want the option to transfer ownership to their children or family. Many men do not ever inform wives about their financial affairs, especially since borrowing is not looked upon favourably in many areas. Women are not generally disposed to even request such an option as obtaining joint title. However, a wife's income is included in the income calculations for determining loan size. This study shows that HDFC might consider further analysis to examine how these cultural factors can be reduced so that more women participate in the ownership and titling process.

8. A comparison of the different types of HDFC loan programs show that the corporate and line of credit schemes provide greater flexibility in meeting low income needs through a variety of financing mechanisms and economies of scale in construction and maintenance of properties. Creative financing such as lower interest rates, longer terms, corporation contributions to downpayments and fees and corporate guarantees - all assist HDFC to provide financing for applicants who might not otherwise qualify for housing finance. However, the study demonstrates that HDFC has had success in meeting housing need for a variety of applicants below the median income in all its programs. Even with dramatic inflation of building costs in the last two years (68% for corporate housing) HDFC has reached further down in the income scale to income levels which are 20% to 50% lower than the HG eligible ceiling of Rs. 1200. By establishing a low income policy which encourages staff to work with all applicants regardless of income, the demand driven expansion of HDFC has also increased the numbers of low income beneficiaries.

9. Turning to unit size criteria, 38% of all individual program units and 68% of the employer-provided units were less than 50 square meters. (The low income survey indicates that in the period December

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1982 - December 1983, 66% of the units of HG eligible beneficiaries were less than 50 square meters and in Bombay over 68% of the units of HG eligible beneficiaries were 40 square meters or less). In both the corporate and individual program the current year data indicates a decrease in unit size. Over 40% of the individual program units and over 85% of the corporate units are now less than 50 square meters.

10. While the study did not specifically examine the sources of housing finance, two recent reports suggest conclusions which were confirmed by reviewing HDFC loan procedures. In comparing the PADCO study of low income applicants and the Lall report on "Some Aspects of Economics of Housing in India", it is generally true that low income loan applicants qualify for a smaller percent of the total housing cost than those with higher incomes. While there are major regional variations in borrowings for low income applicants, e.g. 36% in Bombay and 20% in Bangalore, data on the total HDFC portfolio indicate that only 45% of the financing required come from borrowings. Generally, low income applicants must dispose of a greater percentage of investments and receive a smaller percentage of their housing finance from formal sector loan financing.

11. While 18% of the total 1983 individual loan program borrowers are HG eligible beneficiaries, 78% of all beneficiaries in the corporate loan program earned under Rs. 1000 per month during FY 82-83. This shows that the corporate programe reaches more low income beneficiaries than the individual program.

The HDFC management reports provide an even more detailed analysis of the relative proportion of low income beneficiaries by type of program. The latest management report dated March 1984 for the period ending January 31, 1984 indicates that 12% of the cumulative individual beneficiaries and 82% of the cumulative corporate beneficiaries have monthly incomes below Rs. 1000. The corporate current year totals as a percent of the loan portfolio have actually increased to 90% while the individual beneficiaries current year total indicates a decrease to 8%. However, the actual number of low income beneficiaries has increased. This study shows that HDFC should examine the individual loan program to consider additional mechanisms to stimulate the growth of the low income portfolio as the overall portfolio increases.

		Bombay	Amedabad	Bangalore	Cochin	Calcutta	Dadar	Hyderabad	Madras	New Delhi	Pune	TOTALS	%
Sex	Male	92	45	64	43	13	57	8	56	21	43	442	81.9
	Female	7	0	1	2	0	2	0	8	0	1	21	3.9
	Couple	8	25	6	8	4	8	2	8	2	6	77	14.3
Income	1001-1200	51	28	42	23	4	37	5	21	8	23	242	44.6
	801-1000	51	31	24	20	6	24	4	31	6	19	216	39.8
	601-800	4	9	5	10	6	6	1	18	4	7	70	12.9
	600 or less	3	2	1	0	1	0	0	2	5	1	15	2.8
Value/M^2	2001 +	25	0	0	1	1	2	0	0	0	1	30	6
	1501-2000	42	0	4	0	0	28	3	3	2	4	86	16
	1000-1500	28	37	34	10	6	31	2	34	11	35	238	44
	1000 or less	3	27	34	42	10	5	5	35	10	10	181	34
Size-M^2	61 +	4	14	15	29	5	3	1	10	7	5	93	8
	51-60	5	19	15	15	3	3	1	11	5	7	84	16
	41-50	22	18	23	4	4	16	0	20	6	8	121	23
	40 or less	67	13	19	5	5	44	8	31	5	30	227	43
IIR (Investment Income Ratio)	.26 +	46	30	42	25	9	28	3	27	10	28	248	46
	.20-.25	57	34	28	34	6	36	5	34	10	17	251	46
	.20 or less	6	6	2	4	2	3	2	11	3	5	44	8
Occupation	Laborer	19	16	52	40	2	19	2	36	6	11	203	37.4
	Clerical	46	22	11	8	7	21	4	23	5	17	170	31.3
	Professional	32	17	6	5	5	19	3	10	5	10	112	20.7
	Other	12	15	3	0	3	2	1	3	7	12	58	10.7
Type	Bungalow	2	21	60	53	13	5	9	41	1	20	225	43
	Flat	96	30	10	0	3	56	1	29	18	27	270	51
	Row or Town	0	13	2	0	1	5	0	2	4	3	30	6

