PD-ABR-558

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

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

Amendment Number: 4 (102103)

DOCUMENT CODE: 3

2 COUNTRY/ENTITY

3 PROJECT NUMBER: 386-HG-002

4 BUREAU/OFFICE: Near East/ASIA

5 PROJECT TITLE (maximum 40 characters): Private Housing Finance for Low Income Families

6 PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 06 30 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 B FX	C L/C	D Total	LIFE OF PROJECT E. FX	F L/C	G Total
AID Appropriated Total							
(Grant)	PRE/H	( )	( )	( )	(135)	( )	(135)
(Loan)		( )	( )	( )	( )	( )	( )
Other US	1 HG Loan	20,000		20,000	95,000		95,000
	2						
Host Country							
Other Donor(s)							
TOTALS		20,000		20,000	95,135		95,135

9 SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1 Grant	C. 2 Loan	D OBLIGATIONS TO DATE 1 Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1 Grant	E. 2 Loan HG	F LIFE OF PROJECT 1 Grant	F. 2 Loan
(1)	720	850	866	135	70,000		25,000	135	95,000
(2)									
(3)									
(4)									
TOTALS				135	70,000		25,000	135	95,000

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 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 YY 03 85; MM YY 04 86; Final MM YY 06 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.)

For FY 87 authorization of the $25 million final tranche of Project No 386-HG-002 to the Housing Development Finance Corporation (Guaranty Authorization No 386-HG-007)

*APPROVED BY Signature: G Eidet

Title: Controller, USAID/New Delhi Date signed

17 APPROVED BY Signature: Robert M Bakley

Title: Director, USAID/New Delhi

Date Signed: MM DD YY 08 25 87

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

4

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PROJECT PAPER AMENDMENT

INDIA

386-HG-002

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I. SUMMARY

A. Introduction

Proposed here is a one-year $25 million amendment to a current HG Project (386-HG-002). The amendment would strengthen the private housing finance sector in India through continued support for the Housing Development Finance Corporation of India (HDFC). It would augment and continue PRE/H's current emphasis on rapid expansion of HDFC's lending program with greater emphasis on sectoral development

The proposed amendment contemplates a single disbursement of $25 million during FY 1988 In return, HDFC would agree to establish a housing finance policy institute to seek policy changes calculated to foster development of the private housing finance sector, continue and expand its efforts to mobilize domestic resources through the introduction of new deposit facilities and through aggressive extension of its branch network and agent system, continue to increase the number of low-income households which borrow its funds, and provide support as appropriate to the Eastern India Housing Finance Corporation

B. The Program

HDFC has met and exceeded the goals and concepts articulated in 386-HG-002 (C) and now finds itself entering perhaps its most crucial year. HDFC has become the private sector role model and has carried the policy dialogue on finance sector privatization with the GOI The GOI has responded by focusing on the housing/housing finance sector and has convened a number of high level groups to make policy recommendations for it to enact. These groups include committees reporting on the National Housing Bank and on mortgage insurance, a National Commission on Urbanization, which also covered issues of rental and land supply policies, and groups responsible for the formulation of a housing policy New policy initiatives are to be formalized and introduced this year This is therefore a critical year for AID to work with HDFC to continue the current work and use this time as an opportunity to break new ground in expanding the private sector in India

C. Recommendation

On the basis of the original Project Paper and the analysis developed below, it is recommended that the current HG project (386-HG-002) be extended and an additional $25 million be authorized

II. PROJECT STRATEGY AND DESCRIPTION

A The Problem to be Addressed

Existing and conceivable public sector shelter programs pale beside India's estimated 23 million unit housing deficit The limited results achieved by the GOI's past concentration on public sector solutions to shelter problems can be seen in the fact that in the last decade the growth of housing stock has failed even to keep pace with population growth For instance, per capita floor space has been falling, the proportion of households owning their homes has declined in most metropolitan cities, and the proportion of slums in the urban housing stock has been rising

The available data do not permit a defensible calculation of the level of effective demand for unsubsidized shelter But it is apparent that the private sector must provide housing to the very great majority of Indian households Thus, GOI policy for the 7th Plan period is that 90% of contemplated shelter investment will come from the private sector While many units, particularly in rural areas, will continue to be provided informally, formal housing finance and development organizations must play a greatly increased role, especially in the provision of low income housing, if the urban housing situation is not to deteriorate. The corporate private sector will nevertheless continue to provide less shelter than is needed or would be demanded if counter-productive interventions were removed and if private sector institutions were given the means to develop. Moreover, although up to three-quarters of India's population live in rural areas, cities are growing rapidly, creating severe housing shortages in virtually all employment centers.

