National Housing Bank
(Wholly owned by the Reserve Bank of India)

Annual Report

1999-2000

The Board of Directors

Chairman & Managing Director
Shri P.P. Vora,

Directors as per different sections of the National Housing Bank Act, 1987:

Shri G.Krishnamurthy (upto June 30, 2000)
Chairman, Life Insurance Corporation of India Ltd.
(under Section 6(1) (b) of the National Housing Bank Act, 1987)

Shri Y.P.Gupta (upto September 10, 2000)
Chairman, Life Insurance Corporation of India Ltd.
(under Section 6(1) (b) of the National Housing Bank Act, 1987)

Shri G.N.Bajpai (from September 11, 2000)
Chairman, Life Insurance Corporation of India Ltd.
(under Section 6(1) (b) of the National Housing Bank Act, 1987)

Shri V.Suresh,
Chairman & Managing Director, Housing & Urban Development Corporation Ltd.
(under Section 6(1) (c) of the National Housing Bank Act, 1987)

Shri Deepak S.Parekh,
Chairman, Housing Development Finance Corporation Ltd.
(under Section 6(1) (c) of the National Housing Bank Act, 1987)

Shri Jagdish Capoor,
Deputy Governor, Reserve Bank of India
(under Section 6(1) (d) of the National Housing Bank Act, 1987)

Dr.Bhai Mohan Singh,
Director, Central Board of Directors, Reserve bank of India
(under Section 6(1) (d) of the National Housing Bank Act, 1987)

Shri S.S. Chattopadhyay,
Secretary to the Government of India,
Ministry of Urban Employment & Poverty Alleviation
(under Section 6(1) (e) of the National Housing Bank Act, 1987)

Shri Devi Dayal,
Special Secretary to the Government of India,
Ministry of Finance, Banking Division
(under Section 6(1) (e) of the National Housing Bank Act, 1987)

Shri Satish Chandra,
Joint Secretary to the Government of India,
Ministry of Rural Development
(under Section 6(1) (e) of the National Housing Bank Act, 1987)

Shri Babu Jacob,
Principal Secretary,
Public Works & Housing Department,
Government of Kerala
(under Section 6(1) (f) of the National Housing Bank Act, 1987)

Shri Vishwas S.Dhumal,
Secretary,
Housing & Special Assistance,
Government of Maharashtra
(under Section 6(1) (f) of the National Housing Bank Act, 1987)

The Executive Committee of Directors

Shri P.P. Vora,
Chairman & Managing Director

Shri V.Suresh,
Chairman & Managing Director, Housing & Urban Development Corporation Ltd.

Shri Deepak S.Parekh,
Chairman, Housing Development Finance Corporation Ltd.

Shri Jagdish Capoor,
Deputy Governor, Reserve Bank of India

The Audit Committee of Directors

Shri Deepak S.Parekh,
Chairman,Housing Development Finance Corporation Ltd.

Shri Jagdish Capoor,
Deputy Governor, Reserve Bank of India

Shri Devi Dayal,
Special Secretary to the Government of India,
Ministry of Finance, Banking Division

Shri Vishwas S.Dhumal,
Secretary,
Housing & Special Assistance,
Government of Maharashtra

(Photographs of Senior Executives of NHB)

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1. Performance at a Glance

This is the 12h Annual Report on the working of the National Housing Bank (NHB) submitted in terms of section 40(5) of the National Housing Bank Act, 1987 for the year July 1, 1999to June 30, 2000.

1.1 Highlights of the performance of NHB for the past two years are as follows:

(Rs. in crores)

	1998-99	**1999-2000**
Share Capital	350.00	350.00
Reserves & Surplus	481.30	565.92
Loans & Advances	3176.92	3738.92
Income	478.40	566.84
Net Profit	58.52	83.69
Disbursements :		
Refinance	747.01	841.68
Direct (General Fund)	14.76	40.74
Direct (Special Fund)	1.21	9.76
No. of housing units financed	39662*	44619*

* Excluding the number of units refinanced under LDSP/RHP to the lending institutions and line of credit to HUDCO & GICHFL.

1.2 Refinance disbursals during the year increased from Rs.747.01 crores in 1998-99 to Rs.841.68 crores in 1999-2000. Under the direct financing window, NHB disbursed a sum of Rs.40.74 crores out of its general fund as compared with Rs. 14.76 crores during the last year. In addition, NHB also disbursed directly a sum of Rs. 9.76 crores out of the special fund. Thus, the total disbursements during the year (July 1999 to June 2000) was Rs.892.18 crores as against a total disbursement of Rs. 762.98 crores during the corresponding period of the last year i.e. an increase of 16.93%.