ANNEX 6 F

Summary "Report on Corporate Housing with Special Emphasis on certain Projects Financed by HDFC in India" Prepared by Maser Private Limited

2. SUMMARY

2.1 The objective of this study was to get a brief overview of the situation in regard to corporate housing in India, and to study the benefits accruing from the housing constructed in 5 specific projects, especially to persons earning less than Rs. 1200 per month. Therefore the study was divided into three parts taking into account the nature of data required by 'U.S. Aid':

a) Desk survey for data on housing and corporate housing in India. The findings are dealt with in detail in Chapter 4 and in Annexures 3 to 17.

b) Corporate-level survey of the 5 nominated projects for data on over all housing provided, policies, etc. This is dealt with in Chapter 5 and in Annexures 18 to 23.

c) Worker-level survey in the nominated projects to get a direct feedback on living conditions, wages, worker family profile, previous job etc. These are discussed in Chapter 6 and in Annexures 24 to 36. The findings are discussed below in brief.

2.2 Housing in India(Chapter 4)

2.2.1 There is a tremendous shortage of housing in India. The estimates of shortfall vary from 21.3 Million units in 1980-81 (National Buildings Organisation) to 75.33 Million units (Indian Institute of Management, Ahmedabad). In 1990-91, this figure may even cross 100 Million units.

2.2.2 Nearly four-fifths of the shortage is likely to be felt in rural India, where 94% of the houses are occupied by the owners themselves. This would imply that those who have to live in rural India due to their employment and do not buy their own house, will find it increasingly difficult to find accommodation unless their employers provide housing.

2.2.3 Only 19% of the houses in rural India and 64% of the houses in urban India are 'pucca' The quality of housing in rural is poor and the amenities available too are inadequate. (Annexure 17).

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2.2.4 Three-fourths of the households in India live in dwellings which have one or two rooms, and the average number of rooms per household in India is a shade over two.

2.2.5 The gross capital formation in housing in India as a percentage of the GDP was lower in the seventies as compared to that in the sixties. The short-fall in housing investment is widening.

2.2.6 Against this backdrop of a widening gap between housing demand and supply, we have the following scenario emerging:

a) The Government of India are, through the Industrial Licensing Policy, trying to disperse industries to the under-developed regions, thereby creating job opportunities in the unskilled categories for the locals in those areas while simultaneously shifting the nodes of employment for skilled and other employees from the urban areas and their home-towns to these areas which are at best temporary homes for them. Thus the increased demand for rental residential accommodation is an offshoot of this policy.

b) The expectation of these new migrants in terms of type of housing is higher than is readily available. Hence the increase in demand for housing in rural areas will arise not only in overall numbers but also in qualitative terms.

c) Companies in India have never recognised their responsibility to provide housing to employees. There is a genuine paucity of investment funds and the employee-housing is low on their priority list. Courts in India have also supported the view that Companies should not be burdened with the duty to provide housing. The exception is in the case of Plantations where the Government feels that it is necessary to protect workers from exploitation by employers. Companies, therefore, house only the bare minimum numbers in order to attract employees and to retain their services.

2.3 Corporate survey findings (Chapter 5)

2.3.1 CIDCO should be treated separately for analysis because it is a line of credit from HDFC whereby beneficiaries are not employees of CIDCO but persons engaged in the wholeasale vegetable and fruit trade. CIDCO came in the picture because the market was to be shifted to New Bombay City which is being developed by CIDCO and the persons connected with this trade would need housing near the proposed market location.

The scheme comprised of 400 housing units was completed. These units are described in Chapter 5.

2.3.2 93% of 'workers' in the other 4 Companies are unskilled, 3% are skilled and 4% fall in the 'other staff' category. (See Chapter 7 for definitions). Corporate housing has been provided to 99% and 83% of these categories of 'workers' respectively. The picture is totally distorted by the giant work-force of Tata Tea where housing is compulsory by Law.

The percentages for the other 3 Companies, excluding Tata Tea, are consequently much lower. There is a trend to give a lower priority to housing of unskilled workers than other workers, partly due to seniority considerations, paucity of funds and due to the fact that many of them are sons-of-the-soil.

2.3.3 Less than 1% of the 'workers' earn more than Rs. 1200 per month in these 4 Companies. Even if Tata Tea is excluded the percentage would be around 95%. Since U.S. Aid is interested in the analysis of persons earning less than Rs. 1,200, the entire workforce of these 4 Companies can be treated as belonging to that category. Most of the workers have non-earning dependents, as a consequence of which the per capita family income in all cases is much less than Rs. 1200 per month.

2.3.4 Companies provide housing to their employees in order to attract workmen and to house their essential staff.

2.3.5 The wages and general facilities are the same for those with and without company housing. The question of house rent allowance is treated differently by each Company. It does not arise in the case Tata Tea who provide accommodation to all; it is not paid by Nirlon (Roha) as policy; it is paid to workers without housing by KPCL and OC.

2.3.6 All the respondent Companies provide tenements having 3 rooms to their workers. The area of the tenements vary (Annexure 19). The all India housing average is 2.13 (rural areas) and 2.05 (urban areas).

2.3.7 Amenities provided in Company houses are far superior to those available in the alternative housing available in surrounding areas.