The GOI has made various attempts to address this housing need, including the establishment of the Housing and Urban Development Corporation (HUDCO) in 1970 and subsequent implementation of policy reforms to encourage greater private participation in the shelter sector. The GOI has also been supportive of HDFC's activities. HDFC has played an important role in introducing a private, market-oriented approach to mortgage credit, and its rapid growth has illuminated the demand for housing finance, but the dimensions of country's shelter problems necessitate a broader-based and more rapid expansion of India's shelter finance and delivery systems

The problem to which the project amendment proposed here will continue to respond is the incapacity of private lenders in India to meet the effective demand for home purchase and construction loans This problem has four primary causes Most importantly, capital market domination and other interventions by the Government have been only partially mitigated in the housing finance field by HDFC's success in securing liberalizing policy changes Secondly, there has ben a dearth of managers trained in housing finance by whom new institutions could be led. Thirdly, there has been a shortage of resources from which construction and mortgage loans could be made Finally, there has been an inadequate representation of the private sector in the economic policy-making of the country These obstacles are examined in somewhat greater detail in Appendix 4 This project amendment is to allow HDFC/USAID to continue to address these problems at this critical juncture

B Conformity with Recipient Country Strategy and Programs

Ten years ago, there was no private sector housing finance entity and no private sector housing finance system in India In 1978 an embryonic effort (HDFC) got under way In 1981 USAID made its first sectoral intervention Six years later, AID is in the position to consolidate the development of a remarkable organization and AID-induced policy initiatives

The major GOI policy initiative which this project will continue to address is the creation of a market-oriented system This desire is articulated in the GOI five year plan, and is the first such GOI statement on the creation of a viable private sector role. The Prime Minister has called for a greatly expanded role of the private sector and, through recent policy statements, the Ministry of Urban Development has indicated a willingness to address several of the policies/laws which have discouraged the private sector from playing a more significant role. The National Housing Policy, for example, calls for public housing agencies "to be reoriented to act more as facilitators of supply of developed land and finance at a reasonable cost and promoters of appropriate construction technology than deliverers of finished houses .."

This proposed project amendment is aimed at increasing the viability of the private housing finance system in India by supporting directly its principal proponent (HDFC) and by indirectly supporting new private sector entrants to the system This is supportive of the GOI approach of expanding private sub-national housing finance companies

Consonant with GOI's emphasis on meeting the needs of lower income families, the project will facilitate the creation of conditions which will increase the stock of housing available to and affordable by households at the lower end of the income scale

For the project to be wholly successful, AID will need to stay engaged in policy exchanges with GOI. Areas heretofore alien in India, concepts such as the creation of secondary markets and mortgage insurance which AID has been discussing with GOI, need development to foster a mature sector. Both AID and the GOI are committed to these developments

C. Relationship to the CDSS

The current project is the Mission's largest and most visible effort concerned with privatization. This subsectoral program has given USAID access to several critical actors in the Indian private (and public) sector that it would not have otherwise had the opportunity to access The effort has caused other donors to support USAID in the sector and IBRD is now considering a major program to accelerate the work in the housing finance sector

PRE/H and USAID/India believe this is a critical period in housing finance sectoral development. The GOI is poised to make a number of decisions which will determine the shape of the housing finance system for years to come For instance, the GOI is creating a National Housing Bank (NHB) and the decisions on how much its role will be participatory as opposed to regulatory is a very important one Thus, a requirement that all public sector loans for housing be channelled through the NHB would significantly add to intermediation costs and would permit the NHB a degree of direction over the flow of and terms for housing that could invite unwarranted intervention in the market On the other hand, to achieve orderly sectoral development, the NHB could beneficially provide a regulatory framework for the establishment and conduct of housing finance institutions

AID's client, HDFC, will be playing a pivotal role in determining many of these types of issues. HDFC needs to continue its strong private sector approach performance as an example of an appropriate role model. HDFC also needs the partnership of AID to create agendas which promote the private sector approach This clearly a year in which AID will need to commit itself to assure the continued growth of its private sector model in housing

D Project Goal and Purpose

The long-term goal of this program, as enunciated in the initial Project Paper (Private Housing Finance for Low-Income Families, 386-HG-002), is to assist in the development of a fully functioning 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 first step in this process was to demonstrate the commercial feasibility of private mortgage lending for low-income households. The second step was to show that government policies and practices could promote HDFC's development without violating other public objectives

The third step, which was initiated by 386-HG-002 and would be consolidated by this project amendment, is to support an environment which encourages housing finance system development by increasing HDFC's branch network and mortgage volumes, by experimenting with new deposit and mortgage facilities and by expanding the HDFC experiment through other private mortgage lenders.

The more particular purposes of the project are to

(1) Increase the capital available for unsubsidized home purchase financing.

(2) Promote the removal of barriers to the privatization of mortgage financing,

(3) Promote the introduction of new deposit and mortgage facilities,

(4) Provide the capital necessary to sustain the geographic expansion of private housing lenders, and

(5) Encourage the development of fair but expeditious foreclosure procedures, mortgage insurance, and, to the extent commercially viable, secondary markets for mortgage instruments

E. Project Outline and Mechanics

The HG loan contemplated by the proposed amendment will comprise a single $25 million disbursement It has not been determined what institution will guarantee the loan and bear the foreign exchange risk. Past practice will be followed in selecting an institution with substantial attachable assets and with a credible institutional presence in India. HDFC will borrow the dollars and exchange them with its swap partner for rupees which will be used for housing loans Repayment will be made by HDFC through a reversal of the swap in accordance with terms to be negotiated

The RHUDO will make no attempt to match HG loan proceeds to particular eligible home purchase or construction loans Rather, HDFC will submit information to the RHUDO which will show, subject to such audit as the RHUDO may deem necessary, that the amount of loan principal amounts actually advanced to low-income households during a specified period exceeds the HG loan amounts drawn down during that time.

