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TECHNICAL ASSISTANCE REPORT

on the

NEPAL HOUSING DEVELOPMENT FINANCE COMPANY

Ministry of Housing and Physical Planning, Nepal

Regional Office of Housing and Urban Development (RHUDO/Bangkok), USAID/Nepal

July 31, 1991

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Prepared for

Ministry of Housing and Physical Planning, Nepal
Regional Office of Housing and Urban Development
(RHUDO/Bangkok), USAID/Nepal

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EXECUTIVE SUMMARY

The Nepal Housing Development Finance Company (NHDFC, or the Company) was established in March 1990 as a housing finance company under the Finance Companies Act of 1985. Seven institutional investors contributed Rs 18 million in share capital over the next eleven months in order to provide the company with start-up and operating capital. In March of the following year, the Board of Directors of NHDFC appointed a General Manager. Shortly thereafter, the General Manager leased office space, hired an assistant and requested technical assistance from USAID/Nepal and RHUDO/Asia.

A consultant from PADCO arrived in Nepal in early June 1991 to assist the General Manager and the Government of Nepal in setting up the Company. The Scope of Work asked the consultant to review pertinent documents, staffing plans and operational policy and programs of the NHDFC; and to recommend next steps to start up NHDFC operations. The bulk of the assignment actually consisted of helping the NHDFC to prepare a Business Plan to function as a development guide over the next year. This Business Plan consists of a Goal statement and short- and long-term Objectives. It discusses a Strategy for achieving the goal and objectives. Furthermore, it covers the organization and management of the Company, including staffing needs, an initial lending program, the various sources of lending funds, a marketing analysis, technical assistance needs, and financial forecasts.

Activities over the next few months are crucial to the success of the Company. First of all, the Board must approve the Business Plan, as modified, and this Plan, along with the necessary legal and operational documents, must be submitted to the Central Bank for permission to begin savings and loan operations. The General Manager should visit HDFC/India to see first hand how a successful housing finance company functions, as well as to discuss the possibility of HDFC providing technical assistance to the Company. Finally, the General Manager and the Board must recruit and hire staff, particularly the critical positions of Lending Manager and Operations Manager. Once the staffing arrangements are clearer and the quality of the staff is apparent, then a technical assistance package can be defined.

NEPAL HOUSING DEVELOPMENT FINANCE COMPANY

The objective of this technical assistance activity is to work with the General Manager of the Nepal Housing Development Finance Company (NHDFC) and other Government of Nepal senior officials and private sector entities to review pertinent documents, staffing plans and operational policy and programs of the NHDFC and recommend next steps to start up NHDFC operations. This report is divided into four sections, plus one attachment. Section 1 discusses the present status of the NHDFC, while Section 2 covers the legal and regulatory aspects of the Company. Section 3 then summaries the Business plan which is the single attachment to this report. Finally, Section 4 presents a number of suggestions and recommendations.

1. Status of the NHDFC

NHDFC was legally incorporated on March 13, 1990 as a housing finance company under the Finance Company Act of 1985. The founding shareholders, and the amount of each founder's capital contribution, are listed below:

■ Ministry of Housing & Physical Planning	Rs 1,500,000
■ Ministry of Finance	1,500,000
■ Nepal Bank Limited	3,000,000
■ Rastriya Banijya Bank	3,000,000
■ National Insurance Company	4,500,000
■ Agricultural Development Bank	3,000,000
■ Nepal Arab Bank	1,500,000
Total Capital Contribution	Rs 18,000,000

The Chairman of the Board is the General Manager of the National Insurance Company. Except for the Ministry of Finance, each of the institutional shareholders has appointed one director.

The Company has authorized a share issuance of Rs 100 million. At the date of incorporation, the founders had anticipated raising an initial Rs 30 million in share capital, with an additional Rs 12 million to be raised equally from a public offering and from the Asian Development Bank. Of the Rs 18 million in share capital already subscribed and paid in, Rs 16.5 million was derived from government and parastatal institutions, while the remaining Rs 1,500,000 was raised from Nepal Arab Bank, a private sector institution, albeit in a joint venture arrangement with the Government of Nepal.

NHDFC's management, with the concurrence of the Board of Directors, will continue to seek an equity contribution of Rs 6 million from an external investor, either the ADB, the IFC or some other international investor. It is hoped that this investment will materialize before the end of this calendar year. The other Rs 6 million in share capital to be raised through a public offering will be postponed until the Company has established an operating record, and instead will become part of a larger offering of Rs 26 million in shares to be placed in the second year of operations.

The Finance Company Act of 1985 stipulates that 60 percent of the shares of a company incorporated under this Act must be held by private sector investors. Since the institutional founders were unable to fulfill this requirement at the date of incorporation, the Department of Commerce waived this condition for the time being. It is anticipated that once additional shares are issued to private sector investors, the current public ownership will be diluted and the Company will achieve the goal of majority private ownership, thereby complying with the letter of the law.

On the date of incorporation, the institutional founders signed a Memorandum, which is a legal document outlining the objectives and functions of the new company. Shortly thereafter, the founders, with the assistance of the Securities Exchange Center, prepared the Articles of Association. These Articles are based on the Memorandum, the Finance Company Act of 1985 and certain instructions from the Ministry of Housing and Physical Planning, of which more will be said in Section 2 of this report.

With the Memorandum and the Articles prepared, the founders were able to register the Company with the Department of Commerce. The Finance Company Act also stipulates that the founders should present a Prospectus along with the two documents indicated above in order to become registered or incorporated. However, the Prospectus was not prepared and submitted because it was mutually understood that in spite of what the law stipulates, a Prospectus will only be required when the Company issues public shares.

Although the NHDFC is now legally established as a business, it may not initiate savings and loan operations without the legal authorization of the Central Bank. It is unclear just what the NHDFC must submit to the Central Bank to obtain permission to start its core business. Since the Finance Company Act of 1985 was enacted some six years ago, the Central Bank has not issued any rules and regulations. Moreover, to date the NHDFC is the only company of any nature to have become registered under the Act. Without any rules and regulations or precedents to go by, the NHDFC intends instead to present to the Central Bank an application with the legal documentation, the Business Plan and any other documentation the NHDFC, in its opinion, believes the Central Bank would require. The expectation is that the Central Bank will either approve the NHDFC's application as presented or inform the Company of any additional information or documentation required. The Company will then amend the application accordingly.

A draft Business Plan (see Attachment 1) has been prepared and will be presented by NHDFC's Management to the Board of Directors for consideration and approval. The Company expects to submit the application package to the Central Bank in August of this year.

In May of 1991, the NHDFC Board appointed a General Manager, Dr. Jibgar Joshi, who was seconded from the Ministry of Housing and Physical Planning for three years. In early June, a Ministry engineer with management experience was seconded to NHDFC for six months to work with the USAID consultant. An Administrator/Clerk has also been hired. Office space was rented in the Tecu area of Kathmandu in April, consisting of four offices on the fourth and fifth stories of a small five-story building. The office space is adequate for the time being for the executive offices as well as an incipient lending operation. It is not adequate for a savings operation. A few desks with chairs have been purchased, but to date no office equipment has been acquired.

The Rs 18 million in capital contributions by the seven shareholders was actually paid in between April 1990 and February 1991. Upon receipt, the contributions were placed in interest bearing two-year certificates of deposits in various commercial banks. Depending on the date of deposit, the interest rate being paid ranges from 12.5 percent to 13.0 percent with interest paid quarterly. The interest payments are not being added to the principal, but instead are placed in separate non-interest bearing accounts in the same banks in which the CDs are held. In order to increase the interest income being paid to the NHDFC, the General Manager plans to transfer funds in non-interest bearing accounts to interest bearing accounts as soon as possible.

By the 15th of July 1991, interest income earned on the Rs 18 million in capital is projected to reach about Rs 2.3 million; however, all the taxes due on this income have not yet been paid. Interest income on the CDs alone is running at about Rs 190,000 monthly. Expenses as of that same date have totaled about Rs 235,000, or about 1/10 of the total of interest income. In effect, the initial Rs 18 million in share capital has grown to about Rs 20 million.

2. Legal Status

As mentioned in the above section, the NHDFC has prepared two legal documents—the Memorandum and the Articles of Association—which define the Company's objectives and functions, as well as outline various rights and responsibilities of the Board and management. After careful review of those two documents, it appears that they will permit the NHDFC to operate and carry out all the basic functions necessary to operate as a housing finance company. Basically, the NHDFC can accept deposits of any duration and it can make both construction and long-term loans to individuals or groups, which is all that is necessary for a housing finance company. It can also carry out a number of other ancillary functions, as permitted by the Finance Company Act, such as acting as a financial broker or leasing tools and equipment, but it is highly unlikely that the Company will ever engage in those operations.