2.4 <u>Worker Survey</u> (Chapter 6)

2.4.1 90% of the workers interviewed in OC and KPCL earned less than Rs. 1200 per month and none earned more than Rs. 1800 per month. The average size of household is 3.25 as compared to the all India average of 5.86.

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85% of the workers were married and all were males above 22 years of age.

2.4.2 All the worker houses were of the 'pucca' type. Temporary structures erected in OC have not been treated as Company housing.

2.4.3 Workers without company housing gnerally stayed in smaller houses with less amenities, than the Company houses. 79% of them commute upto 10 Km to work.

2.4.4 Most of the workers without Company housing desire it because of the various facilities and advantages that accrue from it.

2.4.5 Workers with Company housing who have worked elsewhere before joining the present Company did not have to sacrifice their emoluments when they took up this job. In fact most of them have got at least 20% more than their previous income.

2.4.6 Half the workers in the sample had a dwelling place elsewhere in India and had dependents living there. Very few of them actually owned them. In fact, 78% of the 'workers' expressed a desire to own a dwelling place.

It should be noted that the four Companies had no intention of selling the dwelling units provided to workers but the workers too by and large had no desire to buy those tenements. Detailed statistics are given in Chapter 6. Not wanting to purchase the Company accommodation is explained by the fact that only a part of the workers are locals and for the rest, 'home' is elsewhere.

2.4.7 Most of the workers who expressed a desire to own a house, also indicated that they would think of loans from their employers as the source of funds. Awareness of other loan schemes was low.

2.5 It may be concluded from this study that, there is a crying need for company housing in India but companies cannot channel their limited investment funds into this area which enjoys low priority. This is a matter that should be investigated in depth by HDFC with a view to develop some viable and practical loan schemes which will at least party solve a major social problem.

It will have to be either tackled at the Company level by providing incentive to invest in housing for low and medium income group workers by way of low-interest bearing loans which cannot be diverted for other use, or by providing loans for housing schemes with as low a margin as practical or at the individual level by providing loans to group housing schemes in industrial growth centres in such a way that the loan recovery is guaranteed and decentralised.

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ANNEX 6G

DRAFT SCOPE OF RESPONSIBILITIES FOR RESIDENT ADVISOR

The Resident Advisor will be responsible for two kinds of activities. On a long-term basis she/he will be responsible for assisting RHUDO and USAID in the evaluation and monitoring of HDFC. This assistance shall include an analysis of HDFC disbursements to lower-income households and one or more surveys of beneficiaries with a view to producing recommendations to RHUDO, USAID and, ultimately, HDFC about how the lowest practicable income levels can be served by HDFC without subsidies.

Also as part of his/her long-term responsibilities, the Resident Advisor shall, upon request, provide assistance to Indian institutions which provide or plan to provide housing finance for lower-income households. The emphasis of this assistance shall be the development of formal private sector entities which have as a corporate goal the provision of unsubsidized capital for the production of housing affordable to such households. In particular, it is expected that the Resident Advisor will provide assistance to one or more apex housing cooperatives.

Secondly, the Resident Advisor shall produce or manage the production of a series of studies designed to provide to USAID and RHUDO information and analysis relevant to the development of selected elements of a sector strategy. They will be calculated to establish the basis for future HG programming, to improve low-income targeting, and to identify and evaluate possible recipients for HG funds. To the extent permitted by time and budget constraints. Such studies as the following will be undertaken, with priority given to those efforts which will most directly support changes in institutional design needed to provide housing financial services to lower-income households:

(1) An analysis of capital flows in the housing finance sector in India: This analysis should show quantities and directions of flow among public and private institutions including the nationalized insurance corporations, commercial banks, development banks, international agencies, central state and local governments, cooperatives, corporate and other investors, and individual households. It should consider the role of the informal sector in housing finance, including "black" money, "pugree" and other practices. In addition to appropriate graphic depictions of these flows, an analytical narrative should describe the statutory, regulatory and market constraints on, or incentives for, investment in housing.

(2) The development of recommendations for the mobilization of currently unused or incompletely used resources for housing finance: This study ought to examine in particular the ways in which private sector institutions can attract the univested resources of Indian

households, and the marketing of debt instruments, including bonds, notes, and debentures, and of equities.

(3) A detailed evaluation of the means by which access to capital is regulated by the public sector in India with the goal of determining the extent to which government policy, as opposed to demand, determines the cost and quantity of capital for housing. This discussion should lead to a description of those changes which would do the most to make capital markets more responsive to effective demand from housing consumers.

(4) An extensive survey of private employers which provide housing benefits to their employees to determine the pervasiveness of such benefits, the kinds of programs offered, the value of the subsidies, if any, including tax advantages, and the costs to employers.

(5) An analysis and comparison of various kinds of housing financial facilities currently used or usable in India from the perspective of their comparative utility to lower-income households. At a minimum, this evaluation should include loan-linked deposit schemes (including, e.g., the DEG scheme), variable rate instruments, cooperative financing, institutionalization of indigenous systems and pension fund financing. It should compare the amortization burdens, risks, and discounted life-cycle costs of each of the approaches examined. Only those facilities which are commercially viable in an unsubsidized context should be considered.

(6) An assessment of the need for and feasibility of establishing a secondary mortgage market in India. This study should consider whether the volume of mortgage paper foreseeable in the residential real estate market is sufficient to justify the formation of secondary purchasers, whether, in any case, such cycling would have any impact on the availability of mortgage loans to lower-income households, any legal obstacles to a secondary market and such institutional design implications as are revealed by other aspects of the study.