1.3 Recovery performance in respect of refinance continued to be 100 percent and there was no demand during the year, which was overdue.

1.4 The Bank borrowed Rs.667.00 crore during 1999-2000 from various sources. These included borrowings from the market by way of Bonds (both, taxable and tax-free), and external borrowings from the Asian Development Bank (ADB)..

1.5 In accordance with the developments in the financial sector, the rates of interest in the housing finance sector continued to show declining trend on an aggregate during the year. The rate of interest on refinance assistance for loans between Rs.5 lakhs and Rs.10 lakhs was reduced by NHB from 13.25 per cent to 12.00 per cent in two stages.

1.6 NHB continued the process of dialogue with its client groups for assessment of credit absorption needs and capacity. Based on the feed back received from various agencies, the guidelines for financial assistance, were revised during the year, to permit more flexibility. The review related to the refinance norms pertaining to Agriculture and Rural Development Banks (ARDBs), housing finance companies (HFCs) as well as direct finance, in respect of Land Development and Shelter Projects (LDSP), Housing Infrastructure Projects (HIP) and Slum Redevelopment Projects (SRP) pertaining to public agencies.

1.7 Under the Prudential Guidelines, NHB introduced amendments in some of the provisions pertaining to income recognition and provisioning, norms in respect of lease and hire-purchase assets, accounting for investments, regarding reschedulement, capital adequacy norms with respect to the definition of Tier I Capital, minimum requirement of capital funds, risk weighted assets, concentration of credit/investment, disclosure in balance sheet and loans against own shares. The amendments were made keeping in view the overall trends in the financial sector and the non-banking finance segment.

1.8 During the year, one more housing finance company was prohibited from accepting/ renewing deposits, for contravention of the various provisions of the Housing Finance Companies (NHB) Directions, 1989. The prohibitory orders were issued as a measure aimed at safeguarding public interest. Till the end of June, 2000, NHB has prohibited 32 companies from accepting public deposits.

1.9 As part of its developmental role for the sector, NHB designed and conducted 6 training programmes/seminars on housing finance for personnel of HFCs, banks and housing boards. Also, during the year, NHB funded 7 training programmes for institutions such as National Co-operative Housing Federation of India (NCHF), Apex Co-operative Housing Finance Societies (ACHFS) and National Centre for Management Development in Agriculture and Rural Development Banking (NCMDARDB) .

1.10 The National Housing Bank (Amendment) Act, 2000 was passed by the Parliament during the year and after receiving presidential assent it came into effect from the 12th June, 2000. The amendments provide NHB with greater regulatory powers over the the HFCs, increased scope for mobilisation of additional resources for the housing sector through introduction of mortgage backed securities and creation of a secondary mortgage market. As a significant measure the amendments also provide speedier mechanism for recovery of loans of defaulting borrowers. The additional regulatory powers given to NHB are akin to those vested with Reserve Bank of India relating to non-banking financial companies.

1.11 NHB received a sum of Rs. 236.78 crores from State Bank of Saurashtra (SBS) based on a decree passed last year by the Special Court for recovery of a sum of Rs 95.40 crores paid by the Bank in the year 1991-92 to SBS for purchase of securities,

2. Housing Scenario 1999-2000

2.1 The Background :

The Indian economy during the year witnessed acceleration in the growth mainly due to the recovery in the industrial sector and increased growth in the services sector. The real GDP growth during the year 1999-2000 was 6.4% as against the 6.8% growth rate witnessed during the year 1998-99. This coupled with absence of inflationary pressure during most part of the year and a comfortable foreign exchange reserves position provided the necessary impetus for growth.

A favourable macro-economic environment has contributed to significant growth in the housing finance segment despite the pressure caused by the continuing fiscal deficit. and varying liquidity conditions and interest rate structures. The Union Budget for the year 2000-01 envisages to embrace the following aspects of growth in a focused manner:

- structured growth through emphasis on rural economy-agriculture and allied activities
- nurture the potential of knowledge-based industries
- strengthen and modernize traditional industries
- equip the economy to combat infrastructure bottlenecks in a sustained manner
- prioritise human resource development with special focus on the poorest and the weakest section of the economy
- impart sufficient credibility to the fiscal management to support the aggregate growth strategy

A freer trade regime, combined with a high level of food stocks and a high level of foreign exchange reserves, is expected to strengthen the supply side mechanism during the year. On the demand side, the budget stance of reining in the overall fiscal deficit is also expected to contribute favourably to augment the aggregate effective demand.