There is one key paragraph in the Articles of Association that is not covered in either the Memorandum or the Finance Company Act. Paragraph 5 of the Articles covers the "Functions which the Company must not perform". Two of the three prohibitions in this paragraph (sub-paragraphs (a) and (c)) are rather straightforward in that they state that the Company (a) must not violate any financial principals (although there is not an accounting regulatory body in the country) and (c) must not violate the Finance Company Act of 1985. But sub-paragraph (b) states that "The Company must not give or take or mortgage any movable or immovable assets, or sell or purchase any assets or movable or immovable property or take or give or lease any goods, tools, equipment, etc. at a rate lower than the current market rate." This statement—and the last three words are key--were taken from a Ministry of Housing and Physical Planning directive which was prepared about two years ago. While this directive does not have any binding legal authority, the fact that it has been incorporated in the Articles does make it binding on the NHDFC. This language clearly stipulated that the NHDFC will not lend at below interest market rates. Nevertheless, while there is no legal definition of what the current market rate is, the consensus among bankers and government officials is that it is the rate at which the banks are presently making commercial loans.

There has been some concern as to whether the NHDFC can actually operate under the Finance Company Act. In this Act there are a number of clauses which give the Central Bank considerable power over finance companies incorporated under its provisions, of which the NHDFC is one. In fact the Central Bank, if it wishes, can dictate to the Company lending and savings terms and conditions, direct it to specific borrowers, and so on. For example, paragraph 3(e) states that the Central Bank may require the Company to "implement the financial resources mobilization plan prescribed by the Bank from time to time and obtain loans or accept deposits." This provision and others of a similar nature, if actually applied, would certainly place undue hardship on the Company, and in fact, would severely inhibit the Company from achieving its goal and objectives. It has even been suggested that the Finance Company Act be amended to remove or modify a number of sections before the NHDFC could begin operations.

However, there other laws besides the Finance Company Act that are relevant to the operation of NHDFC. A review of the Nepal Rastra Bank Act, 1955, (the Central Bank Act) as amended, reveals that almost identical clauses are contained in this legislation as in the Finance Companies Act. For example, paragraph 22F of the Nepal Rastra Bank Act states that "Commercial banks and financial institutions shall supply loans to the sectors according to the procedure prescribed by the bank from time to time with the approval of His Majesty's Government." This clause and similar clauses in this Act give the Central Bank the same kind of authority and control over banks and financial institutions as is stipulated in the Finance Company Act. Therefore, removing or changing certain sections of the Finance Company Act will not resolve the issue of Central Bank control so long as these same provisions remain in the Nepal Rastra Bank Act.

More relevant to the issue of Central Bank control is the degree to which the Central Bank actually exercises that control today. According to commercial bankers in Kathmandu, the Central Bank does prescribe and enforce regulations in three areas that cause the bankers some operating problems, although in two of the three, Central Bank control is minimal. The Central Bank does regulate savings and loan interest rates, although this control generally consists of the Central Bank approving an interest rate band or range that is proposed, after negotiation with the Central Bank, by the banks. According to the bankers, the Central Bank may soon free up interest rates entirely. The second area has to do with the requirement that a commercial bank must open one rural branch for each urban branch opened.

The third area causes a greater problem. The Central Bank requires commercial banks to invest 12 percent of their loan portfolio in "social obligation loans." These loans are defined as loans to small businesses in an amount not to exceed Rs 1,200,000, at an interest rate of 15 percent. Since the current market rate for commercial loans is 18 percent, in effect these loans amount to a forced loan subsidy by the banks. If the bank does not meet this requirement, then the Central Bank imposes an interest rate fine of 12 percent of the difference between the 12 percent required investment and the actual investment. While this regulation does have a negative impact on the banks' profitability, it does not cause them a major hardship.

There are a number of other banking requirements as are considered normal in most countries. For example, the current liquidity requirement is 12 percent, which is probably not excessive, and did not generate any complaints from the bankers.

It can therefore be concluded that at the present time, the Central Bank does not impose any rules and regulations that significantly impede the commercial banks from operating effectively and profitably. While this does not guaranty that the Central Bank will not impose any deleterious rules and limitations on the NHDFC, it does offer some assurance that the Central Bank will not only be fair, but will permit the NHDFC to carry out its goals and objectives.

3. Summary of the Business Plan

A Business Plan is one of the most important documents the NHDFC requires to initiate operations. In May of this year, the NHDFC convened a two day seminar for about 25 government and parastatal officials to discuss the strategic issues and needs facing the new institution. Out of this seminar came the stated Goal of the Company as well as many suggestions related to target groups, resource mobilization and the organizational needs. This document, along with a position paper prepared by the General Manager, served as the basis for the preparation of the Business Plan. It might also be mentioned that a Housing Issues Paper prepared by a GTZ consultant in October of 1990 for the Ministry of Housing also stressed the need for a Strategic Plan, and included some elements that a plan should cover.

This Business Plan was prepared in consultation with the General Manager of the NHDFC and the Board. In addition, a number of discussions were held with bankers and Government officials in an effort to obtain information and suggestions on what the Business Plan should incorporate. This Plan is attached to this report as Attachment 1. The contents of this Plan include a Goal statement, plus a list of both short- and long-term objectives. The remainder of the Plan consists of a Strategy statement; an organizational and management plan, including a personnel plan; a description of the initial lending program; a survey of the various resource mobilization options; a market analysis; a technical assistance component; and a five-year financial forecast.

The final part of the business plan is a schedule of activities to be carried out over the twelve month period beginning in July of 1991. (See Annex A of the Business Plan) If this schedule is met, then the NHDFC will be able to begin lending operations in January of 1992 and a savings program in May of the same year. The next few months are, however, critical to the success of the Plan. The first crucial activity is the Business Plan itself. It is expected that this Business Plan, as modified by the NHDFC, will be presented to the Board of Directors for approval, and once approved, will serve as one of the key documents necessary for obtaining Central Bank approval to begin financial operations.

In addition, the General Manager plans to undertake a study tour of HDFC/India in order to see first hand how a successful and well-managed housing finance company operates. He also expects to discuss the possibility of the HDFC providing technical assistance to the Company in selected technical areas. Finally he will take a look at HDFC's computer hardware and software in order to gain a better understanding of the computer requirements for a housing finance company. It is also suggested that he visit some of the newer and smaller housing finance companies in Bombay, which may offer the NHDFC other relevant operational and management examples.

The final crucial activity during the next few months is the recruitment and hiring of staff. The experience and quality of the Company's staff, and in particular, of the Operations Manager and the Mortgage Lending Manager, will determine to a large degree the actual level and types of technical assistance to be required to set up and operate the principal functions of the Company. If the Company is able to recruit managers with good commercial bank experience, then the need for technical assistance can be adjusted accordingly. Assistance and training can then be provided to these Managers only in the specialized areas of housing and mortgage finance. However, the Company expects to confront a recruiting problem with respect to the higher salaries paid by the private sector banks. The General Manager is well aware of this problem and is studying ways to recruit good managers and staff in light of the present constraints on salary ceilings.

The General Manager has also proposed that the USAID advisor who assisted him in this technical assistance effort return to Nepal in November to provide additional assistance. It is hoped that the crucial activities listed above will have been accomplished prior to his arrival so that the focus of his technical assistance efforts can be directed to the other activities.