(7) A feasibility study of mortgage insurance in India. The limited objectives of this analysis would be to determine whether there is any market justification for mortgage insurance and whether its availability would have any effect on lower-income households.

(8) An evaluation of the effect of threats to tenure on household and institutional willingness to invest in housing. This discussion should include registration and titling problems, the uncertanties created by the Urban Land Ceiling Act and government policies towards squatter tenure.

(9) An analysis of the levels of effective demand for unsubsidized housing. This analysis should estimate the cost of various configurations (bungalows, apartments, etc.) of pucca and semi-pucca

housing in different regional markets and compare those costs with income levels in such markets. These calculations should lead to conclusions about the extent to which the private sector is or could meet the unsubsidized demand for housing in major Indian markets.

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ANNEX 6H
EVALUATION OF PAST AND SCHEDULE AND COST
FOR FUTRE HDFC TRAINING PROGRAMS

I. Initial HDFC Training Program funded by USAID central grant funds ($100,000)

Brief Description

HDFC conducted its first systematic all India training program for all its staff during the month of February/March 1984. The idea of this training programme was discussed with USAID in February 1983. In order to identify an appropriate organization in the USA which would be able to carry out a program suitable to its needs, HDFC had discussions with a number of U.S. Savings and Loan Associations, U.S. Universities, the Federal Home Loan Bank board and the Institute for Financial Education, a subsidiary of the U.S. League of Savings Associations. IFE was finally selected as the most appropriate Institution. Mr. George Cardis of IFE and Mr. Curtis Cook of San Jose University, California visited HDFC for two weeks in November 1983 and conducted an organizational audit with specific reference to the type of training required. A detailed questionnaire was also filled in by all members of staff which was later analyzed to assist in the formulation of an appropriate program. The prime objective of the program was to design and initiate an on-going in-house staff training programme which would be used to train all HDFC employees in corporate objectives, operations and interpersonal skills.

Program Design

As a result of the organizational audit, a detailed report was prepared in which specific recommendations were made. The key requirements with respect to training are listed briefly below:

(1) An emphasis on personnel development was identified: with specific reference to

(a) Managerial Skills
(b) Communication Techniques
(c) Incentive & Reward Structures
(d) Career Planning
(e) Goal Setting and Planning Assignments

(2) Developing a Training and Personnel Development function within HDFC.

(3) Developing performance evaluation, systematic job descriptions (i.e. "key result areas" for which employees are responsible), and accountability for individual work objectives.

(4) The need for an Employee Orientation Programme was also identified, including:

(a) mechanised audio visuals;
(b) planned system of job rotation

(5) Branch manager training: training not only in achieving a Branch Manager's role but in interacting with the Head Office.

In summary, the report outlined the need to enhance work effectiveness by improving:

(a) Communication
(b) Task or work expectations
(c) The practice of managing
(d) Incentives and career planning

The training program ultimately designed cover these four major areas with considerable emphasis on (a) and (b) owing to their complexity.

Program Evaluation

The training programme was conducted in two centres, Bombay and Bangalore and covered almost all HDFC staff (excluding drivers and peons) totalling about 270 persons. They were organized in five two day sessions for all staff including managers. A special session was also organized for only managers and officers of HDFC. In the general sessions, managers and officers played the role of facilitators for staff.

The training programme proved to be a learning experience for all staff. Most were unfamiliar with the material as well as the style of presentation. The programme was designed to maximise participation with a minimum reliance on lectures. In each session different techniques were used to illustrate provocatively the nature of the problems being discussed. Some of the techniques that were used were:

(1) role playing
(2) team problem solving
(3) illustrative games

One of the most useful sessions proved to be the Group Work Session at the close of the first day. Each team selected a current problem that they felt urgently needed attention at HDFC, worked on it and made a presentation next morning. They were encouraged to use the techniques to which they were exposed during the day.

The content and quality of the presentations were of an extremely high order in all the presentations. All presentations have been preserved for future use. Many of the ideas and recommendations made have a potential use for future systems change in various departments.

Perhaps one of the most useful end products of the training programme was the opportunity of HDFC staff to meet each other and discuss common issues. For many, it was the first time that they had visited the Head Office. It was in fact the first opportunity for all staff to get to know the organization better, exchange notes with colleagues, discover that problems were not branch specific, and to imbibe HDFC culture.

The present training programme will place all HDFC staff on a common level; they will have acquired a common vocabulary on which to build. They will also be much more aware of HDFC as an organization, its problems and its people which will help considerably in promoting growth through better co-operation and co-ordination.

A detailed questionnaire has been sent to all staff who attended the training sessions under this program. A careful evaluation of the results will be made shortly to help us determine in more detail the reaction of staff members as well as plan for future programmes.

Preliminary indications suggest that the program was widely appreciated. It has boosted morale and created expectations among staff members for a more systematic approach to training and career development. HDFC looks ahead to building on the firm foundations that have been established.

II. Attendance at Training Workshops in Washington, D.C.

HDFC has benefitted considerably by its regular attendance at the Shelter Workshops held in Washington. These courses provide useful insights into the nature of the shelter problem with special regard to lower-income households. While HDFC has, in its initial years, concentrated on building its institutional base, it has targetted some proportion of its funds specifically to lower-income households. With a renewed emphasis on training and attendance at relevant seminars and workshops in India and abroad, HDFC hopes to be able to reach out, to households earning well below the median income level. New Techniques of mortgage lending and loan appraisals as well as savings linked loans will make housing finance accessible to lower income people. Training will be a crucial requirement and this has been built into future HDFC programs.