HDFC will establish an independent housing finance policy institute, the purposes of which will be· to provide to the GOI an independent perspective on issues related to housing finance, and to provide consulting services to public and private clients. Start-up costs of the Institute will be borne by HDFC. Fees generated by the Institute's training and consulting activities will support it following an initial developmental period

HDFC will also continue and expand its efforts to mobilize domestic resources through the introduction of new deposit facilities and through aggressive extension of its branch network and agent system. It will simultaneously continue to increase the number of low income households which borrow its funds, and will explore ways of increasing home ownership for women under its program.

HDFC will continue its efforts to launch an Eastern Indian Housing Finance Corporation This is a new company which is presently in the process of formation It is to have its headquarters in Calcutta and will serve a large area of India in which HDFC is currently not particularly active HDFC will provide technical and financial support to it as appropriate

HG financing will be used for:

(1) Individual housing loans and those portions of corporate loans (to a maximum of 40% of eligible disbursements) originated by HDFC for households with incomes below the urban median.

(2) Activities undertaken by HDFC to spawn and support new housing finance institutions

F. Alternatives to the Selection of HDFC

India has both public and private housing finance institutions. Public institutions include both direct and indirect lenders Of the GOI institutions which provide indirect financing for housing, the most important is the Life Insurance Corporation of India (LIC) At the end of FY 1985, LIC had invested Rs 11.9 billion in housing, primarily through loans to apex cooperative housing finance societies, public housing boards and the Housing and Urban Development Corporation As described in Appendix 4, the LIC and the General Insurance Corporation (GIC) are required to invest in housing or other social programs

The Housing and Urban Development Corporation (HUDCO) is India's apex public housing finance institution HUDCO borrows from LIC and GIC, and generates additional revenues through government-guaranteed debentures which can be used by nationalized commercial banks as part of their reserve requirements. HUDCO on-lends for specific projects, primarily in the public sector.

Two other government entities, the Unit Trust of India (UTI) and the Industrial Development Bank of India (IDBI), may begin to play a significant role in the country's housing finance system. UTI is a statutorily-established mutual fund with total capital of Rs. 17.57 billion ($1.46 billion) at the end of FY 1985, making it the largest investor in India Unlike LIC and GIC, the GOI does not require UTI to invest in specified sectors, nevertheless, prior to 1986, UTI's enabling legislation did not permit it to invest in shelter. This prohibition has recently been amended, opening up a potentially major source of finance for housing. Thus far, UTI has placed Rs. 1 billion ($83 3 million) in housing, Rs 400 million on deposit with the HDFC and the balance in housing schemes for police

Finally, at the state level, HUDCO and other public resources are on-lent by state housing finance agencies Recently, two states have considered proposals to establish deposit-taking housing finance institutions No action has been taken on these proposals and HDFC staff consider them to be unlikely to be implemented in the foreseeable future.

Cooperatives are another important source of housing finance in India Cooperatives are recognized as significant in the national and state economies, and the ordinary person knows how they operate

The first housing cooperative in India was registered in 1909 but most of the development of the sector has come within the last 25 years. In 1960, there were 5,564 primary societies, increasing to 16,308 by 1970. Today, India has some 39,000 housing cooperatives with about 2 million members.

India's cooperative housing sector has a two-tiered structure organized around 'primary' and 'apex' societies. Primaries are organized at the local level by individuals who are motivated to form a cooperative for the purpose of obtaining housing or by developers who gain certain tax advantages from the coop form.

Apex societies operate at the state level, and of India's 31 states and Union Territories, 22 have such statewide finance institutions The principal role of these apex societies is to make long-term mortgage credit available to the primary cooperatives. Apex societies had financed 745,000 units by 1987.

Though cooperatives have long been part of India's social and economic fabric, and housing societies have played an important role in shelter provision, they have not been fully integrated into the larger finance system nor have they been especially successful in mobilizing their own resources All of the apex societies have relied heavily on loans from LIC which have accounted for over 80 percent of their resources As the apexes have extended their geographic coverage with a concomitant rise in demand for mortgage credit, LIC's loan funds have become increasingly insufficient; it is therefore clear that the apex societies must begin to mobilize other resources. As a consequence of their large collective loan volumes and wide geographic reach, apex coops should be prime candidates for a HG program. For this reason, RHUDO consultants have conducted detailed analyses of two of the larger coops. The currently prevailing view, however, is that the management of the apex coops has not shown sufficient determination to reform their operations to justify the large measure of technical assistance which would be required should one of them be chosen for a HG project.

USAID and PRE/H strategy for India has been to support efforts which strengthen private sector development In housing, their view is that a large number of households can command sufficient assets and amortization capacity to afford unsubsidized houses which would be provided by the formal private sector if,

(1) counter-productive public interventions in the market place were removed, and

(2) the private sector institutions which would then become viable were given time and the means to develop.

The general validity of this view has been demonstrated by HDFC's success to date and by the development of other private housing finance companies in competition with HDFC. Appendix 2 summarizes important characteristics of new entrants to the field. A number of these organizations have expressed interest in HG loans. Some have even used the prospect of HG support as an advertising ploy (see Appendix 3), apparently on the theory that AID support gives them a credibility they might not otherwise have

Many of these organizations have commenced operations during the past 18 months Several are captives of developers who use them to provide permanent financing for their projects. Such lenders are probably not good HG candidates because of the conflicts inherent in such an arrangement and because of the limitations on replicability Several of the new lenders are independent of developers and show promise of becoming viable future HG candidates.