4. Recommendations and Suggestions

The following are a number of recommendations and suggestions that the NHDFC should take into consideration. All have been discussed previously with the General Manager.

a. **Professional Staff.** In order to be successful, the NHDFC should hire the most competent bankers and staff who are available in the market. Salary limits should not inhibit the Company from hiring the best people. Moreover, salaries should be sufficient so that the staff is able to work full-time at the Company, without the distractions of additional part-time employment. This is particularly true given that technical assistance may be limited and the Company may have to rely on its own personnel resources to a significant degree to operate.

b. **Computer Requirements.** One of the most important decisions to be made is that of selecting and acquiring computer hardware and software. It is strongly believed that a staff member be designated to prepare a computer and information needs assessment as soon as possible. In addition, this should be one of the priority topics on the General Manager's business trip to India. It is also suggested that visits be made to many of the commercial banks in Kathmandu to learn how they are meeting their accounting and information needs.

c. **Accounts.** It is suggested that the Company prepare a Chart of Accounts soon and set up the accounting system on a manual basis. Once the computer system is set up, the accounts can be computerized.

d. **Budgeting and Cash Management.** It is recommended that a 12 month budget be prepared. A first step has been made with the preparation of the financial forecasts in the Business Plan. Along the same lines, a cash management system should be designed and implemented. As discussed, there is an excessive amount of cash in current accounts and some of those funds should be placed in interest-bearing short-term deposits. The budget can help you allocate funds so as to maximize interest income.

e. **Job Descriptions.** Job descriptions should be prepared for each employee, from the General Manager to the peon, and they should include an outline of each and every task the employee is responsible for. Experience in personnel management has shown that written job descriptions will improve efficiency, prevent duplication of effort and decrease misunderstandings. In the long term, these job descriptions will become part of the Personnel Manual, which also needs to be prepared.

f. By-laws. The Company needs to prepare written by-laws as soon as possible. Samples of finance company by-laws will be sent to the General Manager from the U.S.

g. Contract Savings. The single greatest attraction of the NHDFC will be as a source of long-term mortgage finance. Since the man (or woman) on the street is not going to become particularly excited about the Company simply because it is a good place to save, the temptation will be to try to link or tie savings to the ability of obtaining a loan in order to increase deposits. But it is important to be very careful in setting up a contract lending program. It could be disastrous if the Company has promoted a plan which yet later on it discovers it does not have sufficient lending funds to meet the contractual obligations of savers. Therefore it is suggested that the Company initiate and operate both the savings and lending operations prior to designing a contract savings plan.

h. Additional Information. There are a number of areas where the Company will require additional data and facts prior to initiating certain aspects of the savings and loan programs. It is suggested that the Company obtain more information in the following areas:

- **Foreclosure.** It is said that loan foreclosure is no problem, and that may be true. However, in nearly every developing country, while foreclosure is possible, the economic, political and time factors are such that foreclosure is a virtual impossibility. It is suggested that a thorough study be made of the foreclosure process and procedures, including a complete analysis of the procedures currently used by commercial banks.
- **Life Insurance.** In many countries, the availability of mortgage life insurance will preclude the need to foreclose on property after the decease of the principal family income earner, if other members of the family are unable to continue making mortgage payments. An analysis of the feasibility of a life insurance company designing an individual mortgage life policy would be useful.
- **Ownership and Titles.** Without clear ownership and title, it will be very difficult to implement a mortgage finance program. It appears that there is often some difficulty identifying all the owners of a property, and that sometimes family members may make a claim to a particular property after that property is sold. The more the Company knows and understands these problems and their resolution, the sooner and more efficiently will the Company be able to operate.
- **Market.** So far, the Company does not have any hard data on the type of lending and savings programs that could be successfully marketed. Information on the demand for housing loans is meager, perhaps non-existent. The consensus is that there is a huge market for housing finance in Nepal, but this is not the kind of information that most astute businessmen like to bet on. Therefore, the more hard market information the

Company is able to generate, perhaps through market surveys, the higher the comfort level for the Company's management.

i. **Savings Location.** The present facilities are not adequate for either operating a savings activity or in the long run for the lending operation. The alternatives are opening a street front office, like the commercial banks, or utilizing space in one of the commercial banks. In the opinion of the consultant, the preferred alternative is for NHDFC to have its own office facilities so that it can establish its own identity and maximize its role as the only housing finance company in the nation. The higher cost of this alternative is worth the value of a separate identity. However, in smaller cities, it might be worthwhile to consider utilizing other bank space since the level of operations in small towns might never be high enough to warrant the higher cost of a separate office.

Attachment 1

BUSINESS PLAN

NEPAL HOUSING DEVELOPMENT FINANCE COMPANY

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NEPAL HOUSING DEVELOPMENT FINANCE COMPANY

BUSINESS PLAN

1. Introduction

The Nepal Housing Development Finance Company (NHDFC or the Company) was established in March 1990 under the Finance Companies Act of 1985. At the date of incorporation, it's six founding institutional shareholders signed a Memorandum which outlined the basic objectives and functions of the Company. Articles of Association, which incorporated information from the Memorandum and the Finance Companies Act, as well as instructions from the Ministry of Housing and Physical Planning, were also signed. The founding shareholders then subscribed a total of Rs 18 million in share capital, all of which has been paid in. A Board of Directors was appointed which included a representative from each of the founding institutional shareholders. In March of 1991, the Board appointed a General Manager and shortly thereafter executive offices were rented. It is expected that the Articles, along with this Business Plan and other relevant documents, will be submitted to the Rastra Bank in early August for approval, at which time the Company will be authorized to begin savings and loan operations.

2. Goal

The Goal of the NHDFC is to become a financially sustainable and efficiently managed housing finance organization with a social obligation.

3. Objective

The principal objective of the NHDFC is twofold:

- To mobilize financial resources to be channeled to the housing sector, and
- To supply interim and long-term loans for the purchase, construction, improvement, expansion and completion of houses, and for the purchase of land.

These objectives can be further defined and stated as short-term objectives (the first year) and as long-term objectives (the second through fifth years).

During the first year, which covers the period from July 1991 to June 1992, the short-term objectives are:

- To hire and train key NHDFC staff;
- To develop and implement a mortgage lending program;
- To develop and implement a basic saving program;
- To secure additional sources of long-term funds either in the form of additional capital and/or long-term domestic or international loans (also a long-term objective);

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- To obtain technical assistance to help carry out these objectives.

The longer term objectives are:

- To expand NHDFC operations to other cities in Nepal;
- To introduce additional lending programs to serve a wider range of families;
- To introduce innovative savings programs to complement the lending efforts;
- To promote the development of large-scale housing projects as well as loans to community groups and cooperatives for housing.

The short-term objectives to be achieved in the first year can be measured quantitatively as follows:

- 110 mortgage loans will have been granted;
- Rs 10,000,000 will have been invested in housing;
- Rs 6,000,000 in additional capital and Rs 10 million in loans will have been obtained;
- Rs 10,000,000 in savings will have been deposited.

4. Strategy

The Company's strategy for achieving the goal and objectives is:

- Application of a risk aversion management style. The Company will apply sound underwriting principals to ensure that borrowers are credit worthy and that the underlying collateral for the loans is good;
- Implementation of sound financial management techniques. The Company will strive to apply the most acceptable and appropriate financial management techniques to ensure that the Company will achieve a profit while at the same time promote the growth necessary to provide housing for all Nepali; and
- Development of selective saving and loan programs by learning from experience. The Company will initiate a basic saving and loan program and additional programs will be developed internally based on the experiences gained from the previous programs. Programs will only be initiated after the appropriate systems and trained staff are in place.

5. Organization and Management

The proposed Articles of Association state that the Company will be governed by a seven person Board of Directors to be elected by the shareholders. At the present time, the Board is composed of six Directors who represent the founding shareholders. Seats on the Board will be reserved for the present institutional shareholders as long as these shareholders hold a predominate interest in the Company. As shares are sold to the public, it is expected that the Board's composition will change to represent more accurately the ownership of the Company.

The Company's shareholders and the amount of capital invested by each shareholder are shown below:

■ Ministry of Housing & Physical Planning	Rs 1,500,000
■ Ministry of Finance	1,500,000
■ Nepal Bank Limited	3,000,000
■ Rastriya Banijya Bank	3,000,000
■ National Insurance Company	4,500,000
■ Agricultural Development Bank	3,000,000
■ Nepal Arab Bank	1,500,000
Total Capital Contribution	Rs 18,000,000

The Chairman of the Board is the General Manager of the Rastriya Beema Santhan (the National Insurance Company), which is also the largest single shareholder.

Operational responsibility is in the hands of a General Manager appointed by the Board of Directors. In turn, the General Manager, in consultation with the Board, engages his staff. The General Manager is the chief executive officer of the Company and is responsible to the Board of Directors for the successful management of the Company. In general the duties and responsibilities of the GM are to:

- Direct strategic planning activities;
- Raise additional equity;
- Plan and develop housing finance programs;
- Obtain the Board's approval and support for these programs;
- Ensure the implementation of the Company's programs;
- Select, motivate and provide for the training of the Company's personnel;
- Set up programs to measure and control the Company's level of performance;
- Report regularly on the results of the Company's operations;
- Coordinate and liaise with the HMG and the private sector
- Represent the Company to the Public and to the Company's shareholders.

In the early stages of its development, the NHDFC will be organized into two line divisions, each division representing one of the two principal functions of the Company—resource mobilization and lending. The two divisions are the Operations Division, which is responsible for the daily administration of the Company as well the savings operation and the Mortgage Loan division, which is responsible for making and servicing loans.