III. Future Training Programs and Management Goals

HDFC's rapid growth and diversification will require a highly trained and adaptable staff. Several deficiencies which were highlighted in the recently held training programmes will take primary place in the future action programme of the Corporation.

One of the primary tasks that emerges is to identify the specific training needs of HDFC over the short and medium term. In order to do this several prerequisites will become necessary. Manpower needs can be

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arrived at by carefully evaluating the present staff in terms of career development and deciding at what entry points new staff are required. This in turn will determine the need for training (i) additional staff and (ii) training existing staff to take on new responsibilities including transfers.

The need for training can only be determined by evaluating an employee's current work activity with that expected of him at that task. The gap indicates the training requirement. In order to evaluate this, a systematic procedure for performance appraisal with clearly spelled out job responsibility and reporting channels need to be established. In brief, human resource developme t will require a systematic attempt at evaluating job standards, setting objectives, modifying them and finally appraising demonstrated performance. This will indicate career paths of existing staff as well as the entry points for new staff.

In order to fulfill these objectives the following program is planned for the period June 1984 to December 1985:

June 1984 to Feb. 1985 — (1) To appoint an external consultant to recommend and design an appraisal system commensurate with the size and growth of the Corporation. This would include job standards, promotion policy together with remuneration packages, appraisals and recruitment. The consultant would also help design training packages for specific identified needs.

Cost:	Rs1,200	
Duration:	5 days per month for eight months	
Total cost:	Rs48,400	Approx. US$5,000

(2) The External Consultant would also, in the course of this time organize four six day training sessions to initiate the implementation of the newly designed system.

Cost:	Rs10,000	
Duration:	six days per programme x 4	
Total cost:	Rs40,000	Approx. US$4,000

Organization expenses of Seminars — Approx. US$10,000

June 1984 to Sept 1985 — (3) To establish a Management Trainee Programme within HDFC for all new recruits who are potential officers. This program would use material imported from IFE and would also develop material in India to extend and adapt material already available. The process would be mechanized in the form of Audio Visuals and other training aids.

At present three Audio Visuals are envisaged

(i) Orientation to HDFC and housing finance in India
(ii) mortgage lending procedures
(iii) mortgage servicing procedures

Cost: Rs40,000
per audio visual x 3

Total cost: Rs1,20,000 Approx. US$12,000

Other organizational expenditure via Task Forces Regional training programmes etc. Approx. US$20,000

Sept 1984 (4) To develop with IFE several of the packages already available in terms of Mortgage Operations, Mortgage servicing and supervisory management. These packaged programs need to be adapted and structured for our own requirements. Second, the correspondence courses offered by IFE need to be examined for use by HDFC in India.

Assessing our requirements:

(i)	One IFE person in Bombay for two weeks Fare $1,450 Per Diem $120x14 Fees: $300x14	$7,330
(ii)	One HDFC person in Chicago to work with at least one IFE person HDFC Fare $1,450 Per Diem $75x14	$2,500
	IFE Fee $300x14	$4,200
(iii)	In Bombay to set up and train HDFC trainers. One IFE person in Bombay for two weeks	$ 7,330
		$21,360
(iv)	Course Material cost etc	$ 2,500
		$23,860 Approx. US$25,000

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Sept 1985 (5) To organize a second major training session involving all staff in the latter half of 1985 to reassess the development of the training and personnel functions in HDFC as a result of the programs envisaged. In other words an assessment of the activities planned under (1) (2) (3) and (4) above together with a more advanced specialist training programme.

Estimated cost: Three weeks two trainers

Fee:	US$450x21x2	$18,900
Per Diem:	US$125x21x2	$ 5,250
Fare:	US$1,600x2	$ 3,200
		$27,350
Domestic Cost approx. Rs4,00,000		$40,000
		$67,350 Approx US$70,000

(6) To continue to be actively involved with international and local seminars on housing policy, finance with special reference to lower-income people such as the Shelter Workshop in Washington, EAROPH, courses at U.S. Universities such as Berkeley and MIT etc. It may be advisable in some cases to send a team of people ot some courses so that HDFC can utilize ideas in greater measure.

Cost of such programmes estimated at Approx US$100,000

(7) To attend special training courses for trainers and to acquire pre-prepared material in the form of books, audio visuals, films that facilitate in-house training programmes US$25,000

As may be seen, the overall orientation of the program is to develop the human resource management and training activities within HDFC in order to ensure that existing manpower is used optimally, motivation, incentives and remuneration packages are satisfactory and recruitment policies follow a predetermined strategy relating to the entry points identified by careful evaluation. This approach is also designed to reveal the training needs of existing staff.

An important factor in the overall orientation of training will be to reduce procedural requirements in current operations, make operating systems more efficient as well as to access a greater number of lower income households to HDFC's savings and lending programs. With a widening geographical spread, HDFC's training programmes will be crucial for future development. It will emphasize the importance of common objectives and the manner in which these are to be achieved.

