

PN-ABZ-416

92046

Preliminary Review of
"Non-Conforming" Loans Made Under
The Housing Guaranty Loan Program
HG - 003

DRAFT

September 1996

For
USAID/India
Regional Housing and Urban Development Office

Ms. Padma Ashit Desai
Bombay

Indo-US Housing Finance Expansion Program
Abt Associates Inc.
B2/13 (2nd Floor)
Vasant Vihar
New Delhi 110 057

USAID Project No. 386-0526-00-C-2295-00

A

TABLES OF CONTENTS

LIST OF TABLES

ABBREVIATIONS AND ACRONYMS

ACKNOWLEDGEMENTS

EXECUTIVE SUMMARY

SECTION ONE : BACKGROUND

The Early Housing Guaranty Program	1
The Housing Finance System Program.....	1
HG - 003 Goal and Purpose.....	2
The National Housing Bank - NHB.....	3
Evolution of the HG Program - HG 003.....	4
Important Landmarks.....	
Background and Methodology of the Present Review.....	6
Structure of the Report.....	7

SECTION TWO : THE HOUSING FINANCE SYSTEM PROGRAM - HG 003

Eligible Beneficiaries: Targeting the below median income borrowers	8
Loan Size as a proxy to borrower income	9
The Housing Program Agreement between USAID and NHB.....	10
The Master Program Implementation Plan - MPIP	10
Eligible Loans under the HG Program.....	11

SECTION THREE : IMPLEMENTATION OF THE HG PROGRAM AT THE LEVEL OF THE HFCs

Eligible Beneficiaries; Targeting at the HFC level	15
Loan Size as a proxy to borrower's income.....	16
Process of beneficiary selection followed at HFC level.....	16
Criteria and procedure for selecting the HFCs as qualified sub-borrowers under the HG Program	19
Terms and Conditions of sub-loans; form of 'Agreement' between NHB and HFCs; the documentation required from the HFCs	20

Monitoring the end-use of re-financed loans.....	22
--	----

SECTION FOUR : FINDINGS AND CONCLUSIONS

Discrepancy in total amounts.....	23
The issue of 'non-eligibility' of borrowers	25
GRUH, Ahmedabad.....	25
Canfin Homes Ltd., Bangalore	27
HDFC, Bombay.....	28
Conclusions and lessons learnt.....	30

ANNEXES

ANNEXE A : List of Contacts

ANNEXE B : Description of Methodology adopted for the present review

ANNEXE C : Form of Application followed by:

(i) GRUH

(ii) Canfin Homes Ltd.

ANNEXE D : Letter from NHB indicating the disbursed amounts to:

(i) GRUH

(ii) Canfin Homes Ltd.

(iii) HDFC

LIST OF TABLES

Table No. One:	Details of refinance disbursed to HFCs under HG 003	31
Table No. Two:	Details of refinance disbursed to GRUH under HG Program	33
Table No. Three:	Details of housing units refinanced under HG Program (GRUH)	33
Table No. Four :	Details of refinance disbursed to Canfin Homes under HG Program	34
Table No. Five:	Details of housing units refinanced under HG Program (Canfin Homes)	34
Table No. Six:	Details of refinance disbursed to HDFC under HG Program	36
Table No. Seven:	Details of housing units refinanced under HG Program (HDFC)	36

ABBREVIATIONS AND ACRONYMS

Canfin Homes	Canfin Homes LTD.
DAS	Deduction at Source
GOA	General Office of Auditor
GRUH	Gujarat Rural Housing Finance Corporation Ltd.
HDFC	Housing Development Finance Corporation Ltd.
HFC	Housing Finance Company
HFSP	Housing Finance System Program
HG	Housing Guaranty
LOP	Life of Project
MPIP	Master Plan Implementation Program
NHB	National Housing Bank
PACD	Project Assitance Completion Date
PILs	Project Implementation Letters
PP	Project Paper
RBI	Reserve Bank of India
RHUDO	USAID Regional Housing and Urban Development Office
Rs.	Rupees
SBI	State Bank of India

ACKNOWLEDGEMENTS

This preliminary review , conducted to look into the issue of " ineligibility " of loans granted under HG Program (HG 003) , has greatly benefited from the support and help of a number of people. I would like to express my sincere appreciation to Lindsay Elmendorf, A.S. Dasgupta, N. Bhattacharjee and Anand Rudra of RHUDO / New Delhi for providing me with the necessary information and insights into the HG Program. My special thanks to Richard Genz and Samir Zaman of Abt Associates, for spending a lot of their valuable time with me in discussing and giving their feedback on the various drafts that I forwarded to them. I also take this opportunity to acknowledge the help and co-operation extended by K. Murlidharan , B.C.S Baliga and V.K.Katre of National Housing Bank.

A list of individuals whom I met during my visits to the three HFCs , is given in Annexe A ; nevertheless, I would like to particularly thank Conrad D'Souza , Raja Iyer and Irfan Quereshi of HDFC, Kamlesh Shah and Saroj Ojha of GRUH ; and T.S. Kamath , Shamila , M.D.Kundapur and P.V.S. Raju of Canfin Homes. Many thanks to all of them for their logistic help, patience in answering my innumerable queries, providing the required information and arranging field trips.

Finally, I take full responsibility for any errors of fact or interpretation in this report.

Ms. Padma Ashit Desai
Bombay
June 1996.

EXECUTIVE SUMMARY

This report is a preliminary review and study, conducted specifically to look into the issue of " ineligibility " of the loans refinanced under the Housing Finance System Program (HFSP / HG - 003) , prepared for USAID's Regional Housing and Urban Development Office in New Delhi, dated June 1996.

BRIEF DESCRIPTION OF HFSP - 003

USAID's highly successful intervention in the housing finance sector of India (HG - 001 and HG - 002) , was followed by the " Housing Finance System Program (HG - 003) , which was designed to build upon its positive experience with the Housing Development Finance Corporation (HDFC). The long term goal of this program was to assist the National Housing Bank (NHB) in increasing the availability of formal housing finance to low income households. The purpose of this program was to promote the development of a financially sound, market oriented, well managed and judiciously regulated financial system in the country.

With assistance from USAID, NHB prepared the " Master Program Implementation Plan (MPIP) " , which laid down the organisational, operational and financial conditions on the basis of which the HG Program was to be implemented. In order to fulfil one of the central goals of the program - that of increasing the availability of formal housing finance to low income households - a line of credit was established between the USAID, NHB and the qualifying housing finance companies (HFCs). All loans upto Rs. 50,000, financed by the HFCs between October 1987 and March 1990, were deemed to be eligible for

refinance under the HG Program. Loan size was to be used as a proxy to borrower's income. On the basis of the above, NHB disbursed the first tranche of \$ 25 million to four qualifying HFCs in April 1991.

PURPOSE AND METHODOLOGY OF REVIEW AND STUDY

The present review and evaluation was undertaken with the purpose of conducting a preliminary assessment of the extent to which the loans refinanced under the HG Program could be categorised as being "ineligible" or "non-conforming". The evaluator concentrated on the study of important documents and held discussions with key officials who had been involved with this program. Spread over a period of roughly four weeks , the evaluator visited USAID's RHUDO office and NHB in New Delhi as well as the head / branch offices of three HFCs , namely :

- : Gujarat Rural Housing Finance Corporation Ltd. (GRUH), Ahmedabad ;
- : Canfin Homes Ltd. , Bangalore ; and
- : Housing Development Finance Corporation Ltd. (HDFC) , Bombay, Vashi and Ahmedabad.

Further, a total of **367** individual files of the borrowers whose loans had been refinanced under the HG Program, were studied in detail. Three field visits were also made by the evaluator for loans financed by GRUH.

FINDINGS AND CONCLUSIONS

The actual implementation of the HG Program represents a somewhat hazy and unclear picture, since the guidelines laid down under the MPIP do not seem to have been strictly followed at the level of the participating HFCs. The main aspects of the MPIP which are of direct relevance to the present review, are summarised as follows:

- All the three HFCs seem to have adopted different methods of submitting their reports / statements to NHB and of documenting their lending to below median income families. GRUH maintained separate accounts and submitted reports/ statements to NHB as per the requirements laid down under the MPIP. Even though Canfin Homes maintained separate loan accounts for the HG Program, it did not send any special reports/documents regarding its lending to the below median group, to NHB. HDFC represents a completely different case as compared to GRUH and Canfin Homes ; it maintains that the refinance that was granted to it was under the routine NHB schemes *and not under HG Program* and therefore no specific terms or conditions were followed, apart from those specified under NHB's standard refinance schemes.

As is evident from the above, the three HFCs had different perceptions regarding the HG Program and had therefore not followed a uniform procedure in submitting the reports/documents as required under the MPIP.

- There is a discrepancy noted in the total amount of refinance granted to GRUH and Canfin Homes. The " Schedule of Disbursement " maintained by NHB notes that Rs. 687.25 lakhs and Rs. 1,630 lakhs have been refinanced to GRUH and Canfin Homes respectively, *for a number of claims made by them*. These two HFCs however , claim to have received *only one disbursement* from NHB amounting to Rs. 333.69 lakhs and Rs. 1110.00 lakhs respectively. These differences in total amounts have given rise to some confusion at the level of the HFCs.
- Only two criteria, namely, loan size and the time period during which loans had been granted, were considered by the HFCs in claiming refinance under the HG Program. No specific methods of targeting at the below median income were employed by the HFCs simply because the refinanced loans

were with *retrospective* effect. Thus, ironically the most critical indicator - the income of the borrower - never figured in any of the criteria considered for granting (re)finance either at the NHB or the HFC level.

- A very high proportion of loans have been granted to "ineligible" households i.e. households with a gross monthly income more than Rs. 2500 ; in the case of Canfin Homes , this stands at 60.9 % and for HDFC, at 47.94 %. In the case of Canfin Homes a high percentage of "pari-passu" loans are also observed i.e. 28.18 %. Close to 18 % of loans refinanced to GRUH could be termed as "ineligible" .