The principal activities of the Operations Division are:

- To develop and implement savings programs.

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- To manage the accounting and bookkeeping function of the company;
- To prepare the financial reports in a accurate and timely fashion;
- To supervise the teller, cash receipts and payments, and safe-keeping operations;
- To provide for the security and accounting of cash monies.
- To undertake the cash and financial management functions of the company;
- To provide for general support services for the Company;

It is probable that once the Company is larger and more successful, this Division will be split into an Administrative and Personnel Division and an Operations Division, however for the time being, to ensure maximum use of scarce resources as well as minimize costs, the two functions are combined.

The principal activities of the Mortgage Loan Division are:

- To implement mortgage lending programs in a prudent and expeditious manner.
- To qualify borrowers;
- To appraise cullateral;
- To administer the lending portfolio;
- To advise the GM on lending policies and procedures;
- To prepare loan packages for the Loan Committee for action.

There are additional support functions that do not properly fall under any of the line functions, such as policy research, legal, planning, training, etc. Initially, those services will be contracted to third parties as needed, until an activity becomes sufficiently large to warrant bringing it in-house.

By the end of the first year, assuming the goals are met, the NHDFC will have reached a size sufficient to warrant the establishment of an internal auditor function. This is one of the most crucial functions of a finance company, in that it will serve to ensure the integrity of the Company. This function will be headed by a Chartered Accountant who will report directly to the Board of Directors. His job is to constantly monitor and audit the managerial and financial functioning of the Company.

Initially, the Company will set up one committee, the Loan Committee. This Committee will be composed of two Board Members, the General Manager and the Mortgage Loan Division Manager. All loans must be approved unanimously by the Committee. The Committee will meet periodically when there are loan applications to consider, initially at least once a month, and as the loan volume grows, at least once a week.

Current and Proposed Staffing

A General Manager, Dr Jibgar Joshi, was engaged in March, 1991. Dr. Joshi is an Economist with many years experience in the field of housing and urban development. He was seconded by the Ministry of Housing and Physical Planning for a minimum of two years to function as chief executive officer of the Company. An Administrative Assistant/Clerk has also been employed to assist in the administration aspects while an engineer from the Ministry of Housing and Physical Planning was seconded for six months to assist in the organization of the Company. No other administrative or professional staff has been hired to date. It is anticipated that additional professional staff will be employed during the first year of operations including the positions mentioned below:

- Operations Manager—to manage the Operations Division, implement the activities and responsibilities as stated above, and prepare the policies, procedures and documentation to be developed in the next few months.

  Qualifications for Operations Manager are:
  - Minimum of 5 years employment with a Bank, of which 2 years were in a senior managerial position;
  - A Bachelor's Degree in Commerce, Economics or Engineering;
  - Proficiency in English.

- Lending Manager—to manage the Mortgage Lending Division, carry out the Division's activities and responsibilities as indicated above, and assist in the preparation of the lending policies, procedures and documentation being developed.

  Qualifications for Lending Manager are:
  - Minimum of 2 years experience in a lending operation, preferably related to the field of housing;
  - A Bachelor's Degree in Commerce, Economics or Engineering;
  - Proficiency in English.

In addition to those two key managers, whose job functions have already been described, the Company will need to hire other professional staff as follows:

- Engineer Appraiser. Within the Mortgage Lending Division, an engineer or quantity surveyor with some experience in construction management as well as property valuation experience will be hired to carry out the following functions:
  - Visit properties and prepare appraisal reports for use by the mortgage lender in preparing the loan package;
  - Verify the accuracy of construction budgets and plans submitted by the loan applicant;
  - Visit the construction sites to verify the work in progress and make recommendations for loan disbursements;
  - Approve, with the loan officer, contractor's certificates for payments.

- Accounting Manager. Within the Operations Division, a senior accountant, who has had at least 5 years experience as an accountant, preferably with a financial institution, will be hired to:

  Handle all accounting activities including loan disbursements, general ledger transactions, depositary related transactions, loan origination records, payment schedules and all other necessary accounting and bookkeeping records.

As the Company grows, additional staff will be required as follows:

- Loan Officers to review loan applications, verify employment and salary, interview applicants, etc.
- Closing Officers to close and disburse loan proceeds and register title and mortgage liens.
- Loan Assistants.
- Teller Manager and Tellers.
- Savings Account Clerks to receive and process savings account applications.

An Employment Schedule is outlined in Annex C.

Training

NHDFC considers training to be a key element in the success of the organization. Mortgage lending is a new activity in Nepal and so far banking professionals with specific experience in this field are not in country. It is expected that the NHDFC will take advantage of the many opportunities offered in the region and the U.S. to learn and upgrade relevant banking skills. The first training exercise will consist of a visit by the General Manager to HDFC/India in July of 1991 to study that institutions operations and systems and to negotiate a technical assistance role.

6. NHDFC's Basic Product—Lending Money

Initially, NHDFC intends to design and implement a basic mortgage lending program. With the experience gained from this program, additional lending programs will be put into operation, all with the purpose of increasing the access by all Nepali to housing finance resources.

The first program to be offered will be the Home Lending Program to which all Nepali who can afford to take out a housing loan can apply. Under the Home Lending Program, a loan can be used for any one of the following purposes:

- For a Nepali who does not currently own a home or land, to borrow money to purchase a building site or to purchase a house;
- For a Nepali who owns a building site, a loan to build a home;
- For a Nepali who owns a home, a loan to expand, improve or complete his home.

The proposed lending terms for this loan program will be the following:

- The maximum amount of a loan will be Rs 100,000;
- The tenor (term) will be 15 years;
- The annual interest rate will be at the market rate at the time the program is initiated.
- The loan to property value ratio will not exceed 75 percent;
- The monthly payment must not exceed 25 percent of the family's certified cash income;

It should be pointed out that these terms may change from time to time as the situation warrants. And again, other programs will be designed once the Company has gained sufficient experience to do so. Loans to developers to acquire large sites to be sub-divided, serviced and sold to homebuyers will be one of the first types of programs to be considered once the Home Lending Program is implemented. Also loans to community groups and cooperatives are considered to be appropriate lending activities.

As mentioned in the Strategy Section of this Plan, the Company intends to follow a risk averse management style. By applying this style, the Company means to seek out the most credit worthy borrowers in the market, who are able to assure the Company that the loan will be repaid promptly and completely. As the Company gains lending and loan servicing experience, then it will review its lending procedures to expand the market. This policy does not infer that the Company will lend only to wealthier borrowers. Lending experience throughout the world has shown that wealth is not the only basis for lending—that poor and middle income families can be just as credit worthy, if not more so, than the wealthy. However, the Company believes that initially, to offer greater assurance that the loans will be repaid, the following lending criteria must be applied to all prospective borrowers, regardless of the borrower's financial condition.

- A borrower must be gainfully employed at his/her current job for at least two years;
- He/she must be salaried, at least on a monthly basis;
- If the purpose of the loan is to build, expand or improve a home, the borrower must be owner of the property and must have a building permit;
- The borrower must be able to obtain mortgage life insurance (may be optional) well as fire and hazard insurance;
- The borrower and his/her employer must agree to a salary deduction plan for both the mortgage payment and the insurance payments;
- If the borrower is using the salary of other family members to qualify for a loan, the other family members must agree to sign the loan agreement and other relevant legal documents also;

- The borrower may have to provide one or more loan co-signers, depending on the results of research on foreclosures and property titles to be carried out shortly.
- In all cases, the borrower must complete a loan application, pay an application and processing fee, agree to let the Company verify his and his family's employment and salary, let the Company appraise (value) the property and in general, fulfill all the loan application processes and procedures; and
- Priority will be given to families who do not already own a home in the case of loans for land or home purchase.

The Company believes that the current office space in Tecu is sufficient to implement the Home Lending Program for the first year at least. One additional room in the present building may be rented to receive applicants. That space is now available. The Company anticipates initiating lending operations in January 1992. Annex D gives a better idea of the equipment and furniture needs.