III. EVALUATION OF HDFC PERFORMANCE

A Financial Analysis

Previous analyses (see Appendix 1) have shown HDFC to be a conservatively managed organization from the fiscal standpoint, a prudence which is justified by India's commercial climate. HDFC's debt/equity ratio has risen gradually to a still conservative 15 8 1 (June 30, 1986). This ratio compares with the allowable 25 1 for savings and loan associations in the U S. The company also attempts to ensure that not less than 20 percent of total assets are liquid at all time Their working capital ratio is over 3. Return on equity has risen to 25.6% while after tax profits increased 28.9% year-to-year (Table 1) The interest coverage ratio, limited by the terms of an HDFC contract with the IFC to 1 2 is now around 1 24, down from 1 3 at the end of FY 85.

As might be expected of an organization which is now a decade from its start-up, HDFC's rate of growth has begun to slow by most measures The number of units financed increased by 19 percent on a year-to-year basis during the 6 months ended December 31, 1986 (Fig. 1) This was down from an increase of 48% between FY 85 and FY 86 Year-to-year increases in loan approvals (27%) and disbursements (25%) are comparably down

On the liability side of the balance sheet, growth has also slowed, primarily because of a fall in the rate of increase in

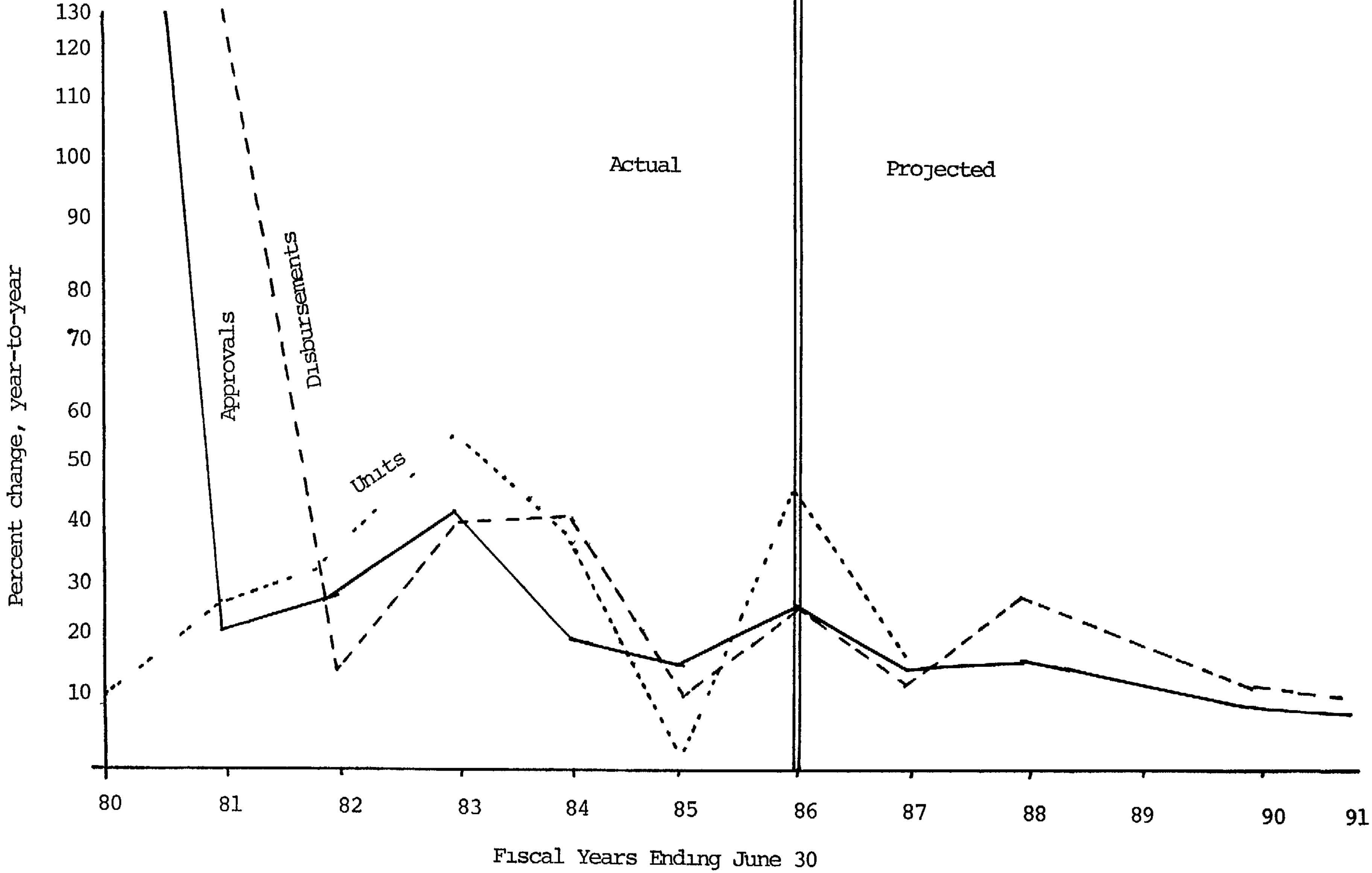
TABLE 1

Financial Performance Indicators FY1982 - FY1986

(Millions of Rupees)