LESSONS LEARNED

Even though it is necessary to conduct an exhaustive sample survey to study the exact extent to which "ineligible" loans have been made under the HG Program and the reasons for the same, the findings of the present review could be used to gauge the manner in which the HG Program was perceived and implemented by the HFCs. The same is represented as follows :

- One of the most crucial issues which comes to light from the present review , in explaining the high proportion of "ineligible" loans, is that of using loan size as a proxy to borrower's income. The findings indicate that it is necessary to make a fine distinction between *borrowers who **take** small loans and those who cannot **afford** larger loans*. Borrowers may prefer to take smaller loans for a number of *other* reasons than their 'unaffordability' for larger loans. Thus, in order to target the below median income group, the use of only one indicator (i.e. loan size) , may be impractical, and it may be necessary to employ other collaborating indicator(s) (income and / or dwelling size) to decide on the eligibility of borrowers.

- The other important aspect which is noticed is the lack of clarity revolving around the central aim of the HG Program at the level of the HFCs. Each HFC seems to have perceived the HG Program in a different way which has got translated in the manner in which reports/documents have been maintained and submitted by them. Thus, it may be extremely critical to communicate the right kind and type of information to the participating HFCs so as to assure uniformity in their lending practices under the HG Program.
- Traditionally, the HFCs have always viewed the below median income group as being risky and non-creditworthy and have expressed a number of administrative and operational difficulties in extending credit to them. Even though there have been changes in their perceptions and attitudes vis a vis this target group, it is unlikely that the HFCs would include the below median target group in their routine lending programs, in the absence of proper incentives and training. Thus, what may also be important, in addition to the above mentioned issues, is the role of training and proper orientation of the HFC officers. Along with this a "special program status" given to all lending to below median group, as against merging it with the other routine lending schemes of the HFC, may also prove to be beneficial.
- Lastly, the inclusion of systematic and periodic evaluations, looking specifically at the end - use of the loan as well as the beneficiary group covered under the HG Program, may also pave way for timely alterations and modifications in the program strategies.

SECTION ONE : BACKGROUND

This section gives a description of the Housing Finance System Program (HFSP / HG - 003) covering its background, goal and purpose, its evolution with the passage of time and the important landmarks that it passed through to eventually develop into the Housing Finance System Expansion Program (HGESP - 003A) . Further, it summarises the need and purpose of the present report and its methodology . Finally, it outlines the overall structure of the present report.

THE EARLY HOUSING GUARANTY PROGRAM - HG 001 AND HG 002

USAID's early experience with housing finance in India commenced with a program to assist with the development of a prototype , private sector housing finance company - The Housing Finance Development Corporation Ltd. (HDFC). Two Housing Guaranty Programs, HG - 001 and HG - 002, totalling to \$ 125 million were authorised to provide initial liquidity to HDFC. The aim was to demonstrate that a private sector housing finance company (HFC) could make housing loans available to a wide range of households, including those below the median income, with sufficient financial returns to make it a profitable business venture. HDFC , which is today a multi - million dollar lender in India , is also hailed as a model for housing finance within India and the region.

USAID's highly successful intervention in the housing finance sector, was followed by the " **Housing Finance System program - HFSP - 003** " , which was designed to build upon USAID's positive experience with HDFC.

THE HOUSING FINANCE SYSTEM PROGRAM - HG - 003

The second phase, which began in 1988 , was marked by a shift in program strategy. This shift was from the development of a specific prototype towards the development of a *system* of private housing finance companies which would make a range of housing loans available to all income groups. The objective was to develop a policy framework which would encourage the growth of a system of private housing companies capable of serving a broad market of low and middle income households and mobilising significant levels of resources for the entire sector. The National Housing Bank (NHB), which was created as the apex housing finance institution in 1988, became the principal counterpart in this program.

HG - 003 : GOAL AND PURPOSE

The long term goal of this program was to assist NHB in increasing the availability of formal housing finance to low income households nation-wide. The purpose of this program was to promote the development of a financially sound , market oriented, well managed and judiciously regulated housing finance system which could attract significant levels of resources from households and the financial sector for housing finance. It was also aimed at diversifying loan products offered by HFCs so as to more effectively capture the market demand, as it rested on the belief that the housing finance system must reach a larger range of total demand for housing credit than was currently being served. Thus, an integral part of this program was to make long term shelter finance available, particularly to households belonging to the below median income group.

A three pronged strategy was adopted to meet the above goal :

- one** - to provide critically needed lending capital to meet near and mid-term needs of eligible companies serving a number of geographic areas;

two - to foster a relationship between recent entrants to the sector and the newly established NHB in order to improve the new firms ability to mobilise resources, manage their portfolios, increase lending to low-income households and operate more effectively within the existing public policy environment ; and lastly

three -to address a number of sectoral constraints on expanding the system through technical assistance and training.

THE NATIONAL HOUSING BANK - NHB

The National Housing Bank was established in July 1988 as a wholly owned subsidiary of The Reserve Bank of India (RBI), to foster development of a high volume housing finance system that would meet the needs of households in most parts of the income distribution (Struyk and others , 1991). It has no direct lending programs to households or developers but does this through the existing financial institutions like commercial banks and specialised housing finance companies (ibid.). Its overall goal is - to promote expansion of a market - oriented housing finance system ; to mobilise additional funds for lending for housing and associated land and infrastructure projects ; and to supervise and regulate housing finance institutions so as to ensure the financial health and stability of the housing finance system. It is thus balancing two critical roles, that of promoting the housing finance system of India as well as regulating it.

The NHB, a multi functional and multi disciplinary development finance institution, is the main counterpart to the USAID in the Housing Guaranty Program and forms the most critical link between the Housing Guaranty funds and the housing finance companies, through whom the objective of reaching the below median households is to be accomplished.

EVOLUTION OF THE HOUSING GUARANTY PROGRAM - HG - 003 : IMPORTANT LANDMARKS

Under the HG Program, a line of credit was established between the USAID - NHB and the participating HFCs , in which , subject to certain conditions , refinance was to be granted to the HFCs with HG funds. The Project Paper (PP) for the USAID - India's Housing Finance System Program was signed in September 1988 , approving a Life of Project (LOP) Housing Guaranty funding level of \$ 50 million , in addition to \$ 2.9 million in direct grant funds to be utilised for technical assistance and training. In April 1991, \$25 million was disbursed by NHB to eligible housing finance companies. It was anticipated that subsequent authorisations of HG loans for the project would be available in 1992. After the first disbursement, the progress of the Housing Guaranty Program was evaluated by a team of experts from the Urban Institute (Struyk, Ferguson and Ravicz , 1991). The team found that the program had made significant contributions to the overall development of the housing finance industry. However, it did point out the need for additional attention to matters of supervision and regulation, promotional issues, lending to low income households and to fund mobilisation by the NHB (ibid., pg. 9.1-9.3).

An augmentation of the program was felt necessary, in order to expand the policy agenda and to ensure continuity to USAID's support. Consequently, the HG -003 project was amended to the " Housing Finance System Expansion Program - HGSEP - 003A ", which was launched in 1992. The Project Paper was approved in September 1991. This program was to provide an additional \$ 50 million in Housing Guaranty funds with an additional \$ 4.3 million in direct grant funds (HG 386 - 0526). These funds were to be disbursed over a period of four years, from mid 1992 until the Project Assistance Completion Date (PACD) of September 1996. The \$ 50 Million were to enable

NHB to build upon its previous achievements and the significant progress made under HG - 003 , whereas the grant funds were for technical assistance, training, management support and annual evaluations. Disbursements were subject to satisfactory progress made towards meeting the objectives laid down under the "Policy Matrix" (Lee, 1995. pg. 2). Thus, the overall housing finance project has a life of project housing guaranty funding level of \$100 million .

The " Agreement between the NHB and the USAID for Housing Finance (1990)" described , in detail, the various aspects of this program. According to this agreement, the " **Master Program Implementation Plan (MPIP)**" was to be prepared by NHB with assistance of USAID, for the efficient implementation of the program. The MPIP, by far the most important document , laid down the organisational, operational and financial terms and conditions which had to be followed by all the involved parties, and thus very clearly outlined the parameters within which the HG Program had to be implemented.

In order to fulfil one of the central objectives of the HG 003 , which was to increase the availability of formal housing finance to low income households, a line of credit was to be established between USAID, NHB and the qualifying HFCs. Loan size was to be used as a proxy to borrower's income and all loans made between the period of October 1987 to March 1990 were considered to be eligible for refinance under the program.

BACKGROUND AND METHODOLOGY OF THE PRESENT REVIEW ¹

In 1994, the General Audit Office (GAO) , whilst conducting an assessment of the HGSP , noted that several houses financed under the said program, may , in

¹ Note : A list of individuals with whom discussions were held by the reviewer is given in Annexe A. Annexe B contains the list of the various documents and reports studied by the reviewer which were furnished by RHUDO and the qualifying HFCs.

reality be " ineligible" , since they seemed to belong to households above the specified income bracket. Along with this , the issue of " pari - passu " loans was also discovered. Both the above mentioned issues evidently called for a further review and study, which resulted in the present evaluation.

At the time of undertaking the present review , there was no clear picture of the extent to which loans made under this program could be termed as " ineligible ". Thus, it was felt more appropriate to conduct a preliminary assessment of the situation rather than carrying out an exhaustive, large and time-consuming sample survey . It was therefore decided that by meeting the concerned officers at USAID, NHB and the participating HFCs, as well as by studying the important documents related to the program, an overall picture could emerge, on the basis of which, a future course of action could be initiated.

The reviewer thus, concentrated on meeting officers of USAID's RHUDO office in Delhi, NHB and the HFCs and discussing with them the relevant issues concerning the HG Program. All documents and reports furnished at RHUDO and the HFCs were studied in detail. Three, out of the four qualifying HFCs were visited by the evaluator, namely ;

- Gujarat Rural Housing Finance Corporation Ltd. - (GRUH) , Ahmedabad ;
- Canfin Homes Ltd. , Bangalore ; and lastly
- Housing Development Finance Corporation Ltd., (HDFC), Bombay , Vashi and Ahmedabad.

Further , a total number of 367 individuals files of the borrowers were studied in detail and three field visits were made.

STRUCTURE OF REPORT

Section two of this report focuses on three main aspects of the program which are of direct relevance to the present review, namely : targeting the below

median income group under this program ; using loan size as a proxy to income ; and lastly the MPIP. Section three examines the manner in which the MPIP was reflected in the actual implementation of the program, at the level of the participating HFCs. The final section presents the main findings and conclusions of the review.