7. Resource Mobilization

The Company expects to generate funds for home lending purposes from a variety of sources. They are:

- Equity—The capital contributed by the shareholders;
- Savings—Funds generated through short- and long-term savings deposits in the NHDFC;
- Loans—Bank loans or debentures sold to the public;
- International Loans, credits or guaranties, and
- Retained earning—Surpluses that are not distributed to the shareholders and instead are used to strengthen the Company and generate funds for housing loans.

a. Equity. To date, the Company has raised Rs 18,000,000 in equity, and it expects to raise within the next year another Rs 6,000,000 from this source. In all probability, two public offering will be made to increase the total equity to Rs 100,000,000: Rs 26,000,000 in the second year of operations, and Rs 50,000,000 in the third year. The Articles of Association now authorizes a share capital of Rs 100,000,000, although the Articles can be amended to increase the share capital upon the authorization of the shareholders. Capital funds will be used to acquire furniture and equipment as well as to cover expenses during the early periods of the Company's operations, when operational income is not sufficient. Some capital will be used to make loans.

b. Savings. The Company intends to initiate savings programs by offering a passbook savings program as well as term savings deposit program. The Company will not offer checking facilities.

The Passbook Savings Account Program will have the following features:

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- The minimum opening deposit and all subsequent deposits will be no less than Rs 500.;
- A deposit book will be given to the saver when the account is opened and the book must be presented to the Teller to withdraw or deposit funds (depending on the hardware selected, this condition may be changed);
- No more than one withdrawal will be permitted each month;
- The savings account may be closed on demand;
- Interest on the passbook saving account will be paid at the current market rate and interest will be compounded.

The Term Savings Deposit Account Program will have these features:

- A Term Account may not opened for less than Rs 10,000;
- The term (tenor) may be for specific periods of time from 1 month to ten years;
- Interest will be paid at the current market interest rate and interest will be compounded;
- Interest will be fixed for the term of the deposit;
- The deposit may not be withdrawn prior to maturity without the payment of a substantial fee;
- Principal will be paid only at maturity, while interest may be paid periodically, depending on the terms of the saving certificate;
- A Certificate of Deposit with the terms and conditions of the deposit will be issued to the saver when he opens the account.

The Company does not currently have the operational facilities and equipment to initiate the savings operation. It is expected that store front space will be rented in proximity to the Company offices in Tecu, staff will be hired and trained and furniture and equipment purchased prior to commencing operations. The Company plans to begin savings operations no later than May 1992. It should be pointed out that ideally the saving program should be initiated at the same time as the lending program. However, the personnel and logistical problems associated with initiating two new and major programs simultaneously is such that it is more likely that they will be started several months apart.

c. **Debentures.** Debentures are loans made to the Company by investors and may or may not be secured. The amount and the terms and conditions of the debentures are conditioned on the health of the Company, i.e. its financial condition. This is another reason why the company must show a reasonable profit as well as sustained growth. Frequently the debentures are relatively long-term and therefore they can play a significant role in helping to match asset and liability maturities. The company may also secure loans from Commercial Banks or other institutions, financial or otherwise.

d. International Loans. Many housing finance companies in the developing countries have been able to obtain large loans or loan guaranties from institutions like the World Bank (IDA), the Asian Development Bank and the United States Agency for International Development. While it is probably premature to approach any of those institutions for loans now, they remain a possibility although these lenders usually stipulate that the funds be used to help lower income families.

e. Retained Earnings. At the completion of each fiscal year, 50 percent of the surplus or profit will be placed in a Reserve Fund and a part of the remainder will be paid to the shareholders as a return on their investment. The balance will be recorded as retained earnings and will be added to the capital of the Company. These funds may be used to make additional housing loans.

8. Market Analysis

There is, at present, no formal housing finance system in Nepal. Commercial Banks make collateralized personal and business loans, which may be used for housing purposes. In the informal sector, collateralized loans are also made for housing, albeit at interest rates usually double commercial bank rates. While the amount of money being made available for housing purposes appears to be small, a significant amount of housing and construction is taking place in Nepal today.

How is this construction financed? First and foremost, personal saving are used. Most frequently, these savings will be utilized over a long period to build a home in a piecemeal fashion—this type of housing finance is evidenced by the large number of partially completed homes in Kathmandu. A second source is family gifts, often as a result of marriage. Another source is family loans, many interest free. Still another is the use of a loan from the Provident Fund, which frequently is not repaid by the borrower, and instead his account with the Fund is adjusted to reflect a withdrawal. Employees of banks can often obtain a below market rate loan for housing purposes. Yet for most families, it is unlikely that any one of these sources will provide all the funds needed to achieve home ownership.

Still the question remains as to why a specialized housing finance institution is needed in Nepal. After all, to some degree housing is being financed in one fashion or another. There are several answers to this question. The sources listed above do not fill all the need for housing finance. Moreover, they do not reach all the people, are not sufficient in themselves, and often cause real hardship on families, making many choose between a home or another equally important necessity of life. Experience worldwide has also shown once specialized housing finance institutions are created, new financial resources for the housing sector are generated that otherwise would not have been made available. And more savings are mobilized.

Furthermore, there is no reason to believe that a housing finance institution would not be acceptable and successful in Nepal, as it has in almost every other country of the world. It is generally true that specialized housing finance institutions are

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necessary to help solve the housing problem. However it is necessary to design a housing finance system that fits those aspects of the cultural, social and economic environment that is unique to Nepal.

The financial resources that the Company will have available for housing loan purposes will only be a finite part of the amount that is really needed. And while the Company is able and intends to reach a relatively large market, it is still far in excess of its meager lending capacity. Based on the above considerations, the Company's market is defined as follows:

- Initially the geographic market will be greater Kathmandu. Only in subsequent years will the Company be able to serve other communities.
- While no families will be excluded from the first lending program, still the applicants must be able to afford to borrow, which means they will need a steady income. Often they will need savings for a down payment, meaning they will need some assets.

Therefore in the beginning, the probable borrowers will be middle and upper-middle income families in Kathmandu. The immediate question is what role will the Company play in serving lower income families? There are two answers. As the Company grows and begins to offer additional programs, it will begin to reach families on the lower income scale. And two, the Company will seek out special financial resources at more favorable terms which it can direct specifically to lower income families. However with the resources it now has available, it can only make loans at market rate terms if it is to achieve its goal of making a reasonable surplus, set up the Reserve Fund as required by law and pay a dividend to its shareholders.

Competition

One of the advantages of being the first on the market with a new product is that there is no competition. That does not mean that any price can be charged but rather it means that the Company simply has an initial edge in bringing the product to market. The product still must be reasonably priced and attractive to the target group. In this case, the advantage is that there is no other institution in Nepal that is making long-term housing loans to the general public. With a 15 year housing loan offered by the NHDFC, the monthly repayment can be very affordable. For example, a Rs 100,000 loan at 18 percent interest will require a monthly payment of Rs 2,540 if the term (tenor) is 5 years. But if the term for this same loan is 15 years, then the monthly payment is only Rs 1,610. The affordability of a longer term loan is much greater and opens up the market to a significantly broader segment of the population.

One word of caution about a competitive edge—it does not last forever. If the NHDFC is successful, then other similar housing finance institutions will be chartered which will compete with NHDFC. This has happened in every other country in the world where there was a successful first housing finance institution and it will happen here, unless some artificial impediments are put in place, which is not being recommended.

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It is therefore important that the Company design its savings and lending programs in the expectation that within a few years, it will have some competition. In fact the ultimate compliment to NHDFC is that other housing finance institutions will be established some day.

9. Technical Assistance

A pioneer company must also face some disadvantages as well as some advantages. The problem with introducing a new product or starting a new operation in a particular country is that there are no examples to follow, no programs to copy, no forms to plagiarize. But NHDFC must rely not only on taking examples from other countries, not all of which are applicable, but also on obtaining some external technical assistance from experts who have a wide and varied experience in many aspects of housing finance. Given that NHDFC has not yet identified or hired any staff with banking experience, it is difficult to design a comprehensive technical assistance package based around unknown staff skill levels. For example, if NHDFC is able to hire two managers with strong backgrounds in commercial banking, it is obvious that a smaller level of assistance will be required. It is also unclear how much money can be made available for assistance from external donors. Given these uncertainties and constraints, three different levels of technical assistance can be designed:

- A comprehensive assistance package that assumes the availability of significant funding from outside donors, and a staff with no or minimal banking experience;
- A mid level package that assumes some funding from outside donors, and at least one manager with good banking experience;
- A small package that assumes minimal funding from outside sources, but two managers with good banking experience, plus assistance from local bankers who are Board members.

Annex 2 gives a more detailed description of the three technical assistance packages.

While the specific level of technical assistance will vary given the availability of financial and human resources, assistance will generally be required in the following areas:

- Operational area:
  - Legal, technical and financial policy formulation;
  - Bank operations management;
  - Personnel policy and manpower development for housing finance institutions;
  - Accounting and management information systems;
  - Savings mobilization and marketing.
- Lending Area:
  - Lending programs, policies and procedures;
  - Portfolio servicing and loan recuperation;
  - Loan underwriting analysis and procedures;

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Lending strategies, techniques and marketing.