	1981-82	1982-83	1983-84	1984-85	1985-86
Profit after taxes	10 2	28 9	38 7	51 5	66 4
Percent Growth	58 3%	58 7	34 1%	33 0%	28 9%
Value of Assets	741 0	1,293 8	2,300 0	3,283 9	4,710 4
Value of equity	47 5	85 2	138 6	215 6	552 1
Percent equity	6 4%	6 6%	6 0%	6 6%	11 7
Debt/equity ratio	1 6	7 5	11 8	13 8	15 8
Working capital ratio	3 1	3 2	3 8	3 3	3 4
Staff expenses as % of total income	3 9%	3 2%	2 9%	2 5%	2 3%
Return on equity	14 7%	20 3%	22 9%	24 8%	25 6%
Return on loans	12 44%	13 46%	13 57%	13 88%	
Cost of funds	10 72%	10 41%	11 23%	10 75%	
Gross spread	1 72%	3 04%	2 34%	3 13%	
Interest coverage ratio	1 6	1 5	1 35	1 3	1 24

Figure 1 Growth Rates Loan Approvals, Disbursements, Units



Adjusted for inflation in construction prices

Sources HDFC Annual Reports, CMIE 'Quick Estimates of National Income', Annual deposits. Deposits, which continue to be dominated by Certificates of Deposit (CD), increased by 23 percent year-to-year for the year ending December 31, 1986. The declaration is presumably caused by increased competition for domestic household savings, especially from public sector agencies and private non-banking financial companies.

However, a more recent spurt in CDs and recently announced GOI interest rates policy changes augur well for the future. These policy changes include increases in the interest rates which scheduled commercial banks can offer on 2-5 year deposits (from 8.5 to 9 percent and from 9 percent to 10 percent) but preclude them from taking longer term deposits altogether. Interest rates on 5-year deposits with the Post Office have been slightly reduced. Since just over half of HDFC's deposits are CDs with maturities of 5 years or longer, HDFC may benefit from the new rules Longer term deposits also help to contain the term imbalance problem Our optimism should be tempered by the possibility that increasing weakness in the Indian economy may make investors more wary of holding long-term assets of any sort

Deposit schemes directed at households such as the Loan-Linked Deposit Scheme and the Home Savings Plan remain minor sources of funds, although they may have some importance in marketing loans The two together account for 1 3 percent of total deposits and well under 1 percent of total liabilities

HDFC's fastest growing source of funds remains term loans which are expanding at about twice the rate (44 percent) of deposits

HDFC has yet to declare any loan in default, but its arrearages have been increasing of late, most importantly in the category of loans more than six months in arrears. The lack of mortgage insurance or a secondary market where HDFC could dilute its default risk adds to this difficulty The absence of an effective foreclosure process encourages delinquency and vitiates the physical security for the loans To counteract this, HDFC uses conservative credit standards, requires one or more personal guarantors on many loans, prescribes low loan-to-value ratios and correspondingly high downpayments, and restricts loans to owner-occupants In addition, HDFC frequently requires the pledge of financial assets such as shares, units, other securities, and life insurance policies as additional security.

The recent increase in HDFC's late payments rate, albeit to a still low level, has inspired HDFC to propose policy changes which will make foreclosure a more genuine threat A realistic foreclosure procedure is also a necessary precondition for the development of mortgage insurance This, together with creation of a secondary market for mortgage notes, would help HDFC to reduce its commercial risks Thus, linked to the notion of liberalized foreclosure is an HDFC-developed proposal to establish a mortgage insurance facility under the aegis of the GIC These two initiatives, if enacted and implemented substantially as proposed, will reduce the long-term credit risk of HDFC and its competitors but will have little impact in the short term

B. Financial Projections

Projections of finances and operating levels should be seen as highly speculative. One set of projections through FY 1991 done by HDFC staff on the assumption that they will receive $100 million in IBRD loans and nothing from AID, shows a decline in the annual rate of increases in resources from 44% in the FY 1985 to FY 1986 period to 16% at the end of the period (See Table 3). An additional $100 million from either the World Bank or AID would increase new resources by about 8 percent if it were all disbursed during the FY 1987-91 period Even if HDFC were to borrow $200 million from the Bank and $100 million from AID, their rate of increase in resources would be less than for most previous periods

TABLE-3

HDFC Projected Cash Flow
(Rs Millions)