A series of Annexes offers additional information : the list of persons contacted during the review (Annex A) ; description of the methodology and various reports and documents studied for this review (Annex B) ; the ' form of application ' adhered to by GRUH and Canfin Homes in claiming refinance from NHB (Annex C - i & ii) ; and lastly, the correspondences between NHB and the HFCs indicating the disbursed amounts under the program (Annex D - i, ii & iii).

SECTION TWO : THE HOUSING FINANCE SYSTEM PROGRAM

This section focuses on two of the most critical issues which are central to the present review and study namely, one - "targeting" the below median income borrowers and, two - using the loan size as a proxy to income. It further concentrates on the MPIP which laid down the parameters within which the HG Program was to be implemented. Here, the stress is on only those aspects of the MPIP which are of direct relevance to the purpose of the present review .

A : " ELIGIBLE BENEFICIARIES " : TARGETING THE BELOW MEDIAN INCOME HOUSEHOLDS UNDER THE HG PROGRAM .

The Project Identification Document ('91) prepared for the HG Program, observed that the need for housing, especially amongst the low and middle income households, ran broad and deep , mainly due to a very significant shortfall in the formal sector housing supply. It further stated that, households belonging to the median income bracket represented the largest market demand potential for housing loans and identified this area as the future growth area of housing finance (Project Identification Document , '91 , pg. 10, 11). The enormous market consisting of the below median income households, was estimated to contain a large, credit - worthy segment which would contribute substantially to the profitability, rate of growth and efficiency of the housing finance sector (Linz, '94).

The problem and an opportunity of the present HG Program, was seen in translating the *need* for housing finance , believed to be existing in this market segment, into *effective demand*. Thus, one of the most explicit goals of the HG Program was to expand the opportunity for low income households to obtain formal housing finance, and therefore the use of HG funds were " **exclusively**

(meant) for loans suitable to borrowers below the urban median income " (Agreement between the USAID and NHB , '91).

B : LOAN SIZE AS PROXY TO BORROWER INCOME :

Both the USAID and NHB agreed to use loan size as a proxy to borrower's income . The reasons cited for this were to simplify administrative procedures and facilitate easy monitoring of such loans. Further, since NHB already used loan size as a criteria for its routine refinance schemes, the same was sought to be adopted even for the HG Program.

Loan size was fixed by correlating it to the "affordability" of households belonging to the below median income bracket. Feedback from the existing HFCs had suggested that below median income households were willing and able to pay at least 30 % of their gross monthly income as repayment for housing loans. A household at median income of Rs. 2000/- ('88), by this rationale, would be willing and able to "afford " a loan of Rs. 49,700 at the existing loan terms of the HFCs - i.e. , 13.5 % rate of interest per annum, for loans upto Rs. 50,000 and for a loan term of 20 years. Therefore, the Agreement between USAID and NHB stated that all loans of a value not exceeding Rs. 50,000 were to be considered for refinance under the HG Program, since this loan size was believed to be affordable to households below the urban median income .²

Thus, the eligibility of loans for refinance was to be established by the *size* of the loan and not by the *income* of the borrower.

² Note : Based on the consumer price index and using the existing interest rates for the loan slab in consideration, a number of revisions in the loan size were subsequently made.

C : THE HOUSING PROGRAM AGREEMENT BETWEEN THE NATIONAL HOUSING BANK AND THE USAID :

The Agreement signed between the NHB and USAID for housing finance (1990) contained comprehensive details of the Housing Guaranty Program and the terms and conditions under which the disbursement of the HG funds could commence. One of the most important and crucial conditions in this agreement was the preparation of the "**Master Program Implementation Plan - MPIP**" by NHB, with the assistance of USAID (Refer Agreement, pg. 3,4,5). The MPIP which was subsequently prepared by NHB, clearly laid the foundation of the HG Program on the basis of which all future activities had to be initiated. The same is discussed as follows ;

D : THE MASTER PROGRAM IMPLEMENTATION PLAN - MPIP

Article V - " Special Covenants " of the Agreement between NHB and USAID elaborates on the different processes to be initiated and the terms and conditions to be met , for the smooth execution of the Housing Guaranty Program. The same is covered in the MPIP, which is a very exhaustive document encompassing the financial, organisational and operational aspects of the program. However, only three sections which are of direct relevance to the purpose of the present review, have been considered for the discussion. These being :

- (i) The criteria and procedures for selecting the housing finance companies as qualified sub-borrowers under the HG Program (MPIP Section - 5 . 01 ' A ') ;
- (ii) The description of (a) terms and conditions of subloans to qualified sub-borrowers ; (b) the form of standard loan agreement to be used and documentation to be required from sub-borrowers (specifically) regarding lending to *low income households* (MPIP Section - 5 . 01 ' B ') ; and lastly,

(iii) Description of the procedures for monitoring the HG Program (MPIP Section 5.01 'F').

(i) The criteria and procedures for selecting the housing finance companies as qualified sub-borrowers under the HG Program :

In order to qualify as sub-borrowers, the HFCs had to meet a number of criteria laid down by the NHB in its MPIP (Section 5.01 'A'). Recognition from RBI or NHB and compliance with the NHB guidelines as well as Housing Finance Companies (NHB's) Directions 1989, was important. The main features of this compliance pertained to the financial operations of the HFCs. These covered aspects such as - the period of deposits, deposits / borrowings limits, rate of interest, liquid assets as percentage to deposits, total outstanding balance of overdue loans, realistic assessment of borrower's repaying capacity and the interest coverage ratio. In addition to the above, the HFCs were also expected to maintain a reserve for bad debts and adequate spread between the cost of borrowings and returns on loans.

To summarise, the HFCs were required to demonstrate that they conformed to the standards laid down by NHB and had the financial integrity and soundness to qualify as sub - borrowers.

The HFCs which satisfied the above mentioned criteria and operated on the prescribed standards, were to be subjected to an appraisal by NHB. In principle, the HG resources were to be directed, as far as possible, to only those HFCs which lacked access to major institutional sources of capital for their lending operations. Moreover, to guard against a few HFCs absorbing a disproportionate share of the total HG resources, loans to a single primary lender were to be restricted to not more than 25 % of the HG funds over the LOP. This was expected to foster a healthy competition amongst the eligible HFCs.

(ii) The description of (a) the terms and conditions of sub - loans to qualified sub - borrowers, and (b) the form of standard loan agreement to be used and documentation to be required from sub - borrowers regarding their *lending to low income families* (Section 5.01 'B').

(a) The terms and conditions of sub loans to qualified sub - borrowers : Special terms and conditions were laid down under the MPIP for loans refinanced by NHB to the qualifying HFCs , under the HG Program. The same were as follows :

- The funds refinanced by NHB under the HG Program had to be utilised specifically as loans to **households with a median income of Rs. 2000 / - or less** (as of June , 1988) .
- Housing loan to an individual borrower would not exceed Rs. 50,000 .
- The interest rates of these housing loans would conform to those prescribed by NHB and reflect market conditions.
- Period of repayment of housing loans would not exceed twenty years with a suitable moratorium or repayment holiday.

For all the loans refinanced under the HG Program , NHB was to assume the commercial risk which was inherent in on - lending to its eligible borrowers. Further, NHB would have complete approval rights over transactions and terms in on - lending HG funds to eligible sub - borrowers (HG Program Agreement, 1990) .

(b) The form of "**general agreement**" to be used and documentation required from sub - borrowers under HG Program :

For all its routine refinance schemes, NHB used a standard "loan agreement" which had be followed by all housing finance companies who availed of its refinance facility. The same , however , was proposed to be either amended or an additional undertaking was to be taken, *specifically under the HG Program*,

so as to include the reports and statements to be submitted by the HFCs. This documentation, specifically pertained to their lending to below median income households, and is briefly outlined below ;

- Half yearly statements containing cash flow projections, sources of funds, total assets, debt equity ratio and loan overdues ;
- Annual plans for mobilisation of resources ;
- Loan - underwriting and Monitoring procedures ;
- ***Plan and strategies for reaching low income borrowers (including women) and outreach program.***
- Half yearly statement of disbursement of loans ***by income level*** and location, in the format specified by the NHB.

It would appear from the above discussed aspects of the MPIP, that provisions had been made under it, specifically to assure that the HG funds reached the desired target group of beneficiaries.

(iii) Description of the procedures for monitoring the HG Program :

Section 5 . 01 - F of the MPIP, states that a schedule of periodic inspections of the refinanced loan accounts would be carried out in order to verify the returns provided to NHB. Based on these periodic inspections the necessary actions would be taken. Further, to assist in the implementation of the program, Program Implementation Letters (PILs) would be issued by USAID, containing additional information on the Agreement and recording any revisions or exceptions which were permitted under it. PILs were also to be used to confirm and record the mutual understanding on few aspects of the implementation of the Agreement (Refer Section 7.01, Agreement between USAID and NHB).³

³ Note : The reviewer studied all the PILs furnished by the RHUDO office, Delhi. According to these PILs no significant alterations seem to have been made in the Agreement as well as the MPIP vis a' vis the implementation of the HG Program.

Both, the USAID and NHB agreed to establish an evaluation program as part of the HG Program which consisted of one mid - term evaluation and one final evaluation at the end of the program.

As is demonstrated from the above description, the MPIP laid down very clear and concise procedures and relationships, and thus defined the parameters within which the implementation of the HG Program could be initiated .

F : ELIGIBLE LOANS UNDER THE HOUSING GUARANTY PROGRAM

Based on all the terms and conditions outlined under the Agreement and the MPIP, the Housing Guaranty Program was to cover loans made upto Rs. 50,000 in the period extending from 1st October 1987 to 31st March 1990, for the purpose of new construction , acquisition of existing dwellings and home improvements or expansions, by the qualifying HFCs.

Subsequently, the first disbursement of \$ 25 million was made to four qualifying HFCs by NHB in April 1991 .⁴

⁴Note : The ' Schedule of Disbursement ' furnished by NHB lists the details of the disbursements made to four HFCs who qualified for refinance under the HG Program. Discussions with the manager of NHB, however, revealed that there may have been more than four HFCs who had been refinanced under the said Program.