As the Company develops further, other relevant areas of technical assistance will be identified.

10. Financial Forecasts

The financial forecasts given in this section are the best estimates of the Company's future operations. In this case, the estimates are provided over a five year period—a period any longer would be pure speculation. For the first year, the estimates are given on a monthly basis, while for the next two years, they are on a quarterly basis. The last two years are annual.

The assumptions, along with the projections, are contained in Annex B; however, some further explanation and analysis are necessary. For a new institution without a history, it is extremely difficult to project what the institution will do, in this case, how many loans will be made and how much savings will be received. Projections are made, based on reasonable assumptions, and if possible on experiences in other institutions, often in other countries. But neither the assumptions nor the projections are written in stone, and they can and should be reviewed and changed as more information comes to light and opinions change. It is expected that the NHDFC will use these projections only as a first attempt in trying to arrive at a reasonable and accurate financial picture of the company.

Given this explanation, the following assumptions were used to develop the lending and savings projections. With respect to lending, it was assumed that each loan would be Rs 100,000, and that in the first month of operation, only 10 would be granted. In the second month, 15 loans would be made, with the amount slowly increasing to 22, or one loan a day by the end of the first six months. Thereafter, there would be a slight increase in the level of loans each and every month, as the Company gains experience and skills. It should also be pointed out that by the third year at least, some loans may be provided to developers or cooperatives, which would permit the Company to increase it lending levels, but not significantly its expenses, although no assumptions for this type of activity was made.

For savings projections, it was assumed that for every 5 Rupees of loans made, 1 Rupee in savings would be received. As programs are designed that tie or link savings to the availability of loans, this percentage may change, although there is no evidence that this is true one way or another now.

Financial Analysis

The Company's present financial condition is excellent. The Rs 18 million in capital contributions has been deposited in five different banks for a term of two years, with maturities ranging from April, 1992, to February, 1993. The interest rate varies from 12.5 percent to 13 percent. As of July 15, 1991, the end of the fiscal year, it is projected that interest income will have reached Rs 2,368,000, less taxes paid and

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accrued. Expenses have been exceedingly low, for the most part, being related to normal Board operations and recruiting. Now that offices have been rented, some staff hired and furniture acquired, expenses are starting to increase. Nevertheless, the estimated Rs 190,000 in monthly interest income will continue to far exceed expenses for the first year.

An analysis of the Proforma Balance Sheet for the first five years of operations shows a continued reliance on equity as a primary source of lending funds. By the end of the third year, the Company expects to have raised a total of Rs 100 million in equity, and these funds will be one of the principal source of mortgage loans during those years of operation. Local institutional loans will slightly exceed equity overall as a source of funds, reaching Rs 140 million, by the end of the five year period, however nearly all of those funds will be borrowed in the fourth and fifth years. The third source of lending funds will be savings which is expected to reach Rs 62 million by the fifth year, and will grow steadily as the v lume of mortgage loans increases.

As expected, most of the Company's assets will be in Mortgage Loans. By the end of the period, it is projected that Rs 315 million in mortgages will have been made, but with repayments, the mortgage loan balance will be Rs 306 million. The company will maintain a healthy level of cash and near cash, both as required by law as well as prudential financial management. With the implementation of a cash management program, the Company will strive to maximize the return on its cash by placing excess cash funds in interest bearing commercial accounts.

Looking at the Proforma Income Statement, it shows that the Company is able to cover its initial operating and start-up expenses with the interest from invested capital and thereby ensure that the Company will earn a profit in each year of the five year period. While there is a loss in operations in the first year, overall the Company shows a net profit as the result of interest income on investments. The Company will continue to keep operating expenses low.

It was assumed that the mortgage loans could be lent at a interest rate of 18 percent, plus a 1 percent application/processing fee at closing. At the time the Company initiates lending operations, it should look closely at the current market and base its interest rate on current interest rates and on its cost of funds. Based on these projections, it is expected that by the fifth year, total income will reach Rs 56,853,000, with operating expenses of Rs 10,053,000, leaving a net operating profit of 46,799,000. After deducting other expenses, principally interest of money borrowed, net income is Rs 27,526,000. Of this profit, one half will be placed in the Reserve Fund, and the remainder placed in retained earnings. This projection does not assume any earning will be paid in dividends or bonuses, although in all probability some earning will be used for those purposes. If that is the case, then both retained earnings and the Reserve Fund will show lesser amounts.

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The Cash Flow projections show that the Company will be able to meet its cash requirements to cover expenses, fixed assets and mortgage lending assuming that the schedule for obtaining additional funds in the form of equity, borrowings, and savings is met.

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ANNEX A: 12 MONTH ACTIVITIES SCHEDULE--BEGINNING JULY 15, 1991

							1991						1992			
Primary Respons.	Review/ Assist	Approval Needed	No.	Activity	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
GM	MHPP	Board	1	Complete Business Plan/ Secure Board's approval	XXXXXXXXXX											
GM		Rastra Bank	2	Prepare & submit banking application to Rastra Bank	XXXXXXXXXXXXXXXX											
GM		Board	3	GM undertakes study/tour of HDFC/India	XXX											
GM	MHPP	Board	4	Negotiate TA package with HDFC/I & donor agencies	XXXXXXXXXX											
GM	2 Board Drctrs	Board	5	Recruit & hire senior staff		XXXXXXXXXXXXXXXXXXXXXXXXXXXX										
GM		Board	6	Negotiate with IFC & ADB for new investment capital	XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX											
GM	Lending Manager		7	Mortgage Lending Advisor contracted & at work				XXXXXX			XXXXXX					
Lending Manager	Lending Advisor	Board, Rastra B.	8	Prepare lending policies & procedures manual				XXXXXXXXXXX								
Lending Manager	Lending Advisor		9	Prepare lending documents, forms, contracts, etc.				XXXXXXXXXXX								
GM	Lending Manager		10	Acquire basic equipment for lending division					XXXXXXXXXXX							
Lending Manager	Lending Advisor		11	Prepare loan marketing plan					XXXXXXXXXXX							
Lending Manager	Lending Advisor		12	Undertake lending advertizing campaign						XXXXXXXXXXX						
Lending Manager	Lending Advisor		13	Start & operate mortgage lending operations							XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX					
GM	2 Board Drctrs	Board	14	Negotiate & obtain commitments for institutional loans					XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX							
Lending Manager	NIC		15	Design mortgage life insurance plan					XXXXXXXXXXX							
GM	Operations Manager		16	Obtain space & equipment for savings division								XXXXXXXXXXXXXXXXXX				
GM	Operations Manager		17	Savings Operations Advisor contracted & at work					XXXXXX				XXXXXX		XXXXXX	
Oprtns Manager			18	Savings Mobilization Advisor contracted & at work									XXXXXX			
GM			19	USAID Advisor returns to assist NHDFC					XXX							
GM	Lending Manager		20	Property Appraisal Advisor contracted & at work					XXXXXX							
GM	Operations Manager		21	Accounting & MIS Advisor contracted & at work					XXXXXX							
Oprtns Manager	Acctng Advisor		22	Design/Implement MIS & accounting system					XXXXXXXXXXX							
Oprtns Manager	Savings Advisor	Board, Rastra B.	23	Prepare savings policies & procedures manual									XXXXXXXXXXX			
Oprtns Manager	Savings Advisor		24	Prepare savings documents, forms, contracts, etc.									XXXXXXXXXXX			
Oprtns Manager	Sav. Mob. Advisor		25	Design savings marketing plan									XXXXXXXXXXX			
Oprtns Manager	Sav. Mob. Advisor		26	Implement savings marketing campaign										XXXXXXXXXXX		
Oprtns Manager	Savings Advisor		27	Start & operate savings operations											XXXXXXXXXXX	
GM	SEC	Board	28	Prepare Prospectus for public offering												XXXXXX

ANNEX B: FINANCIAL FORECASTS WITH ASSUMPTIONS

1. An application/processing fee equal to 1 percent of the amount of the mortgage loan will be charged to the borrower at closing.

2. The average mortgage loan will be for 15 years at an 18 percent interest rate.

3. An average of 12 percent on passbook and term savings deposits will be paid to savers.

4. General and Administrative Expenses are based on actual and projected expenses.

5. Other (miscellaneous) expenses are calculated at 10 percent of G&A expenses.

6. Depreciation is calculated at 10 percent of Fixed Assets.

7. Interest on Borrowings (loans received by NHDFC) is calculated at 14 percent annually, interest only.

8. Short-term deposits placed by NHDFC in commercial banks earn interest at a rate of 8 percent annually.

9. Long-term deposits (terms of 2 plus years) placed by NHDFC in commercial banks earn interest at a rate of 13 percent annually.