	1984-85 (Actuals)	1985-86 (Actuals)	1986-87	1987-88	1988-89	1989-90	1990-91
SOURCES							
Profit Before Tax	74 5	93 46	130 96	148 01	177 01	217 81	167 9
Add Non-Cash Charges	5	50	50	50	50	50	50
Totals	75 0	93 96	131 46	148 51	177 51	218 31	268 47
Net Increase in Deposits	578 30	749 20	580 0	680 0	800 0	900 0	1080 0
Loan from World Bank	0 0	0 0	0 0	600 0	600 0	0 0	0 0
Increase in loans/bonds	287 20	502 90	800 0	500 0	650 0	1350 0	1450 0
Increase in share capital	0 0	2	100 0	0 0	0 0	0 0	100 0
Repayment of principal on housing loans	197 30	286 61	414 77	579 57	770 49	1031 32	1208 02
Total sources	1137 80	1632 87	2026 23	2508 08	2998 0	3499 64	4106 47
USES							
Disbursements Housing Loans	932 4	1457 3	1744 15	2287.81	2757 99	3129 66	3485 62
Increase in net fixed assets	14 2	16 56	70 0	25 0	25 0	25 0	25 0
Decrease in term loans	35 0	13 96	51 1	68 2	69 2	86 7	268 4
Net increase in investments	48 9	259 7	(95 8)	73 4	49 71	90 08	105 0
Taxes	23 0	27 0	31 43	35 52	42 48	52 28	64 3
Dividend	13 0	15 0	18 0	30 0	30 0	30 0	37 5
Total Uses	1036 0	1789 51	1818 88	2519 97	2974 38	3413 64	3985 82
Increase/Decrease in HCA	101 80	(156 65)	207 35	(11 89)	23 62	86 0	90 67
Opening Balance	410 47	512 27	355 62	562 97	551,08	574 7	660,7
Closing Balance	512 27	355 62	562 97	551 08	574,70	660 7	751 97

C. Program Beneficiaries

A survey of 2,956 loan applications approved by HDFC during the second quarter of FY 1987 shows that 34 percent of HDFC's clients are women While percentages vary from branch to banch, there are no particularly egregious deviations from the norm A substantial portion of women clients are co-borrowers with their spouses or other relatives

Women are also fairly well represented on HDFC's staff About 23 percent of all employees are women (131 out of 576) One-third of the women employed by HDFC are in supervisory or management positions, through the Managing Director and his four General Managers are all males

All direct beneficiaries of the HG loan will be low-income households Over 5,000 such households will receive loans as a consequence of the program

In addition, HDFC's branching plans will increase its presence in smaller cities which may result in a larger number of applications from low-income clients Since housing construction is likely to be cheaper in such communities as well, more low-income aplicants should meet HDFC's underwriting standards

APPENDIX 1

Prior Analyses of HDFC Performance

Jonathan O Bloom, Appraisal Report Housing Development Finance Corporation India IFC, March 1, 1978

Marcelo Bueno Analysis of the Housing Development Finance Corporation, Ltd (HDFC) India USAID May, 1981

Fritz Rosendahl An Analysis of the Operations of the Housing Development Finance Corporation Ltd India USAID, December 1982

PADCO Technical Review of HDFC Projects and Operations USAID, January 31, 1983 (2 vols).

Ming-Shyong Wu Financial and Mortgage Portfolio Analysis of Housing Development Finance Corporation, Ltd Federal Home Loan Bank Board September, 1983

International Finance Corporation Annual Supervision Report India-Housing Development Finance Corporation Ltd (HDFC) December 5, 1984

Urban Institute The Housing Development Finance Corporation of India Evaluation of the Housing Guaranty Loan USAID, June, 1985

Urban Institute The Development of a Market Oriented Housing Finance in India The Role of HDFC and Possible Actions by USAID USAID, December 10, 1985

HDFC Housing Development Finance Corporation Limited A Profile of Five Selected Projects. July, 1986.

APPENDIX 2

LIST OF PRIVATE HOUSING FINANCE COMPANIES

	Location	Linked to Construction Company?	Income group Reached	Date of Commencement	% cost Financed	Max. Term, Years	Max. Interest, %	Savings Scheme?
HDFC housing finance	Bombay + All India	x	L, M, H	1978	70	15	14.5	_/
Dewan HDF housing finance	Bombay, Delhi	x	L?, M, H	1985	70	12	16.5	_/
Bombay Home Projects contractual savings/ hire purchase scheme	Bombay suburbs	_/	M, H	1986		10		1
Kamanwala HDFC finance & development of own units	Bombay	_/	H	1984		10	9.5	x
21st Century HFC contractual savings/ hire purchase scheme	Bombay suburbs	_/	M, H	1986		8		1
Lords HF contractual savings/ hire purchase scheme	Maharashtra	_/		1987		8		
United Land & Housing (details requested)	Delhi	_/				15		_/
Rockland Leasing (details requested)	Delhi			1985	90	20	15.0	x

	Location	Linked to Construction Company?	Income group Reached	Date of Commencement	% cost Financed	Max. Term, Years	Max. Interest, %	Savings Scheme?
Worldlink Finance loans for home extensions	Delhi	x	H	1986	50	5	16.0	x
Oriental HDFC (details requested)	Delhi			1987				advt.
Saral Housing & General Finance (details requested)	Meerut							✓
Parshwanath HFC finance & development of own units	Gujarat	✓	L, M, H	1986	50	12	15.0	x
Saya HFC finance & development of own units	Gujarat	✓	H	1986	70	15	18.0	x
Galaxy Consolidated Finance housing finance	Gujarat	x		NOT YET OPERATIONAL				x
Gujarat Rural HFC housing finance	rural Gujarat	x		NOT YET OPERATIONAL				x
India HF&D housing finance	Madras + All-India	x		1986	75	15	15 0	✓
Subhodhaya HF housing finance	Madras	x		NOT YET OPERATIONAL				