SECTION THREE : IMPLEMENTATION OF THE HG PROGRAM AT THE LEVEL OF THE QUALIFYING HFCs

The previous section outlined the provisions made under the Agreement and the MPIP to facilitate smooth and efficient implementation of the HG Program. It also described the prerequisites which had to be complied with, in order to achieve the goal of reaching the below median income target group. This section attempts to look into the actual disbursement of the first tranche' of \$ 25 million to the qualifying HFCs and the manner in which the MPIP was reflected in the *actual execution* of the program by the HFCs. More specifically, it reconsiders all the previously discussed aspects of MPIP, and looks more closely into how they were actually followed at the level of the HFCs.

A : " ELIGIBLE BENEFICIARIES " : TARGETING THE BELOW MEDIAN GROUP BORROWERS AT THE LEVEL OF THE HFCs :

The predominant reason for "targeting" the below median income group under the HG Program, was to tap the large, credit - worthy, profitable but hitherto unexplored market consisting of this target group. The Agreement as well as the MPIP very specifically noted that the HG funds were meant for the exclusive use of this income group (Agreement , pg. iii ; MPIP pg. 3 & 4).

Unfortunately, this does not seem to have precipitated down to the level of the participating HFCs. All the HFCs visited by the evaluator recounted that no special "targeting" had been done by them as they had no instructions to include any 'specific income bracket' in their lending. Exacerbating the situation still further was the fact that refinance was granted to the HFCs for all loans made upto Rs.50,000 *between the period of October 1987 to March 1990*. At the time of sanctioning the loans covered under the HG Program, it is likely that

the HFCs had no information on the said program. Thus, the absence of any specific "targeting" is partly explained by the fact that loans were refinanced with *retrospective effect*.

B : LOAN SIZE AS A PROXY TO BORROWER'S INCOME

As discussed in the preceding section, loan size was to be used as a substitute to borrower's income and for arriving at a suitable loan size, the affordability of the borrower was the prime concern. Following this, the loan size of Rs. 50,000 was considered to be affordable to a below median household. All loans made upto Rs. 50,000 were thus 'eligible' for refinance under the HG Program. The Agreement as well as the MPIP outlined specific mechanisms through which a check could be kept on whether the loans were reaching the desired target group i.e. submission of reports/documents, amendments in the 'form of general agreement', monitoring of end-use etc. Loan size was thus to be used *only as a substitute to borrower's income*.

At the level of the HFCs, however, this seems to have been completely lost. On their part, they applied for refinance under the program by clubbing all loans upto Rs.50,000 made by them in the specified time period, *irrespective of the income of the borrower*. Thus, very evidently the central issue for them was the loan size and not the borrower's income.

C : PROCESS OF BENEFICIARY SELECTION FOLLOWED AT THE HFC LEVEL

Discussions with the managers of the three HFCs visited by the evaluator, revealed that all the three HFCs had employed their standard procedures and appraisal methods in selecting beneficiaries under the HG Program. This

followed, more or less, a uniform procedure and covered three broad areas. The same has been briefly discussed below :

- **LEGAL APPRAISAL**

The legal appraisal of the property / unit to be financed mainly contained documents and reports which could establish a clear and marketable title of the same. These were ;

- Title Documents (Original share certificate of society or allotment letter etc.) ;
- Copy of 7- 12 extract or property card;
- Detailed search report and title clearance certificate from an advocate;
- Commencement certificate from relevant authority;
- Copy of 'Non Agricultural' land permission; and lastly,
- Agreement of sale .

- **TECHNICAL APPRAISAL**

The technical appraisal of the property / unit to be financed, was conducted by the technical staff of the HFCs in order to establish the technical and structural soundness of the property / unit as well as its implications on the total cost. The technical appraisal was thus based on the construction cost of unit plus the land value (in case of new construction) and prevailing market price (in case of purchase of housing unit). Along with the above certified estimates from the Architect / Engineer and an architectural plan of the unit was also to be submitted.

- **FINANCIAL APPRAISAL**

Perhaps of the highest importance to the present review , is the manner in which the HFCs conducted the financial appraisal of the beneficiary.

This mainly consisted of two aspects ; one, appraisal of the borrowers financial condition and ; two , appraisal of the investments made in the property / unit to be financed , prior to taking loan.

One : The appraisal of the borrower's financial condition :

This consisted of a number of certificates and documents which had to be furnished by the borrower, such as ,

- Certificate and details of salary from the employer ;
- Agreement to deduct the monthly instalment from the borrower's monthly salary (the 'Deduction at source - DAS " arrangement) with employer ;
- Income Tax returns for three years (if borrower was self - employed) ;
- Details of savings, bank accounts, provident fund etc.
- Details of other loans taken (i.e. from the employer, other commercial banks, employees credit society or other sources).
- Requirement of two guarantors who were financial sound and solvent
- Details regarding the age, qualification, history of employment etc. of the borrower.

Two : The appraisal of the investments made in the property / unit by the borrower prior to taking the loan :

This appraisal also pertained to specific documents and estimates which had to be furnished by the borrower, such as,

- Official estimate of the property / unit by a certified Architect
- Letter from the builder / housing society indicating the payment made by the borrower
- letter from the employer / commercial bank if housing loan has already been taken from them.

Depending on the above appraisals, each HFC then had its own system of assessing the " affordability " of the borrowers and deciding the instalment to income ratio , loan to cost ratio, as well as other particulars of the loan to be sanctioned. In this assessment, the HFCs paid a lot of importance to factors

such as income, age, qualifications, assets, liabilities, stability and continuity of employment and past savings history of the borrower. Further, they also stated that the arrangement of DAS with the employer, was an important consideration in granting the loan. ⁵

The above mentioned procedures and appraisal methods employed by the HFCs, by their own admission, were quite formal and complicated. The HFC managers with whom the evaluator held discussions, were also doubtful as to whether the loans covered under the HG Program may have reached the desired target group, in the absence of any innovation or flexibility in their own lending procedures and criteria. This issue is subsequently discussed in the last section of this report.

D : THE CRITERIA AND PROCEDURE FOR SELECTING THE HFCs AS QUALIFIED SUB - BORROWERS UNDER THE HG PROGRAM

As described in the preceding section, the criteria for selecting HFCs as qualified sub - borrowers for the HG Program, mainly pertained to their financial integrity and soundness. The same seems to have been followed by NHB by employing the " Minimum standard test for qualified sub - borrowers". This covered details such as ; liquid assets as % to deposits ; equity capital as % of total assets ; % of loans overdue for thirty days or more ; income to instalment ratio used ; and lastly, the interest to gross income ratio. Based on these indicators, four HFCs were selected under this program, namely ,

- Gujarat Rural Housing Finance Corporation Ltd. - GRUH (Ahmedabad) ;
- Canfin Homes Ltd. (Bangalore) ;

⁵Note : It is worth noting that , each branch of the HFC was fully authorised to scrutinise, process and finally sanction loans upto Rs. 50,000. All the individual files of the borrowers containing the legal , technical and financial details were maintained the branch level itself, with just the aggregate figures being submitted to the head office, periodically.

- Housing Development Finance Corporation Ltd. - HDFC (Bombay) ; and
- SBI Homes Ltd. (Calcutta) .⁶

All the HFCs , except HDFC, noted that they were informed through an official letter by NHB of their selection as eligible sub - borrowers under the program .

E : TERMS AND CONDITIONS OF SUB - LOANS TO QUALIFIED SUB - BORROWERS ; FORM OF ' AGREEMENT ' BETWEEN NHB AND QUALIFYING HFCs ; AND THE DOCUMENTATION REQUIRED FROM THE HFCs

All the above mentioned issues represent a somewhat hazy and unclear picture as none of the three HFCs studied by the reviewer , exhibit any similarity in the manner in which they have complied with these issues.

Even though both the Agreement and MPIP note that special terms and conditions would to be laid down for the HFCs , the same do not seem to have been uniformly communicated to all the HFCs. According to the discussions which the evaluator had with the managers of the HFCs , it appears that GRUH had received instructions from NHB to comply with the special terms and conditions under the HG Program. Subsequently, it submitted all the details as required under the MPIP including the ' plan and strategies for reaching low-income borrowers ' as well as ' half yearly statements of disbursement of loans *by income level* (refer Annexe C (i)) ; Canfin Homes , seems to have been instructed by NHB to furnish those details which had been outlined in the format specified in the " Application of Refinance of loans under USAID Program " (refer Annexe (ii)) . Apart from other information, this format specifically

⁶Note : The ' Schedule of Disbursement ' for the HFCs maintained by NHB, indicates that a relatively less proportion of the total refinance has been granted to SBI Homes Ltd. , as compared to the remaining three HFCs. Hence, SBI Homes was not considered for review and study for the purpose of the present evaluation .

mentioned clauses 5,6,7 and 8 of the ' General Agreement " executed between Canfin Homes and NHB, which laid down conditions under which *a pari passu charge could be created* . In this agreement there were no specific clauses to cover the income of the borrower . The case of HDFC completely contrasts to that of GRUH and Canfin Homes. HDFC curiously , was not informed about its selection as a sub-borrower under HG Program and therefore, did not follow any specific terms and conditions laid down under it , apart from those outlined under NHB's routine refinance schemes . The managers of HDFC also stated that they were unaware of the fact that the refinance received by them was under the HG Program as they had always perceived it under as being under NHB's routine refinance schemes. Both GRUH and Canfin Homes were instructed by NHB to maintain separate accounts for loans which had been refinanced under the HG Program. HDFC had not maintained any separate accounts , but in its case , both the claims that it had applied for had been covered under the HG Program.

To summarise this rather confusing scenario existing at the level of the qualifying HFCs,

- There is no uniformity noted in the terms and conditions followed by the three HFCs studied as each HFC had followed a different system of complying with the terms and conditions. In this regard, of special note is the case of HDFC.
- There is also no uniformity noted in the standard form of ' loan agreement ' to be used for HG Program as well as in the documentation required under it across the three HFCs.
- As per clause 8 of the "General Agreement " between NHB and Canfin Homes, *pari passu* loans were , in principle , eligible for refinance under the HG Program.