10. The Reserve for Bad Debts is set at 2 percent of each mortgage loan originated.

11. Taxes are calculated at 10 percent of net income.

12. By law, 50 percent of net income after taxes and bonuses must be placed in a Reserve Fund.

13. Shares will be sold to the public as follows: Rs 26 million in the second quarter of the second year and Rs 50 million in the first quarter of the third year. In both cases, previous borrowings of Rs 10 million will be repaid with the share proceeds.

14. The level of savings deposits is calculated at 20 percent of the level of mortgage loans made in the same period.

15. It is assumed that these financial projections begin on July 15, 1991, which is the beginning of Nepal's fiscal year.

PROFORMA INCOME STATEMENT—Nepal Housing Development Finance Company
Rs Thousands

		Month												Total
INCOME:	EOY*	1	2	3	4	5	6	7	8	9	10	11	12	1st Yr
Fee Income								10.00	15.00	20.00	20.00	22.00	22.00	109.00
Interest on Mortgage loans								15.00	37.48	67.44	97.37	130.28	163.12	510.67
Total Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	25.00	52.48	87.44	117.37	152.28	185.12	619.67
EXPENSES:														
Interest on Savings Dep											4.00	8.40	12.80	25.20
General & Admin Expenses	236.00	44.00	44.00	48.00	65.00	65.00	65.00	83.00	95.00	95.00	112.00	112.00	112.00	940.00
Other Expenses		4.40	4.40	4.80	6.50	6.50	6.50	8.30	9.50	9.50	11.20	11.20	11.20	94.00
Depreciation		2.83	2.83	3.18	3.18	3.18	3.18	8.10	8.10	8.10	13.68	13.68	13.68	80.75
Total Expenses	236.00	51.23	51.23	55.98	74.68	74.68	74.68	99.40	112.60	112.60	140.88	145.28	149.68	1142.95
Net Operating Income	-236.00	-51.23	-51.23	-55.98	-74.68	-74.68	-74.68	-74.40	-60.12	-25.16	-23.51	6.98	35.44	-623.28
Interest Pd on Borrowings												-116.67	-116.67	-233.33
Short Term Interest Inc		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Interest Inc	2368.00	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92	2327.01
Reserve for Bad Debt								-20.00	-30.00	-40.00	-40.00	-44.00	-44.00	-218.00
NET INCOME	2132.00	142.68	142.68	137.93	119.23	119.23	119.23	99.52	103.80	128.76	130.40	[illegible]	68.69	[illegible]
Taxes	213.20	14.27	14.27	13.79	11.92	11.92	11.92	9.95	10.38	12.88	13.04	4.02	6.87	135.24
Income after Taxes	1918.80	128.42	128.42	124.14	107.31	107.31	107.31	89.57	93.42	115.88	117.36	38.20	61.82	1217.15
Bonuses														
Reserve Fund	959.40	64.21	64.21	62.07	53.66	53.66	53.66	44.78	46.71	57.94	58.68	18.10	30.91	603.57
Dividends														
Retained Earnings	959.40	64.21	64.21	62.07	53.66	53.66	53.66	44.78	48.71	57.94	58.88	18.10	30.91	608.57

					Total					Total		
INCOME:	1st Q	2nd Q	3rd Q	4th Q	2nd Yr	1st Q	2nd Q	3rd Q	4th Q	3rd Yr	4th Yr	5th Yr
Fee Income	80.00	100.00	120.00	140.00	440.00	150.00	170.00	180.00	200.00	700.00	900.00	1000.00
Interest on Mortgage loans	848.81	1296.80	1831.78	2455.64	6433.03	3122.50	3677.16	4674.31	5558.83	17232.80	38361.66	55853.35
Total Income	928.81	1396.80	1951.78	[illegible]	6873.00	3272.50	4047.16	4854.31	5758.83	17902.80	39261.66	56853.35
EXPENSES:												
Interest on Savings Dep	86.40	146.40	218.40	302.40	753.60	392.40	494.40	[illegible]	722.40	1324.80	5049.60	7449.60
General & Admin Expenses	343.00	343.00	343.00	343.00	1372.00	400.00	[illegible]	[illegible]	420.00	1640.00	2000.00	2200.00
Other Expenses	34.30	34.30	34.30	34.30	137.20	40.00	[illegible]	42.00	42.00	164.00	200.00	220.00
Depreciation	46.05	46.05	46.05	46.05	184.20	46.05	46.05	46.05	46.05	184.20	184.20	184.20
Total Expenses	509.75	569.75	641.75	725.75	2447.00	678.45	980.45	[illegible]	1230.45	3313.00	7433.80	[illegible]
Net Operating Income	419.06	827.05	1310.03	1869.89	4426.05	2394.05	3086.71	3743.06	4528.38	14619.80	31827.86	[illegible]
Interest Pd on Borrowings	-350.00			-350.00	-700.00	-350.00			-700.00	-1050.00	-1120.00	[illegible]
Short Term Interest Inc	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Interest Inc	581.75	581.75	581.75	581.75	2327.00	581.75	581.75	581.75	581.75	2327.00	2327.00	2327.00
Reserve for Bad Debt	-160.00	-200.00	-240.00	-280.00	-880.00	-300.00	-340.00	-380.00	-400.00	-1400.00	-1800.00	-2000.00
NET INCOME	490.81	1208.80	1651.78	1821.64	5173.03	2325.80	3308.46	3965.61	4010.13	14496.80	21154.86	27526.55
Taxes	49.08	120.88	[illegible]	182.16	517.30	232.58	330.85	396.56	401.01	1449.68	755.53	2752.66
Income after Taxes	441.73	1087.92	[illegible]	1639.48	4655.73	2093.22	2977.61	3569.05	3609.12	13047.12	20099.33	24773.90
Bonuses												
Reserve Fund	220.86	543.56	743.30	819.74	2327.86	1046.61	1488.81	1784.52	1804.56	6523.56	10199.66	12386.96
Dividends												
Retained Earnings	220.86	543.96	743.30	819.74	2327.86	1046.61	1488.81	1784.52	1804.56	6523.56	10199.66	12386.96

*Financials up to the end of the start-up period

PROFORMA BALANCE SHEET—Nepal Housing Development Finance Company
Rs Thousands

	EOY	Month 1	2	3	4	5	6	7	8	9	10	11	12	Total 1st Yr
ASSETS:														
Cash	1978.80	1810.05	1941.30	2026.62	2137.11	2247.61	8358.10	6886.86	5521.14	3680.09	1598.31	9941.79	8313.29	8313.29
Short Term Deposits														
Long Term Deposits	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00
Total Cash & Deposits	19878.80	19710.05	19841.30	19926.62	20037.11	20147.61	26258.10	24786.87	23421.14	21580.09	19498.31	27841.79	26213.29	26213.29
Mortgages								998.90	2496.14	4491.17	6484.00	8674.41	10862.41	10862.41
Fixed Assets	40.00	340.00	340.00	382.00	382.00	382.00	382.00	972.00	972.00	972.00	1642.00	1642.00	1642.00	1642.00
Less Depreciation		-2.83	-6.67	-8.85	-12.03	-15.22	-18.40	-25.50	-34.60	-42.70	-66.38	-70.07	-83.75	-83.75
Total Assets	19918.80	20047.22	20175.63	20299.77	20407.08	20514.39	26621.70	26731.27	26854.68	27010.56	27567.93	38088.13	38633.95	38633.95
LIABILITIES & SHAREHOLDERS EQUITY:														
Savings Deposits											400.00	840.00	1280.00	1280.00
Borrowings												10000.00	10000.00	10000.00
Grants														
Provision for Bad Debts								20.00	50.00	90.00	130.00	174.00	218.00	218.00
Total Liabilities								20.00	50.00	90.00	530.00	11014.00	11498.00	11498.00
Equity	18000.00	18000.00	18000.00	18000.00	18000.00	18000.00	24000.00	24000.00	24000.00	24000.00	24000.00	24000.00	24000.00	24000.00
Retained Earnings	959.40	1023.61	1087.82	1149.89	1203.54	1257.20	1310.86	1355.63	1402.34	1460.28	1518.96	1537.07	1567.97	1546.17
Reserve Fund	959.40	1023.61	1087.82	1149.29	1203.54	1257.20	1310.85	1355.63	1402.34	1460.28	1518.98	1537.07	1567.97	1548.17
Total Liabilities & Shareholders Equity	19918.80	20047.22	20175.63	20299.77	20407.08	20514.39	20621.70	26731.27	26854.68	27010.56	27567.93	38088.13	38633.95	38633.95