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ANNEX 6I

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ANNEX 7

Debt Service Capability:

India's long standing policy of selective and cautious use of borrowing has prevented the emergence of severe debt servicing problems. In this regard, Indian policy makers are acutely aware of the debt servicing crises experienced by other developing countries in recent years and from all evidence are determined to avoid this type of problem. Most recently, India demonstrated its conservative approach to international borrowing by deciding to refrain from drawing down the last SDR 1.1 billion tranche under the Extended Fund Facility arrangement for SDR 5.0 billion agreed to in 1981 with the IMF.

The major change in India's financing of external debt in the medium term will be the continued rise in commercial borrowing and the decline of concessional assistance. India's credit rating, which is good and will likely remain strong, should provide it with the required access to international capital markets for commercial borrowings. The debt servicing associated with larger borrowings in commercial markets will be greater, of course, than with concessional assistance. In this respect, Housing Guaranty borrowing under current market conditions is advantageous vis-a-vis alternative non-concessional sources of funds. The recent Housing Guaranty loan to HDFC was made on a floating rate basis at an effective interest rate of 9.3 % (30 basis points over 90 day Treasury rate). In contrast Indian borrowing in the international capital markets has been at an effective rate of 10.62 % (62 basis points over London Inter-Bank Offered rate).

Table I A-C shows India's debt service ratio from 1973-74 to 1982-83 and estimates from 1983-84 to 1989-90. The estimates show a rapidly rising debt service ratio through 1986-87 and then a stabilizing of the ratio through the end of the decade[1/]. The short term situation will be readily manageable; the medium term, difficult but nevertheless manageable. The GOI's economic survey for 1983-84 summarizes the situation as follows: "The economy may have to face a not very comfortable external financing problem in the Seventh Plan and the adjustment policies initiated at the beginning of the Sixth Plan would need to be continued."

The Sixth Plan adjustment policies referred to above were developed in response to the oil price increase of 1979-80. At that point more than three-quarters of India's export earnings were being used to pay its oil import bill. The government, as part of the SDR 5.0 billion loan, worked out with the Fund an adjustment strategy that it hoped would allow the economy to integrate the higher oil prices while not sacrificing economic growth. The crux of the strategy was first to open up the highly protected Indian market to more imports of intermediate and capital goods as well as foreign

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1/ Data were provided by World Bank/India and are drawn from GOI sources.

investment and technology. It was hoped that the influx of foreign equipment and know-how would, over the medium term, make Indian industry more efficient and energize the stagnant export sector. At the same time, the Government launched an investment program of $6-7 billion over five years aimed at greatly expanding domestic oil production.

So far the second part of the strategy has been far more successful than the first. Domestic production of crude oil has almost tripled and net oil imports have declined to only 38% of export earnings. In fact, the improvement in the oil import account has been sufficient to contain the current account deficit to $3,948 million in 1983-84, less than two percent of GDP. On the capital account, the balance of payments was bolstered by a continuing flow of remittances and a significant increase in deposits from Indians residing abroad which more than doubled in 1983-84 to reach the $1 billion level.

Despite these improvements the medium term outlook for the balance of payments is uncertain. Growth of non-oil exports has been stagnant for the past few years, i.e. the estimated 1983-84 level is approximately the same as the 1980-81 level. Both the Government and many Indian businessmen acknowledge that Indian manufactured products have difficulty competing successfully in overseas markets. Also, it now appears that foreign assistance on concessional terms will not increase during the coming years. Thus, unless India can somehow increase its hard currency export earnings it will have to turn increasingly, as it already has begun to do, to commercial loans on harder terms for financing the rising flow of high technology imported capital goods that it will need during the second half of the eighties.

The Government clearly recognizes India's vulnerability, and in the context of its explicit policy of not exceeding debt service limits, imports may have to be limited during the planning period that will begin in 1985. This could result in India following a slower growth path. An alternative, imprudent borrowing, is considered highly unlikely in light of India's conservative record. The excellent interest rate India has obtained on recent commercial borrowings in the midst of the upheavals in international commercial markets reflects this assessment.

The following table shows the decline in India's trade deficit over the past several years in millions of dollars. It is likely the trade gap will continue to narrow in 1984-85.

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Year	Imports (includes net oil imports)	Exports (excludes oil)	Deficit
1981-82	15,500	8,519	6,981
1982-83	14,249	8,001	6,248
(Est) 1983-84	14,412	8,466	5,946

A substantial increase in domestic oil production and relatively soft international oil prices were the main factors which accounted for the reduction in the trade deficit. Oil production doubled from 10.5 million metric tons in 1980-81 to 21.1 million metric tons in 1982-83. Production is projected to further increase to 26 million metric tons in 1983-84 and to 2[illegible].5 million metric tons in 1984-85. At present 6 million metric tons of crude are exported each year; such exports will continue until all the country's refineries have been retrofitted to process Indian oil. Thus, as retrofitting is completed exports and imports will decline. Since 1980-81, net oil imports as a percent of non-oil export earnings have declined from 78% to a projected 38% in 1984-85.

As the following table indicates, exports other than oil have been stagnant in dollar terms for the past several years.

Year	Non-Oil Exports	% Change
1980-81	$. 8,504 million	
1981-82	$. 8,519 million	0.2
1982-83	$. 8,001 million	-6.09
1983-84	$. 8,466 million	5.81

To a certain extent the appreciation of the US dollar relative to the Indian rupee has limited growth of export earnings in dollar terms. More fundamentally, however, it is a reflection of the high cost and relatively low quality of many Indian manufactured exports. An additional factor has been the international recession, which reduced demand for many primary products and increased competition in areas where Indian exporters of manufactured goods had hoped to build a market presence.