F : MONITORING THE END - USE OF REFINANCED LOANS

The MPIP mentions that NHB would periodically inspect the refinanced loan accounts in the books of qualified sub-borrowers, and verify the returns to NHB (refer MPIP pg. 8). However , discussions with the managers of the three HFCs visited by the evaluator as well as reports and documents kept at the RHUDO office , Delhi , suggested that no periodic evaluation had taken place to ***specifically*** to monitor the end - use of the loans refinanced under the HG Program or to examine the ' target group ' which had ben covered under it.

SECTION FOUR : FINDINGS AND CONCLUSIONS

This section focuses on the central issue of the present review and evaluation - that of "ineligible" or "non-conforming" loans - refinanced under the HG Program. It presents the main findings of the review and evaluation, predominantly based on the in-depth study of the 367 individual files of the borrowers as well as reports furnished by the three HFCs visited by the evaluator.

A : DISCREPANCY IN TOTAL AMOUNTS

The 'Schedule of Disbursement' maintained by NHB contains the details of the first tranche" of \$ 25 million which was used to refinance loans made by four HFCs under the HG program in April 1991. As per this schedule, a total amount of Rs. 687.25 lakhs and Rs. 1,630 lakhs had been disbursed to GRUH and Canfin Homes respectively, for a number of applications made by them. According to the discussions held with the managers of GRUH and Canfin Homes, this disbursement schedule of NHB **does not match** with the schedule maintained by them. Both GRUH and Canfin Homes claim to have received **only one** disbursement amounting to Rs. 333.69 lakhs and Rs. 1110.00 lakhs respectively (Refer Annexe D (i) and (ii)). They maintain that they had applied for and got refinance for only one claim for refinance under the HG Program. For this refinance they had been maintaining separate accounts as well as following the repayment schedule as instructed by the NHB. No such discrepancy has been noted for the refinance granted to HDFC, for loans financed by them in the period extending between January '89 to December '89 and January '90 to June '90. (Annexe D (iii)).

**TABLE NUMBER ONE
DETAILS OF REFINANCE DISBURSED TO THE HFCs UNDER HG 003**

NHB RECORDS

HFC RECORDS

Sr. No.	Name of HFC	Disbursal amount of sub - loan	Date of Disbursement	Amount attributable to eligible beneficiaries	Disbursal amount of sub - loan	Date of Disbursement
1	GRUH Ahmedabad	33.71	Jun-26-89	33.71		
		29.04	Jul-29-89	29.04		
		21.13	Aug-25-89	21.13		
		18.99	Sep-20-89	18.99		
		16.50	Oct-23-89	16.50		
		27.83	Nov-21-89	27.23		
		22.71	Dec-7-89	22.11		
		20.95	Jan-23-90	20.20		
		27.04	Feb-12-90	26.63		
		29.55	Mar-14-90	29.35		
		333.69	Jun-28-90	333.69	333.69	Jun-28-90
		22.01	Oct-17-90	17.61		
		48.85	Nov-12-90	31.70		
		44.53	Dec-5-90	34.93		
		33.39	Jan-10-91	24.43		
		729.92		687.26	333.69	
		2	Canfin Homes Bangalore	62.27	Jun-28-89	62.27
35.08	Jul-11-89			33.83		
35.43	Sept-6-89			34.67		
24.65	Nov-17-89			22.45		
33.82	Dec-22-89			27.02		
62.75	Mar-16-90			51.00		
138.21	Mar-23-90			56.91		
83.01	Nov-15-90			37.45		
1,110.00	June-28-90			1,110.00	1,110.00	June-28-90
122.18	Jan-4-91			69.31		
101.76	Feb-14-91			49.98		
330.63	Mar-8-91			14.63		
151.59	Mar-13-91	61.44				
2291.38		1630.96	1,110.00			
3	HDFC Bombay	3958.83	Jun-27-90	2253.28	2253.28	Jun-27-90
		4675.18	Oct-22-90	183.72	*	Oct-22-90
		8634.01		2,437.00	*	

Source : 'Schedule of Disbursement' furnished by NHB.
: Correspondences between NHB and the concerned HFCs.
: Accounts maintained by the HFCs.
: All amounts in Rs. lakhs (1 lakh = 100,000).
* : To be checked with NHB data.

As Table One clearly demonstrates, there seems to be a considerable difference in the manner in which the NHB on the one hand, and the HFCs on the other, have interpreted the "refinance component" of the HG Program. These differences are directly related to the perceptions of both regarding the total amounts refinanced under the HG Program.

These differences in perceptions and therefore interpretations have lead to some confusion regarding the exact amount refinanced under the HG Program at the level of the HFCs.

B : THE ISSUE OF "NON-ELIGIBILITY" OF BORROWERS :

Based on the in - depth study of 367 individual files of the borrowers (i.e. 244 files at HDFC, 110 files at Canfin Homes and 13 files at GRUH), information provided by the HFCs as well as three site visits to households , the findings of each of the HFCs are presented separately.

(i) GUJARAT RURAL HOUSING FINANCE CORPORATION LTD. (GRUH)

In the case of GRUH, the compilation of the information regarding the HG Program was found to be systematic. Moreover, it was computerised. Thus, the evaluator could get access to files and records maintained by the head office quite easily. Based on the information regarding 1018 individuals loans refinanced under the program , study of 13 individual files of borrowers and three site visits, the findings are represented in Table No. Two given subsequently.

**TABLE NUMBER TWO
DETAILS OF REFINANCE DISBURSED TO GRUH UNDER HG
PROGRAM**

Sr. No.	Income (Rs)	No. of borrowers	As % of Total	% of "ineligible" loans
1	less than 1000	034	3.33	
2	1001 to 1500	206	20.23	
3	1501 to 2000	365	35.85	
4	2001 to 2500	231	22.69	
5	2501 to 2800	066	6.48	6.48
6	2801 and above	116	11.39	11.39
		1018	99.97	17.87

Source : Data furnished by GRUH.
: Study of individual files of borrowers furnished by GRUH.
: Site Visits
Note : All loans made to borrowers with gross monthly income more than Rs. 2500 have been considered "ineligible".

**TABLE NUMBER THREE
DETAILS OF HOUSING UNITS REFINANCED UNDER HG PROGRAM**

Sr. No.	Total "disclosed cost" of housing unit (Rs.)	No. of borrowers	% of total	No. of HIL *	No. of Pari-passu loans
1	less than 50,000	260	25.54	11	-
2	50,001 to 1,00,000	657	64.54	-	-
3	1,00,001 to 1,50,000	87	8.55	-	-
4	1,50,001 to 2,00,000	10	0.98	-	-
5	2,00,001 to 3,00,000	3	0.29	-	-
6	3,00,001 and above	1	0.10	-	-
		1018	100	11	0

Source : Data furnished by GRUH
: Study of individual files of borrowers furnished by GRUH
: Site visits
: Home Improvement Loans

As is evident from the data presented in Table One and Two,

- Close to **18 %** of the total loans (i.e. 182 loans) have been made to borrowers with income **more than Rs. 2500 / -** ;
- **No " pari - passu " or " second mortgage" loans** have been noted ; and
- The occurrence of **HIL loans** is also **not very significant**.

(ii) CANFIN HOMES LTD. , BANGALORE

In the case of Canfin Homes, the evaluator visited their head office situated in Bangalore as well as two branches, also situated in the same city. Data pertaining to HG refinance was not available in a computerised form. The information which is represented in the Tables given subsequently, is based on the study of 110 individuals files of borrowers furnished by the HFC.

**TABLE NUMBER FOUR
DETAILS OF REFINANCE DISBURSED TO CANFIN HOMES LTD.
UNDER THE HG PROGRAM**

Sr. No.	Income (Rs.)	No. of Borrowers	As % of total	% of uneligible loans (1)
1	less than 1000	-	-	
2	1001 to 1500	05	4.54	
3	1501 to 2000	14	12.72	
4	2001 to 2500	24	21.81	
5	2501 to 3000	15	13.63	13.63
6	3001 and above	52	47.27	47.27
		110	99.97	60.9

Source : Study of individual files of borrowers furnished by Canfin Homes
: All loans made to borrowers with gross monthly income more than Rs. 2500 have been considered 'ineligible'

**TABLE NUMBER FIVE
DETAILS OF HOUSING UNITS REFINANCED UNDER HG PROGRAM**

Sr. No.	Total "disclosed cost" of housing unit (in Rs.)	No. of borrowers	% of total	No. of HIL *	No. of pari - passu loans
1	less than 50,000	-	-	-	-
2	50,001 to 1,00,000	14	12.72	12	5
3	1,00,000 to 1,50,000	17	15.45	-	1
4	1,50,001 to 2,00,000	29	26.36	-	4
5	2,00,001 to 3,00,000	30	27.27	-	12
6	3,00,001 and above	20	18.18	-	9
		110	99.98	12	31
				(10.9 %)	(28.18 %)

Source : Study of individual files of borrowers furnished by Canfin Homes
HIL : Home Improvement Loans

From all the available information represented in the tables, it seems likely that a very high percentage of "ineligible" or "non-conforming" have been made, in the case of Canfin Homes, i.e.

- **60.9 %** of loans have been made to households with gross monthly income **more than Rs. 2500** ;
- Within these loans, those refinanced under the "**pari - passu**" or "second mortgage" charge are also high i.e. **28.18 %** ;
- **HIL** loans account for **10.9 %** of the total loans refinanced.

Based on the study of individual files of the borrowers, it has also been observed that :

- Majority of the **HIL loans** have been made to borrowers with incomes ranging between **Rs. 2900 / - to Rs. 6000 / -** ;
- A high percentage of loans i.e. **44.54 %** , have been made to housing units whose **total "disclosed cost" is Rs. 2 lakhs or above** ; and lastly,
- Majority of units refinanced under the HG Program are **owner constructed**.

(iii) HOUSING DEVELOPMENT FINANCE CORPORATION LTD. , BOMBAY

The head office of HDFC in Bombay and their branches at Vashi and Ahmedabad were visited by the evaluator. Like Canfin Homes, HDFC also did not have the data pertaining to HG Program in a computerised format. Thus, the evaluator relied on the study of 244 individuals files of borrowers furnished by HDFC.

The case of HDFC is similar to that of Canfin Homes vis-à-vis the issue of "ineligibility" , even though it does not show a high incidence of such types of loans as compared to Canfin Homes. The main findings are presented in Tables Six and Seven, given subsequently.