	1st Q	2nd Q	3rd Q	4th Q	Total 2nd Yr	1st Q	2nd Q	3rd Q	4th Q	Total 3rd Yr	4th Yr	5th Yr
ASSETS:												
Cash	2423.56	11852.12	4159.53	5106.82	5106.82	-4225.06	25824.03	15743.23	24237.60	24207.60	37415.09	43484.78
Short Term Deposits												
Long Term Deposits	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00	17900.00
Total Cash & Deposits	20323.56	29752.12	22059.53	23006.82	23006.82	13574.95	43724.23	33643.23	42107.60	42107.60	56315.00	66384.78
Mortgages	18799.93	28705.33	40570.57	54389.80	54389.80	69159.94	85874.53	100630.43	123121.22	123121.22	210297.26	306185.67
Fixed Assets	1842.00	1842.00	1842.00	1842.00	1842.00	1842.00	1842.00	1842.00	1842.00	1842.00	1842.00	1842.00
Less Depreciation	-129.80	-175.85	-221.90	-267.95	-267.95	-314.00	-360.05	-406.10	-452.15	-452.15	-636.35	-820.56
Total Assets	40835.68	60123.60	64250.20	78969.68	78969.68	84362.90	131080.51	138609.56	166618.67	166618.67	266818.00	373691.90
LIABILITIES & SHAREHOLDERS EQUITY:												
Savings Deposits	2880.00	4880.00	7280.00	10080.00	10080.00	13080.00	16480.00	20080.00	24080.00	24080.00	42080.00	62080.00
Borrowings	10000.00			10000.00	10000.00	10000.00			20000.00	20000.00	80000.00	140000.00
Grants												
Provision for Bad Debts	378.00	578.00	818.00	1098.00	1098.00	1398.00	1738.00	2098.00	2496.00	2498.00	4298.00	6298.00
Total Liabilities	13258.00	5458.00	8098.00	21178.00	21178.00	24478.00	18218.00	22173.00	46578.00	46578.00	126378.00	208378.00
Equity	24000.00	50000.00	50000.00	50000.00	50000.00	50000.00	100000.00	100000.00	100000.00	100000.00	100000.00	100000.00
Retained Earnings	1788.84	2332.60	3076.10	3895.84	3895.84	4942.45	6431.25	8215.78	10020.34	10020.34	20220.00	32806.95
Reserve Fund	1788.84	2332.80	3076.10	3895.84	3895.84	4942.45	6431.25	8215.78	10020.34	10020.34	20220.00	32806.95
Total Liabilities & Shareholders Equity	40835.68	60123.60	64250.20	78969.68	78969.68	84302.90	131080.51	138609.56	166618.68	166618.68	266818.00	373691.90

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CASH FLOW PROJECTIONS—Nepal Housing Development Finance Company
Rs Thousands

	EOY	1	2	3	4	5	6	7	8	9	10	11	12
BEGINNING CASH	0.00												
CASH RECEIPTS.													
Equity	18000.00						6000.00						
Borrowings												10000.00	
Savings Deposits											400.00	440.00	440.00
Mortgage Repayments								16.10	40.24	72.41	104.54	139.85	175.12
Grants													
Fee Income								10.00	15.00	20.00	20.00	22.00	22.00
Long Term Interest Inc	2368.00	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92	193.92
Short Term Interest Inc	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Receipts	20068.00	193.92	193.92	193.92	193.92	193.92	6193.92	220.02	249.16	285.33	718.46	10795.77	831.04
CASH DISBURSEMENTS:													
Mortgages Disbursed								1000.00	1500.00	2000.00	2000.00	2200.00	2200.00
Borrowings Repaid													
Interest on Borrowings												116.67	116.67
Capital Expen. (Fixed Assets)	40.00	300.00		42.00				580.00			670.00		
Expenses	236.00	48.40	48.40	52.50	71.50	71.50	71.50	91.30	104.50	104.50	127.20	131.60	136.00
Bonuses													
Dividends													
Taxes	213.20	14.27	14.27	13.79	11.92	11.92	11.92	9.95	10.38	12.88	13.04	4.02	6.87
Total Disbursements	489.20	362.67	62.67	108.59	83.42	83.42	83.42	1691.25	1614.88	2117.38	2810.24	2452.29	2459.54
ENDING CASH	19878.80	19710.05	19841.30	19926.62	20037.11	20147.61	26258.10	24786.87	23421.14	21590.09	19498.31	27841.79	28213.29

	1st Q	2nd Q	3rd Q	4th Q	1st Q	2nd Q	3rd Q	4th Q	4th YR	5th Yr
BEGINNING CASH										
CASH RECEIPTS.										
Equity		28000.00				50000.00				
Borrowings				10000.00				20000.00	60000.00	60000.00
Savings Deposits	1600.00	2000.00	2400.00	2800.00	3000.00	3400.00	3600.00	4000.00	18000.00	20000.00
Mortgage Repayments	911.29	1391.40	1966.54	2636.41	3362.36	4162.57	5018.41	5968.04	41185.62	59964.94
Grants										
Fee Income	80.00	100.00	120.00	140.00	150.00	170.00	180.00	200.00	900.00	1000.00
Long Term Interest Inc	581.75	581.75	581.75	581.75	581.75	581.75	581.75	581.75	2327.00	2327.00
Short Term Interest Inc	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Receipts	3173.04	32073.15	5068.29	16158.16	7084.11	58314.32	9380.16	30749.79	122412.62	143291.94
CASH DISBURSEMENTS:										
Mortgages Disbursed	8000.00	10000.00	12000.00	14000.00	15000.00	17000.00	18000.00	20000.00	90000.00	100000.00
Borrowings Repaid		10000.00				10000.00				
Interest on Borrowings	350.00			350.00	350.00			700.00	11200.00	19600.00
Capital Expen. (Fixed Assets)	200.00									
Expenses	463.70	523.70	595.70	679.70	832.40	934.40	1054.40	1184.40	7249.60	9869.60
Bonuses										
Dividends										
Taxes	49.08	120.88	165.18	182.16	232.56	330.85	396.56	401.01	755.53	2752.66
Total Disbursements	9062.78	20644.58	12760.88	15211.86	16414.98	28285.25	19460.96	22285.41	109205.13	132222.26
ENDING CASH	20023.55	29752.12	22059.53	23005.62	13674.95	43724.03	33643.22	42107.60	55315.09	66384.78

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ANNEX C: EMPLOYMENT SCHEDULE

Employee:	Date of Hire:
1. General Manager	Hired[1]
2. Administrative Assistant	Hired
3. Peon #1	Hired
4. Peon #2	Hired
5. Engineer/Manager	Hired[2]
6. Mortgage Lending Manager	Oct. 91
7. Operations Manager	Oct. 91
8. Appraiser/Engineer	Nov. 91[3]
9. Legal Assistant	Dec. 91
10. New Accounts Clerk	Apr. 91
11. Cashier #1	Apr. 91
12. Cashier #2	Oct. 92
13. Office Assistant	Apr. 91[4]
14. Office Assistant	Oct. 92
15. Comptroller	Oct. 92
16. Internal Auditor	Oct. 92
17. Peon #3	Apr. 92

[1]Seconded from the Ministry of Housing & Physical Planning for 3 years.

[2]Seconded from the same Ministry for 6 months.

[3]May be contracted by the job rather than employed full-time.

[4]Office Assistants will be employed in different clerical jobs, as needed.

ANNEX D: EQUIPMENT AND FURNITURE SCHEDULE

Item	Date Purchased
1. Computer system (either a LAN with up to 10 terminal spaces for management as well as Savings & lending operations or separate systems, utilizing PCs and a smaller LAN)	Sep/Aug 91
2. Typewriters	
# 1	Jul 91
# 2	Apr 92
3. Copier	Jul 91
4. Telephone:	
2nd Extension	Sep 91
2nd Line	Jan 92
5. Small Adding Machines (3)	Jul/Dec 91
6. Check Writing Machine	Jan 92
7. Vault	Apr 92
Vehicles:	
1. Automobile	Jan 92
2. Motorcycles (2)	Jan 92
# 1	Oct 92
# 2	
Office Furniture:	
1. Desks & Chairs (4 sets)	
2. Side Chairs	
3. Filing Cabinets	
4. Conference Table & Chairs	
5. Decor & furnishing for the Savings Office	
6. Miscellaneous Furniture	