Net invisible receipts fell from $2,373 million in 1982-83 to $1,998 million in 1983-84, but the drop was not as steep as expected. While remittances from Indians abroad, principally workers in the Middle East, have declined from the high mark of $2,861 million in 1980-81, they now appear to have steadied at about $1,800 million, at least for this year and next. The major change

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in the invisible account was a sharp increase in interest payments on past borrowings, especially to the IMF and to commercial banks. Another negative factor was that GOI interest revenues have fallen because of reduced levels of foreign exchange reserves excluding gold from FY 82 onward.

The current account deficit grew to $3,874 million in 1982-83 and to a projected $3,948 in 1983-84. As a proportion of GDP, the deficit was the equivalent of 2.2% in 1982-83 and 1.93% in 1983-84.

On the receipt side, net concessional aid disbursements increased from $1,456 million to $1,771 million in 1982-83 and is projected at $1,655 million in 1983-84. At present the World Bank accounts for more than half of gross aid flows. During the years 1981-83, IDA committed $3,244 million to India for development projects. Under the new three-year IDA replenishment, which is in process of negotiation, it is likely the GOI will receive substantially less. While the hard loan window of the World Bank will offset the decline in IDA commitments, the stiffer loan terms (20 years at near market rates) would cause concessional aid flows to decline.

A source of strength to the balance of payments in recent years has been the willingness of Indians residing abroad to hold their savings in the form of deposits in Indian banks denominated in rupees, dollars or sterling. To encourage these flows the GOI has placed a 2% interest premium on hard currency deposits by non-resident Indians over other domestic deposits and has guaranteed their convertibility without exchange risk. Thus a non-resident Indian can earn 13% annually on a 5 year certificate of deposit. While this rate of interest is higher than that India pays to the commercial banks some observers believe the advantage of the non-resident deposits is that there is a strong possibility that they may not be repatriated for many years. Nevertheless it must also be recognized that these flows are sensitive to the level of interest rates elsewhere, principally in Europe and the U.S. If interest rates abroad were to go up, the GOI would have to match the increases or risk having the flow of non-resident deposit dry up or perhaps even turn negative. The flow of deposits increased from about $96 million in 1981-82, to $466 million in 1982-83, and is projected at $1,000 million in 1983-84.

An increasingly important source of external funds is commercial borrowings and supplier credits. Though these are for shorter terms and considerably costlier than normal sources, the drying up of concessional aid makes some additional recourse to commercial borrowings inevitable. Total commitments of commercial loans including supplier credits increased from $1,348 million in 1981-82 to $2,462 million in 1982-83. Commitments are expected to amount to about $1,978 million in 1983-84. The bulge in commitments during 1982-83 occured because of large borrowings to finance

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capital equipment for the Oil and Natural Gas Commission, the Rihand Thermal Power Project, and Air India. Disbursements of commercial loans were substantially less than commitments: they amounted to about $177 million in 1981-82, $456 million in 1982-83, and a projected $841 million in 1983-84.

As a result of increased pressures on the balance of payments because of the 1979 oil price increase, India obtained a 3-year SDR 5 billion loan from IMF in November 1981. Of this amount, India drew SDR 600 million in 1981-82, SDR 1,800 million in 1982-83, and plans to draw SDR 1,500 million over the next year, for a total of SDR 3,900 million. Prompted by the decline in India's trade deficit over the past 2 years, Prime Minister Gandhi announced on January 15, 1984, that India would forego the balance of SDR 1.1 billion under the IMF loan. There were good policy reasons for adopting this course. Chief among them was the fact that given the improvement in the current account, the final SDR 1.1 billion tranche of the IMF would buy little, if any, additional policy latitude for the GOI over the next year or two, but would increase the debt service burden in the late 1980's.

Gross foreign exchange reserves, including gold holdings, will increase from $5,288 million in IFY 83 to $6,202 million in IFY 84, sufficient to cover about 5 months of imports. However, India officially values its gold holdings of 8,594,000 ounces at only SDR 35.00 per ounce. If this were increased to the current market price of about $400 per ounce, total reserves would increase by $3,137 to $9.34 billion, sufficient to cover 8 months of imports.

In sum, the preceeding analysis shows that the $20 million Housing Guaranty loan would be advantageous to India's debt service situation. The interest charge will be less than for funds it would otherwise borrow from commercial sources in the coming year. The underlying premise in making such a guarantee is that India will continue to show discipline in borrowing from international capital markets and coincidentally continue to maintain its excellent credit rating. Insofar as the past is an indicator of future performance, there is no evidence to indicate India will behave differently.