**TABLE NUMBER SIX
DETAILS OF REFINANCE DISBURSED UNDER THE HG PROGRAM**

Sr. No.	Income (Rs.)	No. of Borrowers	As % of Total	% of "uneligible" loans (1)
1	less than 1000	1	0.40	-
2	1001 to 1500	15	6.14	
3	1501 to 2000	57	23.36	
4	2001 to 2500	54	22.13	
5	2501 to 3000	47	19.26	19.26
6	3001 and above	70	28.68	28.68
		244	99.97	47.94

Source : Study of individual files of borrowers furnished by HDFC
: All loans made to borrowers with gross monthly income more than Rs.2500 have been considered 'ineligible'

**TABLE NUMBER SEVEN
DETAILS OF HOUSING UNITS REFINANCED UNDER HG PROGRAM**

Sr. No.	Total "disclosed cost" of housing unit (Rs.)	No. of borrowers	% of total	No. of HIL*	No. of pari - passu loans
1	less than 50,000	10	4.09	5	-
2	50,001 to 1,00,000	98	40.16	11	2
3	1,00,001 to 1,50,00	90	36.88	2	1
4	1,00,501 to 2,00,000	32	13.11	-	-
5	2,00,001 to 3,00,000	11	4.5	1	2
6	3,00,001 and above	3	1.2	-	-
		244	99.94	19	5
				(7.78 %)	(2.04 %)

Source : Study of individual files of borrowers furnished by HDFC
HIL : Home Improvement Loans

From the information represented in the above Tables, the main conclusions which could be drawn are as follows :

- A high percentage of loans i.e. **47.94 %** , have been made to households with gross monthly income **more than Rs. 2500 / -** ;
- Within these loans, those refinanced on "**pari - passu** " or " second mortgage " charge are not so high i.e. **only 2.04 %** ;
- **HIL loans** account for **7.78 %** of the total loans .

Based on the study of 244 individual files of the borrowers furnished by HDFC, it appears that :

- Majority of the **HIL loans** have been made to households with gross monthly income ranging between **Rs. 3000 / - to Rs. 6000 / - ;**
- **77.04 %** of housing units refinanced under the HG program, indicate a total disclosed cost ranging between **Rs. 60,000 / - to Rs. 1, 50, 000 / - ;**
- In HDFC's case **majority of the loans** have been financed for **apartment units / walk - flats** , and the occurrence of individual bungalows / tenements is extremely negligible , as compared to those financed by Canfin Homes.

(C) CONCLUSIONS AND LESSONS LEARNED

The restricted scope and coverage of the present review does not make it possible to arrive at comprehensive or detailed conclusions. Moreover ,the issues raised in the present review are interconnected to a number of other strategic and operational level aspects within the HG Program , which have not been studied as they are clearly beyond the scope of the present review. Nevertheless, based on the information collected during the course of the review , which clearly indicate that a sizeable proportion of HG loans are likely to be " ineligible ", especially in the case of Canfin Homes and HDFC , it *is* indeed possible to raise some extremely pertinent concerns, revolving around the central objective of the HG Program - that of reaching the below median income group . These have a direct bearing on the future design and implementation of the HG Program . The same have been discussed below :

(i) BORROWER'S INCOME AND LOAN SIZE

The first , and probably the most crucial issue is that of using loan size as a substitute for beneficiary income. The rationale behind refinancing loans only

upto Rs. 50,000 by linking them to the affordability of the borrower, cannot be questioned. What could be questioned, however, is the assumption that majority of loans of this size would be, in turn, borrowed only by households belonging to the below median income group. Whereas it is true that these households cannot afford larger loans and therefore may be restricted to smaller loans, it is nevertheless also true, that in reality, more affluent households also make use of smaller loans. There is thus a fine distinction between borrowers who *take* small loans and those who cannot *afford* larger loans. The degree to which both overlap, is different across HFCs and is crucially dependant on ground realities. Borrowers may take smaller loans for a number of *other* reasons than their unaffordability to repay back a longer loan. During the in - depth study of individual files of borrowers, a number of reasons, which could partly explain the above, were discovered. The same are as follows :

- In many cases, two to three times the loan amount was raised by the borrower by tapping other sources, namely, (a) personal savings; (b) selling gold; (c) selling shares etc.; (d) borrowing from friends/relative; (e) taking a P.F. loan; and lastly (f) selling some other property, usually in the rural areas. Thus a significant proportion of the total cost of the housing unit was financed by down payment.
- At times, there is already *another loan* taken by the borrower for some other purpose than housing i.e. furniture loan, consumer loan etc. (either from the Employer or the Credit Society) for which a schedule of monthly instalments is already in operation. Thus the repayment capacity of the borrower for the housing loan automatically reduces. The HFCs, whilst establishing the repayment capacity of the borrower, definitely give a lot of importance to other outstanding loans of the borrower.

- Since most of the HFCs visited show a distinct preference for the DAS with the employer , only the *borrowers* income (and not the total household income , which may be much above the below median income) is considered in establishing the affordability. Only in cases where the borrower is directly paying back his/her monthly instalments do the HFCs also consider the income of the spouse, if any.
- Home Improvement Loans refinanced under the Program, clearly indicate that these loans have been borrowed by families with incomes more than those belonging to the below median income group. These loans were overwhelmingly used for repairing , painting/waterproofing, or adding a room to the existing housing unit.
- None of the HFCs visited were , in principle , opposed to granting a "pari-passu" charge for loans financed by them . Under the HG Program, no specific directions were issued for disqualifying such loans. In fact, as already noted earlier, Clause 8 of the "General Agreement" between the NHB and HFCs, lays down the condition under which such a charge could be created. In the case of Canfin Homes, thus, a high percentage of loans (28.18%) have been granted under the "pari-passu" charge. All these loans have been granted to middle or higher income households.
- The total cost of the housing unit being directly dependant on the cost of land , materials and labour, there was a co-relation noted between the *location* of the housing unit and its *cost*. It is likely that loans made in non-metropolitan areas or smaller cities and towns, do not show a high proportion of "ineligibility", as was observed for loans granted by GRUH or those granted by HDFC's branch in Ahmedabad.

Taking into account all the above discussed aspects, the use of only one indicator i.e. loan size , may not be sufficient in order to reach the desired target group under the HG Program. It would therefore be worthwhile to explore the possibility of including other collaborating indicators (like gross monthly income and size of housing unit) in deciding the eligibility of borrowers. In light of the fact that most of the HFCs now have a computerised data base, the above mentioned indicators may not be hard to establish.

(ii) UNCLARITY AT THE HFC LEVEL VIS-A-VIS THE HG PROGRAM

The reviewer's visits to the three HFCs point out to the fact that there were considerable differences across the three HFCs in the manner in which they perceived the HG Program. This was also reflected in the non-uniformity in their documentation procedures as well as the discrepancies in the total amounts refinanced. Ironically, they seemed to be unaware of the overall goal of the HG Program and had therefore made no specific efforts to meet it. Using just two criteria - loan size and time period - the HFCs had applied for and had been granted refinance under the HG Program, *irrespective of the borrower's income* .

In the above context, it may be extremely necessary to communicate the right kind and type of information to the participating HFCs in order to assure uniformity in their lending practices as well as in the target group they covered, under the HG Program.

(iii) ORIENTATION OF THE PARTICIPATING HFCs

Traditionally, the HFCs have been sceptical in extending credit to this target group which is largely perceived by them as being risky and non-creditworthy. There are a number of administrative and operational difficulties that HFCs also face when extending credit to this group. These reservations were also echoed by the managers and staff of the HFCs visited by the reviewer. Thus, it is

unlikely that the HFCs would , in the absence of any specific incentives or orientation , target this income group in their routine lending programs.

Even though perceptions and attitudes vis-à-vis this target group are gradually changing within the HFCs , it may still be necessary to design special training programs especially for the officers directly dealing with the beneficiaries, in the participating HFCs. ⁷ Lastly, it may prove to be more beneficial to separate lending under the HG Program by giving it a ' special program status ' rather than merging it with the other routine lending program of the participating HFCs.

(iv) MONITORING AND EVALUATION

From all available information it appears that even though a very systematic schedule had been followed for conducting overall evaluations of the HG Program, the same may not have been the case for **specifically** studying the end - use of the refinanced loans under the HG Program. Thus, the critical importance of establishing a system of periodic monitoring and evaluations , specially for reviewing the end - use of the refinanced loans as well as the target group being covered under the said program, cannot be undervalued. Such a system would make it possible to make timely alterations in the program strategy and orientation.

⁷Note : This is an area in which a number of efforts initiated by both USAID and NHB are already under way. The three evaluation studies conducted for the HG Program, indicate that these efforts have been highly appreciated by the HFCs and have also been very effective.

ANNEXE A

LIST OF CONTACTS

NEW DELHI

A. USAID - RHUDO

1. Lindsay Elmendorf
2. N. Bhattacharjee
3. A.S. Dasgupta
4. Anand Rudra

B. Abt ASSOCIATIES

1. Richard Genz
2. Samir Zaman

C. NATIONAL HOUSING BANK

1. K. Murlidharan
2. B.C.S. Balika
3. V.R. Katre
4. T.V.S. Rao

AHMEDABAD

A. GRUH

1. Sudhin Choksey
2. Kamlesh Shah
3. Saroj Ojha

B. HDFC

1. Irfan Quereshi
2. J.Fernandes
3. D.P. Parikh

BANGALORE

A. CANFIN HOMES LTD.

1. T.S. Kamath
2. Shamila

3. V.S. Raju
4. M.D. Kundapur
and other staff

BOMBAY

A. HDFC

1. Conrad D'souza
2. Raja Iyer
and other staff.

ANNEXE B

METHODOLOGY OF PRESENT REVIEW

Ruling out an exhaustive sample survey, the reviewer concentrated on the study of important documents and held discussions with key officials who had been involved with this program. The various organisations visited and the kind and type of information collected by the reviewer is elaborated as follows :

(A) Study of important documents and reports furnished at the RHUDO office :

Considerable amount of time was spent at the RHUDO office, Delhi. Here, the various files, documents, reports and correspondences were studied in detail. These covered :

- The study of the context and background of the HGSP ; its design and evolution ; the important landmarks during its development, and its central goal and purpose .
- The in-depth study of those aspects which were of direct relevance to the present study, in two extremely crucial documents, namely, the " Agreement between the USAID and the NHB on Housing Finance" and the " Master Program Implementation Plan". In these documents the focus was on studying the : (a) terms and conditions laid down for implementation ; (b) the standard procedures to be adopted by the different parties involved in this program ; (c) the criteria adopted for selecting the HFCs ; and lastly, (d) the processes outlined for monitoring the end-use of the loans.
- The study of various factors which contributed in deciding the 'eligibility' of the beneficiary group and in using the loan size as the proxy to income.
- The study of ' Project Implementation Letters - PILs'
- The study of files containing the correspondences between USAID and the NHB covering the views exchanged between them and additional information on the Program ; and lastly,
- The study of three evaluation reports done for the HGSP and HGSEP by external experts

Apart from the above, discussions were also held with the concerned officials who had been involved with the HG Program at the RHUDO office.