	Location	Linked to Construction Company?	Income group Reached	Date of Commencement	% cost Financed	Max Term, Years	Max. Interest, %	Savings Scheme?
VGP Leasing & Housing Finance housing finance	Madras	√	?M	1986	70	10	18 0	x
Residency HF housing finance	Bangalore	x	M, H	1986	75	15	17.5	x
Almin HDF housing finance	Bangalore	x		NOT YET OPERATIONAL				x
Vyasya Bank housing finance	Karnataka, Andhra Pradesh	x		NOT YET OPERATIONAL				x
Corporation Bank housing finance	Mangalore & All-India	x	H	NOT YET OPERATIONAL				x
A.J. Associates finance & development of own units	Hyderabad	√						**advt.**
Everon H&F housing development & finance	Hyderabad	√		1987	90	8		√
Sri Ram HF & Investments (address not known)	Kanpur	√						
State Bank of India housing finance	eastern India	x		NOT YET OPERATIONAL				x

NOTES

Location

The location of the firm's principal activities this is not necessarily the same as the address of the firm's head office.

Income groups served

The firm's principal clientele, with monthly household incomes corresponding to the GOI standard

L	up to	Rs. 1500
M		Rs 1500 - 2500
H	over	Rs. 2500

Date of commencement

The year that the firm became operational.

Interest rate

The rate of interest quoted by the firm themselves. It is often computed on a curious basis and does not always bear a close relationship with the illustrative monthly repayments stated to be required of borrowers.

Savings Scheme

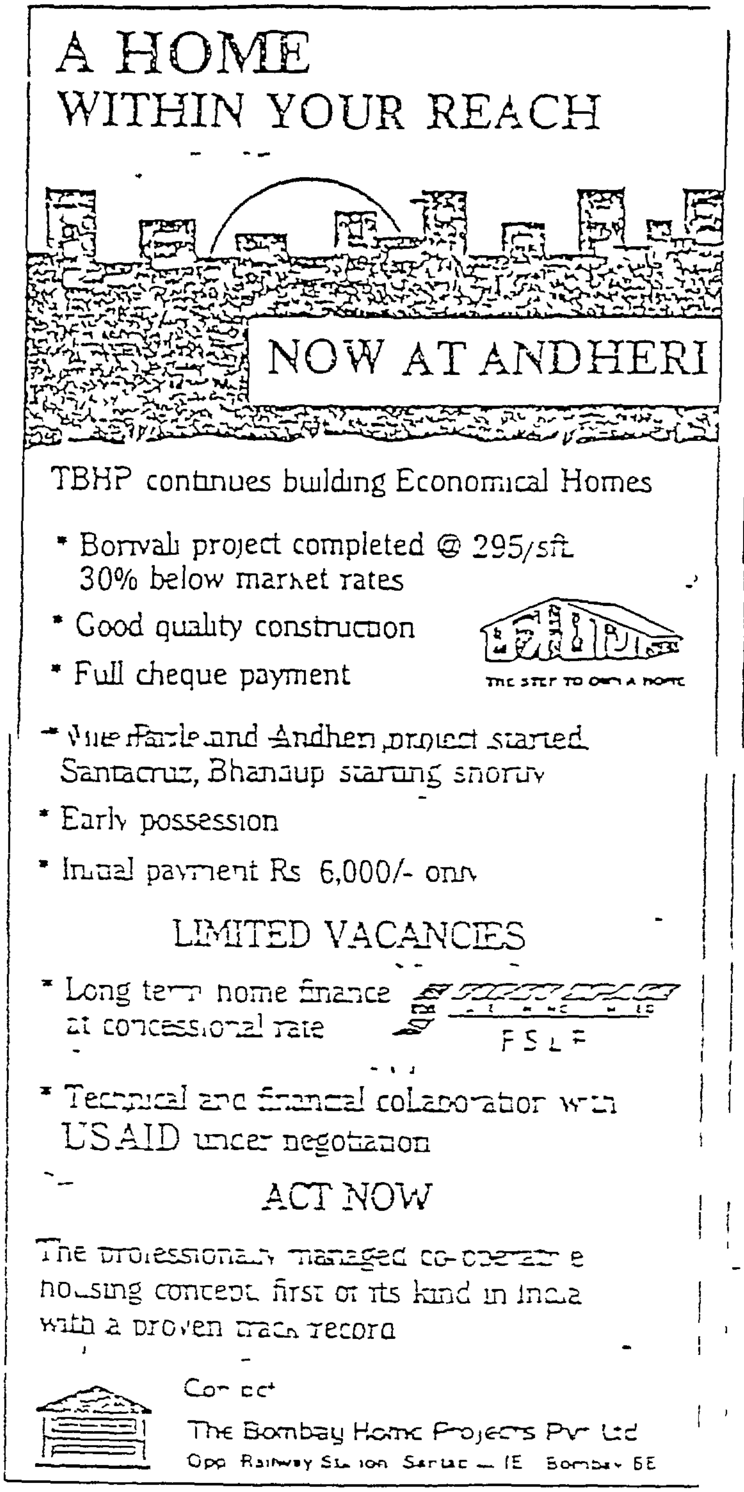
i = integral all loans are linked to prior savings accomplishments

Linking to construction company?

Indicates whether finance, construction and development activities are integral. (Most firms have links with construction/development companies).