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Table 1 - A

(I) India's Debt Service Ratio (DSR): Receipts & Payments, IFY 1974-1990

	Debt service Ratio(%) $\frac{(3)\times 100}{(2)}$ (1)	Receipts on Current a/c ($mill.) (2)	Payment (principal + interest) ($mill.) (3)
a) Actuals			
1973-74	16.9	3,862	652
1974-75	14.3	5,147	737
1975-76	12.3	6,121	754
1976-77	14.2	7,726	1,093
1977-78	12.6	9,098	1,148
1978-79	10.8	10,271	1,143
1979-80	8.2	12,920	1,059
1980-81	7.1	15,254	1,078
1981-82	7.5	14,439	1,078
1982-83	10.1	12,828	1,299
b) Estimates			
1983-84	12.9	13,405	1,732
1984-85	15.8	14,613	2,244
1985-86	17.4	16,736	2,845
1986-87	21.1	19,206	3,975
1987-88	21.8	22,145	4,774
1988-89	21.3	25,790	5,439
1989-90	20.6	29,797	6,096

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Table 1-B

II. Breakdown of Receipts on Current A/C By Its Components: IFY 1974 - 1990 ($million)

	Exports					
	Merchandise	Nonfactor Services	Total Exports	Factor Income (1)+(2)	Current Trnsfer	Total Recpts (3)+(4)+(5)
	(1)	(2)	(3)	(4)	(5)	(6)
(a) Actuals						
1973-74	3,239	384	3,623	54	185	3,862
1974-75	4,174	578	4,752	118	277	5,147
1975-76	4,672	825	5,497	134	490	6,121
1976-77	5,753	1,057	6,810	209	707	7,726
1977-78	6,315	1,384	7,699	311	1,088	9,098
1978-79	6,978	1,612	8,590	478	1,203	10,271
1979-80	7,948	2,304	10,252	796	1,872	12,920
1980-81	8,504	2,881	11,385	1,083	2,786	15,254
1981-82	8,519	2,669	11,188	912	2,339	14,439
1982-83	8,001	2,523	10,524	434	1,870	12,828
b) Estimates						
1983-84	8,466	2,643	11,109	486	1,810	13,405
1984-85	9,386	2,877	12,263	501	1,849	14,613
1985-86	10,823	3,317	14,140	598	1,998	16,736
1986-87	12,642	3,884	16,526	502	2,178	19,206
1987-88	14,787	4,553	22,145	431	2,374	22,145
1988-89	17,346	5,354	22,700	502	2,588	25,790
1989-90	20,201	6,224	26,425	590	2,782	29,797

Table 1-C

Breakdown of Interest Payments And Repayments
By Its Components: IFY 1974 - 1990
($million):

	Repayments			Interest Payments			Total Payments
	IMF	Excl. IMF	Total (1)+(2)	IMF	Excl. IMF	Total (4)+(5)	(3)+(6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
a) Actuals							
1973-74	-	402	402	NA	NA	250	652
1974-75	-	484	484	NA	NA	253	737
1975-76	-	503	503	NA	NA	251	754
1976-77	337	491	828	NA	NA	265	1,093
1977-78	330	527	857	NA	NA	291	1,148
1978-79	158	603	761	NA	NA	352	1,113
1979-80	-	672	672	NA	NA	387	1,059
1980-81	-	700	700	NA	NA	378	1,078
1981-82	-	674	674	NA	NA	404	1,078
1982-83	-	701	701	NA	NA	598	1,299
b) Estimates							
1983-84	70	783	853	307	572	879	1,732
1984-85	140	818	958	350	936	1,286	2,244
1985-86	208	1,176	1,384	365	1,095	1,460	2,845
1986-87	563	1,823	2,386	333	1,256	1,589	,975
1987-88	849	2,181	3,030	275	1,469	1,744	4,774
1988-89	1,003	2,411	3,411	201	1,827	2,028	5,439
1989-90	825	2,846	3,671	148	2,277	2,425	6,096

Table II

Balance of Payments
($million)

	Actuals 1980/81	1981/82	Estimates 1982/83	1983/84
Exports (f.o.b. -excldg.				
Crude	8504	8519	8001	8466
Primary (excl.crude)	2841	2573	2453	2519
Manufactures	5663	5946	5548	5947
Imports (c.i.f.)	-16204	-15500	-14249	-14412
Edible oils	-865	-700	-235	-619
Fertilizers	-1037	-783	-281	-642
Iron & steel	-1080	-1348	-1190	-895
Non-ferrous metals	-605	-445	-290	-393
P.O.L.(net of exports)	-6672	-5590	-4613	-3395
Others	-5945	-6634	-7640	-8468
Trade Balance	-7700	-6981	-6248	-5946
	------	-----	------	-----
Non-factor services				
Exports	2880	2669	2523	2643
Imports	-1515	1695	-1583	-1787
Resource Balance	-6335	-6007	-5308	-5090
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Investment Income (net)	600	286	-415	-648
Current Transfers	2771	2318	1849	1790
(memo item:net invisibles)	4736	3578	2374	1998
Current Account Balance	-2964	-3403	-3874	-3948
	------	-----	-----	-----
Concessional Aid (net)	1634	1456	1771	1655
of which:				
Gross disbursements	2138	1957	2310	2188
Repayments	-504	-501	-539	533
Medium & Long-term				
Borrowing (net)	318	441	614	1003
of which:				
Gross disbursements	514	613	776	1253
Repayments	-196	-172	-162	-250
I.M.F. Credit (net)	1035	690	1980	1295
Capital, n.e.i.				
of which:	-368	-1582	12	914
Non-resident deposits	0	96	466	1000
change				
In Reserves (-=increase)	345	2398	-503	-919
Reserve Level (end of year)	6859	4461	4964	5883

Memo items:				
Cur.Bal GDP mp (%)	1.8	2.0	2.3	2.1
D.S.R (%).	7.1	7.6	10.1	12.9

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