(B) Visits to three qualifying housing finance companies :

The visit to RHUDO , was followed by visits to three out of the four qualifying HFCs. NHB had communicated the purpose of visit of the reviewer to these HFCs at their head offices, and consequently the head offices as well as a few branches of the three HFCs were visited by the evaluator. These three HFCs were ⁸:

- Gujrat Rural Housing Finance Corporation Ltd. - (GRUH) , Ahmedabad ;
- Canfin Homes Ltd., Bangalore ; and
- Housing Development Finance Corporation Ltd., (HDFC) , Bombay.

In the above HFCs , the reviewer concentrated on :

- Meeting the senior managers as well as the officers involved in the HG Program and discussing with them the various relevant aspects of the Program. These discussions revolved around issues such as : (a) the criteria and procedures complied with, by the HFC to 'qualify' as sub-borrower ; (b) the terms and conditions laid down by NHB specifically for the HG Program ; (c) the documentation, reporting and monitoring of loans refinanced under the HG Program ; and lastly (d) the issues of 'pari-passu'.
- Studying the relevant files furnished by the HFCs. Here, the aim was to study the program documents and the agreement made between the NHB and HFC specifically for this program as well as the correspondences between the two. ⁹
- Studying the individuals files of beneficiaries whose loans had been refinanced by NHB under the HG Program. These files contained very comprehensive information on the legal,

⁸Note : The total refinance granted to the fourth HFC namely, the SBI Homes , Calcutta, was quite insignificant compared to the other three HFCs. Hence this HFC was not included for the present evaluation.

⁹Note : The reviewer had very limited direct access to files /correspondences between the NHB and HFC. But nonetheless, was able to collect some sketchy information on pertinent issues.

technical and financial matters related to the housing unit which had been financed by the HFC. A total number of 367 such individuals files were studied, in detail, for the three HFCs visited by the evaluator.¹⁰

- Field visits to beneficiary households. Three fields visits were conducted for the loans refinanced by NHB to GRUH. The aim of these field visits was to check the validity of the information contained in the individuals files and to get insights into the actual conditions existing at the field level.

(C) Visit to NHB :

The reviewer had meetings with two senior officials of NHB who had been closely involved with the HG Program since its inception. In these meetings the focus was on understanding : (a) the role played by the NHB in the HG Program ; (b) how the MPIP had been actually implemented in practice by the NHB ; and lastly (c) issue of 'pari-passu' .¹¹ The reviewer did not have direct access to any documents, reports and files maintained at the NHB level and is therefore quite constrained in making any observations regarding the information available at that level.

¹⁰Note : In all the three HFCs visited by the reviewer, availability and accessibility to individual files was the prime criteria in choosing them.

¹¹Note : Out of these two meetings , one was a fairly short one which did not give enough scope to cover, in detail , the various policy and operational level issues directly related to the HG Program. It is hoped that before the final draft is prepared this meeting can be held so as to cover the same.

ANNEXE C -(i)
FORM OF APPLICATION FOLLOWED BY GRUH

91/NHB/ 1161
February 27, 1991

The General Manager
National Housing Bank
Bombay Life Building
45, Veer Nariman Road
Bombay 400 023.

Dear Sir,

**General Agreement for availing of
refinance from the NHB in respect
of housing loans.**

Please refer to the General Agreement for availing of refinance from the National Housing Bank (NHB) in respect of housing loans Gujarat Rural Housing Finance Corporation Ltd. has entered into on June 22, 1989, with NHB.

2. One of the conditions of the Housing Programme Agreement between NHB and the United States of America acting through the Agency of International Development (A.I.D.) under which NHB extends financial assistance to housing finance companies is that in the agreement entered into by and between NHB and housing finance companies, there should be a provision that the housing finance company availing of financial assistance from NHB shall furnish to NHB the following reports/statements:

a) Half yearly statement showing -

- i) Cash flow projections including projections of disbursements.
- ii) Sources of funds, total assets and percentage of growth.
- iii) Key financial ratios such as debt-equity, profit after tax/net worth, interest coverage ratio.
- iv) loan over-due beyond 30 days.

..2

BEST AVAILABLE COPY

- b) Annual plans for mobilisation of resources by way of deposits, borrowing from market and other institutional sources of capital including projections of atleast three years ahead.
- c) A statement of loan under-writing and monitoring procedures.
- d) Annual plans for recruitment and training of personnel.
- e) Plan and strategies for reaching low income borrowers (including women) and outreach programme.
- f) Half yearly statement of disbursement of loans by income level and location.
- g) A declaration that housing finance companies will offer to couples applying for mortgage the option of titling in both spouses' names. λ

3. This company agrees and accepts to submit the reports/statements indicated in paragraph 2 herein above as also any other report/statement as may be prescribed by NHB and/or AID, and that these conditions shall form additional conditions of the General Agreement dated June 22, 1989, indicated first herein above.

4. This company therefore, hereby agrees and undertakes to submit to the NHB the said reports/statements in the formats and on the dates that may be prescribed by NHB, from time to time.

5. This letter of undertaking shall form a part of the General Agreement dated June 22, 1989.

Thanking you,
Yours faithfully,
For Gujarat Rural Housing Finance Corpn.Ltd.

(Nitln Palany)
Managing Director

ANNEXE C - (ii)
FORM OF APPLICATION FOLLOWED BY CANFIN HOMES LTD.

42

APPLICATION FOR REFINANCE OF LOANS UNDER USAID PROGRAM

The General Manager
National Housing Bank
Bombay.

Dear Sir,

Reg: Grant of refinance for loans under
USAID Housing Program

We hereby apply for refinance to the extent of Rs. _____
in respect of housing loans upto Rs.50,000/- disbursed by us
for the period 1st October 1987 to 31st December 1989 AND
1st January 1990 to 31st May 1990 for which neither ~~any refinance~~
has been drawn from NHB nor any foreign assistance availed.

We furnish the following information:-

- i) Board Resolution to draw refinance from NHB under USAID H G Program.
 - ii) Details of loans disbursed upto Rs.50,000/- with locations for the periods 1-10-87 to 31-12-89 and 1-1-90 to 31-5-90, together with outstandings as on 31-5-1990, for which neither refinance has been drawn from NHB nor any foreign assistance availed.
 - iii) Recovery % of such loans till date.
 - iv) Statement showing projected source of USAID HG Program refinance sources and uses thereof.
 - v) Statement of eligible loans sanctioned but not disbursed.
 - vi) Projected cash flow for the next quarter.
 - vii) Total overdues over 30 days and percentage thereof to total outstandings.
 - viii) Average interest coverage ratio.
2. We hereby undertake to secure during the subsistence of above financial assistance with the securities as detailed in Clause 5, 6, 7 and 8 of the General Agreement executed on _____

for availing refinance from NHB.

3. We hereby certify that the accounts and files pertaining to the housing loans covered by the refinance have been seggregate and separately maintained.

4. We also hereby certiry that the particulars given above are for the express purpose of securing the loan as financial assistance from the Housing Bank under USAID H G Program, and are true and correct and no material fact has been concealed or withheld.

For and on behalf of
Name of the Financing/Institution

Signature

Date:

ANNEXE D - (i)
LETTER FROM NHB INDICATING DISBURSED AMOUNT TO GRUH



NATIONAL HOUSING BANK

Ref NHB B/No 2/8/R/USAID/GRUH/90

December 20, 1990

The Managing Director
Gujarat Rural Housing Fin. Corp. Ltd.
'Ambica House'
5, Navyug Colony,
Behind C.U. Shah College
Ashram Road,
AHMEDABAD 380 014

Dear Sir,

General Agreement for availing of
refinance from NHB under USAID HG PROGRAM

Please refer to your letter dated June 26, 1990 seeking
refinance for housing loans upto Rs 50,000/- disbursed by
you from 1-10-87 to 31-3-1990 under USAID HG PROGRAM.

2. Accordingly, we sanctioned and released refinance to
the extent of Rs 3,33,69,000/- on June 28, 1990.

3. As per our agreement with the housing
finance companies to whom such refinances are to be released,
are to execute an undertaking as enclosed herewith.

4. You are requested to please execute the said undertaking
and send the same to us at an early date duly signed and sealed.

Thanking you.

Yours faithfully,

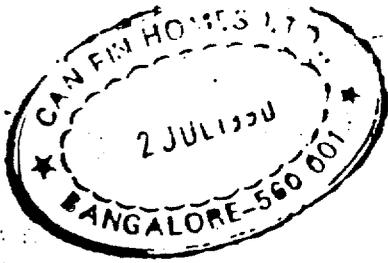
(M.B. Roy)
Dy. Manager

Encls: as above

224347 222702 222550
5th Floor, Sankalpa, Life Building, 4th Cross, New Market,
P.O. Box 224347, 222702, 222550

ANNEXE D - (ii)
LETTER FROM NHB INDICATING DISBURSED AMOUNT TO CANFIN
HOMES LTD.