APPENDIX 3

(From The Times of India 4/1 87)



Appendix 4

Issues Relating to Fxpansion of Private Housing Finance

1. Government Interventions

GOI tax, interest rate and other policies directly and indirectly affect private mortgage lenders. With respect to taxes, GOI policy has been to encourage long-term deposits by allowing both initial deposits and interest earned on them to be deductible up to specified limits Thus, from 1988-89, the aggregate of qualified deposits and interest thereon in any tax year is to be completely deductible up to Rs. 6,000 and 50 percent deductible for amounts from Rs. 6,001 to Rs. 12,000 and 40 percent deductible for amounts from Rs. 12,001 to Rs 40,000 Amounts in excess of Rs 40,000 will not be deductible. Qualifying investments include National Savings Certificates, life insurance premiums and repayment of qualified housing loans (up to Rs 10,000) Investments in the Unit Trust of India, one of the main competitors with housing finance companies for deposits, receive the added incentive of 100 percent tax deductibility up to Rs 10,000

Interest rate policies directly establish the lending rates for commercial banks, insurance entities, and other public participants in the capital markets These institutions in turn may limit the rate at which their funds can be on-lent by borrowers. The current reality is that private mortgage lenders must raise substantial portions of their lendable resources from these sources since they control so much of the available capital. To this extent, GOI interest rate policies determine both the cost of liabilities and the return on assets of private housing lenders

With respect to deposits, bonds and shares, no direct controls are imposed on non-banking financial institutions such as HDFC. Of course, government domination of the capital markets does tend to define the cost of capital fairly narrowly.

The GOI also attempts to control the sectoral distribution of capital through direct instructions to government financial institutions Thus, the Life Insurance Corporation of India (LIC) is required to devote 25 percent of its annual net accretions to central government debt instruments, 25 percent to state governments, and 25 percent to other approved uses (e g , government guaranteed debentures such as those issued by HUDCO and the like). LIC funds not invested in these sectors (where yields are typically low), are available only at higher rates The limits are particularly important because the LIC is the largest provider of funds to the housing sector The General Insurance Corporation (GIC) and the Army Insurance Fund also invest in the shelter sector and are subject to similar controls For example, the GIC is required to invest 35 percent of its incremental funds in housing

Non-financial government controls have also had intended and unintended effects on the nascent private housing finance sector. These include increases in land prices resulting from unproductive administration of the Urban Land Ce'ling Act and retarded growth of demand for private sector loans because of limits on advertising placed on private lenders.

A recent decision by the GOI to establish a National Housing Bank (NHB), the purposes, authority and organization of which remain undefined at the present time, threatens to upset the delicate policy environment in which HDFC now operates Roles which have been suggested for the Bank include

(1) regulator of housing lenders

(2) refinancer of loans organized by retailers

(3) lender of last resort

(4) equity investor in new public or private lenders

What exactly any of these roles might entail remains unclear and will probably be decided only after the Bank's management is in place

The thought that the NHB will become yet another public sector lender for housing is unappealing HDFC has demonstrated that the most efficient means of increasing the role of formal finance in housing development is to remove the obstacles to the expansion of private lenders. The NHB is unlikely to contribute much to deregulation and may become an important constraint on sectoral development AID strategy will accordingly emphasize the strengthening of private sector lenders and minimization of the role of the NHB

2 Management

The lack of skilled housing finance managers and, to a lesser extent, junior personnel as well, is the least intractable of the obstacles to expansion of the private housing finance sector in India Nevertheless, the fact that HDFC, for example, is so dependent upon its top management leaves it vulnerable to turnover in a few key positions Similarly, the lack of comparably skilled and motivated managers appears to be an important impediment to development of cooperative lenders and private housing finance corporations other than HDFC A good deal of concern also has been expressed about the length of time taken to recruit a highly qualified Managing Director for the Gujarat Rural Housing Finance Corporation A similar problem is presented by the Eastern Housing Finance Corporation Moreover, HDFC's branch managers have varying level of ability A continuaton of HDFC's branching program will require the recruitment of new talent in competition with other lenders Finally, international aid agencies may also be at fault for placing excessive demands on HDFC managers. The temptation to ask them to provide assistance to non-housing finance institutions, to attend seminars and the like, and to meet with a nearly continuous stream of visitors is probably not resisted enough

Senior managers are difficult to find because they should combine a technical background in lending with the sorts of political savvy and connections that are essential to entrepreneurial success in India. In its nearly ten years of operations, HDFC has produced a number of junior managers with some or all of the requisite technical skills The economy generally produces some managers with the needed political sophistication. The difficulty in the still young housing finance industry is finding candidates who combine both Because political skills and contacts are difficult to impart through in-house training and other activities, HDFC may be forced to recruit new managers from outside The many housing finance corporations that have recently initiated operations in competition with the HDFC will face the same sorts of obstacles without the offsetting advantage of HDFC's solid commercial reputation as a draw for prospective high-level employees

3. Private Sector Influence

The problem of private sector representation in the process by which shelter sector policy is developed and implemented in India is particularly thorny. As HDFC expands its geographic reach and client base particularly in the emerging middle class, its political influence also increases. But it is worth keeping in mind that HDFC's growing importance and profitability could also inspire jealousy among state-owned bank officials and others The development of other voices in support of private sector development and the continued expansion of HDFC will both be needed to raise the political price of unjustified interference in housing finance markets.