To Mr. SPS
Page No. 2



राष्ट्रीय आवास बैंक
(भारतीय रिज़र्व बैंक द्वारा पूर्णतया स्वामित्वित)
NATIONAL HOUSING BANK
(Wholly owned by the Reserve Bank of India)

NHB (B) No. 2192/R/USAID/CFH/90

June 28, 1990

The Managing Director,
Can Fin Homes Ltd.,
"Shanti Kutir", No.32, II Floor,
Race Course Road,
Bangalore 560001

KVK

Dear Sir,

Reg: Release of Refinance under
USAID HG PROGRAM

Please refer to your letter No. CFHRO:75:NHB:GNG dated 26th June, 1990, forwarding the statement and other requisite certificates seeking refinance for housing loans upto Rs.50,000/- disbursed by you from 01-10-1987 to 31-03-90 under USAID HG PROGRAM for which neither any refinance has been availed by you from NHB nor any foreign assistance availed.

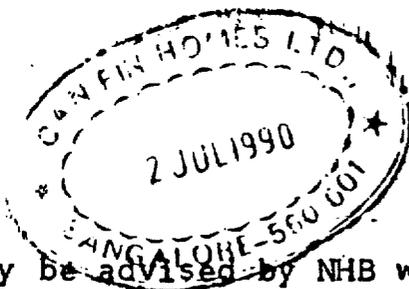
We are pleased to sanction and release refinance to the extent of Rs.11,10,00,000.00 (Rupees eleven crores and ten lakhs only).

The amount of refinance will be repayable by your company in 80 equal quarterly instalments as per the schedule given below:-

Repayment Schedule

Amount of refinance granted (Rs.)	Rate of Interest (% per annum)	80 equal quarterly instalments (Rs.)	Due dates of instalment
11,10,00,000/-	13.0	13,87,500.00	<u>First Instalment</u> October 1, 1990 <u>Subsequent Instalments</u> January 1, 0 April 1, 0 Every year July 1, 0 October 1, 0 <u>Last Instalment</u> July 1, 2010

CFH200901



Interest on refinance as may be advised by NHB will be payable quarterly on October 1, Jan.1, April 1 and July 1, every year and if due dates for instalments and interests happens to be Sunday or holiday, the amount(s) will be payable at the next working day.

The instalments towards repayment of refinance and interest (as may be advised by NHB) should be remitted to NHB, Bom by means of a demand draft drawn on NHB and payable at Bombay to be sent well in advance of due date. The date of realisation of the draft will be reckoned as the date of payment of instalment interest.

We advise having handed over our RBI Cheque No.095468 dated 28th June, 1990 for Rs.11,10,00,000.00 (Rupees eleven crores and ten lakhs only) to Canara Bank, Tamarind Street Branch, Fort, Bombay 400023, for crediting your Current Account No.3407 maintained with them.

Further, the certified copy of Board Resolution dated 27.07.1989 does not contain any provision for drawal of refinance under USAID HG PROGRAM specifically. You may please incorporate the same in your next Board Meeting and send a certified copy of the Resolution to us for our record.

Thanking you,

Yours faithfully,

(M.B. ROY)
Deputy Manager

ANNEXE D - (iii)
LETTER FROM NHB INDICATING DISBURSED AMOUNT TO HDFC

राष्ट्रीय आवास बैंक
(भारतीय रिज़र्व बैंक द्वारा पूर्णतया स्वाधिकृत)
NATIONAL HOUSING BANK
(Wholly owned by the Reserve Bank of India)

N B (B) No. 2189 /HDFC/90

June 27, 1990

The Chairman & Managing Director
Housing Development Finance Corp.,
Ramon House,
169, Backbay Reclamation
BOMBAY 400 020

Dear Sir,

Refinance Scheme of National Housing Bank (NHB)
applicable to Housing Finance Companies 1989 -
Release of Refinance

Please refer to your letter No. nil dated 25th June, 1990 forwarding the statement in form NHB-HFC-3 regarding housing loans disbursed by your company during the period of January, 1989 to December 1989. We are enclosing our Reserve Bank of India Cheque No. 095461 dated 27th June, 1990 for Rs 39,58,83,000/- (Rupees Thirty nine crores fifty eight lakhs and eighty three thousand only), being the amount of refinance released by NHB.

2. The amount of refinance will be repayable by your company in 80 equal quarterly instalments as per schedule given in the Annexure.

3. The instalments towards repayment of refinance and interest (as may be advised by NHB) should be remitted to NHB, Bombay by means of a cheque/demand draft drawn on and payable at Bombay to be sent well in advance of due date. The date of realisation of the cheque/demand draft will be reckoned as the date of payment of the instalment/interest.

4. As regards to compliance of certain requirements in respect of NHB-HFC-3 and HFC-4, we shall write to you separately.

Thanking you.

Yours faithfully,


(M.K. Rakshit)
Dy. General Manager

Encl: as above



राष्ट्रीय
आवास बैंक
NATIONAL
HOUSING BANK

संदर्भ: Ref. NHB (B) No. 1724 /HDFC/90

October 29, 1990

The Chairman & Managing Director,
Housing Development Finance Corporation Ltd.,
Ramon House,
169, Backbay Reclamation,
Bombay 400 020.

Dear Sir,

Refinance Scheme of National Housing Bank (NHB) applicable to Housing Finance Companies 1989 - Release of Refinance

Please refer to your letter No. nil dated October 23, 1990 forwarding the statement in form NHB-HFC-3A and B regarding housing loans disbursed by your company during the period of January 1990 to June 1990. We are enclosing Reserve Bank of India cheque No. 126127 dated October 29, 1990 for Rs. 47,46,30,000/- (Rupees fortyseven crores, forty-six lakhs and thirty thousand only), being the amount of refinance released by NHB.

2. The amount of refinance will be repayable by your company in 80 equal quarterly instalments as per schedule given in the Annexure.

3. The instalments towards repayment of refinance and interest (as may be advised by NHB) should be remitted to NHB, Bombay by means of a cheque/demand draft drawn on and payable at Bombay to be sent well in advance of due date. The date of realisation of the cheque/demand draft will be reckoned as the date of payment of the instalment/interest.

4. As regards compliance of certain requirements in respect of NHB-HFC-3 and HFC-4, please refer to our letter No. 403/90 dated August 27, 1990 and comply with its requirements. In addition to this, we also request you to furnish us the break-up for fully disbursed and partly disbursed dwelling units and the corresponding amounts in terms of our discussions with Shri Satish Mehta.

Thanking you,

Yours faithfully,

(M.K. Rakshit)

Deputy General Manager

Encl: As above

नीमगे मंत्राल, चम्बई लाईफ बिल्डिंग, 45, वीर नरामन रोड, फोर्ट, चम्बई 400 023.
दूरभाष 224347, 222702, 222550, टेलिफोन 0118-3397 NHBB IN

3rd Floor, Bombay Life Building, 45, Veer Narman Road, Fort, Bombay 400 023
Phones: 224347, 222702, 222550, Telex: 0118-3397 NHBB IN

राष्ट्रीय निवृत्त बैंक
पूर्ण स्वामित्व में

olly owned by
erve Bank of India

58

ANNEXE E

LIST OF REFERENCES

1. Linz, Randolph S. 1994. *Annual evaluation of the India Housing Finance Expansion Program (HG - 003 A)* . International Consulting Corporation For USAID / India and RHUDO / SA . Washington D.C., January.
2. Lee Michael. 1995. *Mid Term evaluation of the Housing Finance System Expansion Program, India.* for USAID / India and RHUDO , New Delhi, June.
3. Struk, Raymand, Bruce Ferguson and Marisol Ravicz, n.d. 1991. *Market - Oriented Housing Finance in India : The National Housing Bank's First Two Years. Interim Evaluation of the HG 003 Program.* The Urban Institute for USAID / India. Washington , D.C.
4. United States Agency for International Development. 1991. *Project Paper : India Housing Finance System Expansion Program.* Washington D.C. September.
5. United States Agency for International Development. 1991. *Project Identification Document : Housing Finance System Program Expansion.* Washington D.C. March

SEPTEMBER 1996

HOUSING FINANCE SYSTEM PROGRAM - HG 003
SIGNIFICANT MILESTONES

Late 70's	USAID commenced its support to India's Housing Finance system. Housing Guaranty Programs - HG 001 and HG - 002 initiated with Housing Development Finance Corporation (HDFC) , for technical and financial support , totalling to \$ 125 million.
1988	Housing Finance System Program - HG 003 approved, with the goal of increasing the availability of formal housing finance nation-wide (Lee , '95) .
July 1988	National Housing Bank (NHB) established and began its operations.
Sept. 1988	Project Paper of ' USAID - India's Housing Finance System Program " signed, approving a Life of Project (LOP) Housing Guaranty funding level of \$ 50 million, in addition to \$ 2.4 million as direct grant funds.
Dec. 1988	NHB initiated consultations with housing finance companies (HFCs) (Struyk and others, '91).
March 1990	Implementation Agreement signed between USAID and NHB (ibid.).
March 1990	Loan Agreement between NHB and individual HFCs negotiated and signed (ibid.).
June 1990	NHB sanctioned and released refinance to Canfin Homes under HG 003.
June 1990	NHB sanctioned and released refinance to HDFC under HG 003.
Sept. 1990	Completion of Master Plan Implementation Program (MPIP) and other conditions for NHB to select lenders for funds under USAID HG loan (ibid.).

Oct. 1990	NHB sanctioned and released refinance to HDFC under HG 003.
Dec. 1990	NHB sanctioned and released refinance to GRUH under HG 003.
Dec. 1990	MPIP updated.
April 1991	First tranche' of \$ 25 million HG funds borrowed by NHB.
1991	A team of experts conducted interim evaluation of Housing Finance System Program - HG 003. "Market Oriented Housing Finance in India : The National Housing Bank's first two years , Interim Evaluation of HG 003 Program by Struyk R., Ferguson F. and Ravicz M., Urban Institute ".
Sept. 1991	Project Paper of Housing Finance System Expansion Program - HFSEP 003A - approved .
1992	Housing Finance System Expansion Program - HFSEP 003A - launched , providing an additional \$ 50 million in Housing Guaranty funds with \$ 4.3 million in direct grant funds.
Jan. 1994	Annual Evaluation of the " India Housing Finance Expansion Program (HG - 003A) " by Lintz,R.S. , International Consulting Corporation.
June 1994	Mid-term Evaluation of the " Housing Finance System Expansion Program:", by Lee Michael.
Sept. 1996	Project Assistance Completion date (PACD) . HG Funds to be disbursed over a period of four years, starting from mid 1992 to PACD of Sept. 1996.