2.2 Monetary Policy & Change in the Rate of Interest

In view of the favourable environment RBI reduced the Bank Rate by 100 basis points during the year besides reducing the cash reserve ratio from 9% to 8% in April'2000. Following the policy measures of the Reserve Bank of India, most public sector banks announced a reduction in their lending as also their deposit rates. However, due to the pressure on the exchange rate of the ruppee vis-à-vis the US dollar , the RBI once again increased the Bank Rate by 100 basis points and the cash reserve ratio by 50 basis points in July'2000. This has resulted in the interest rates in the economy moving once again northwards.

2.3 Housing Situation in India

Based on the 1991 census, the National Buildings Organisation has estimated the shortage of housing by the year 2001 at 19.40 million units. In connection with the formulation of the 9^{th} Five year plan, sub group on Housing was appointed by the Panning Commission. The sub group has estimated an outlay of Rs. 1,50,000 crores for the housing sector with the formal sector's contribution at Rs. 38,000 crores, out of which Rs.26,600 crores is for urban areas and Rs.11,400 crores is for rural areas. This is, however, exclusive of Government's contribution of Rs.14,000 crores. The gross fixed capital formation (GFCF) in housing grew at 3% during the last year. The share of GFCF in housing as a proportion of GDP at current prices was 1.95% in 1998-99. The share of income from housing as a percentage of National Income at constant prices (Base 1993-94) was 7.1% in 1993-94 and it decreased to 6.2% 1n 1998-99.

2.4 Housing in the wake of Financial Sector Reforms

While the number of institutional outlets for housing credit has increased considerably during the last decade, volume of funds for the sector as a whole, accessibility of credit to the economically weaker sections and affordability continue to be critical aspects for the housing sector. In addition the housing finance companies have been increasingly exposed to varying opportunities accompanied by challenges in the wake of the ongoing process of economic reforms and financial sector deregulation.

In the wake of the financial sector reforms witnessing fluctuations during the year in the liquidity, fiscal and interest rate conditions, funds management (mobilisation and deployment) has been an area of concern. Regulation and refinance policies of NHB were pursued so as to inspire confidence among the stake holders and generate competition among the HFCs at the same time. While cost-effectiveness in mobilising resources will be the real cutting edge of the business of housing finance companies, their competitive rates of lending to the ultimate borrowers will determine their ability to serve the market and survive over the long haul in a progressively deregulated environment.

For a continued growth and expansion in borrowings at the retail level, mobilisation of funds is a critical issue. The trend towards dis-intermediation has brought into sharp focus the need to integrate sector-specific financial markets into a national capital market, and to broaden and deepen the capital market by increasing the variety of alternative instruments. The capital markets are fast emerging as the central pool of resources which the housing sector must be enabled to access. The policy of NHB seeks to achieve convergence of developments in the housing related sectors with the national economy.

2.5 Government as a Facilitator

Fiscal and monetary incentives are known to have positive bearing on housing sector particularly in developing economies, as they encourage participation of people and institutions at large in their various capacities, viz., savers, investors, lenders and borrowers for housing activities. The Government of India has been according significant priority to the housing sector in recent years. This has been reflected in the Union Budget for the years 1999-2000 & 2000-2001 where a number of fiscal and other measures were announced both for the providers and borrowers in the housing finance system. While the housing finance system is expected to evolve over a period of time through a number of specialised housing finance companies, the additionalities provided by the other financial institutions and commercial banks have substantially added to the capacity of the housing finance sector. As a result, a better integration of the housing finance system with the macro financial sector is expected to emerge in the longer run.

3. Developments in the Housing Sector

3.1 The recent thrust given by the Government to the housing and housing finance sector and the various fiscal concessions offered by the Government to the people have had the desired effect. The demand for housing has picked up. This is evident from the growth of housing finance disbursed by the housing finance companies.

3.2 The Union Budget for the year 2000-01 contains the following measures to encourage housing activities have been introduced:

- The provision of deduction of interest, on account of borrowed capital in the acquisition or construction of a house for self occupation, available under section 24(1)(vi) of the Income Tax Act,1961, has been increased from Rs.75,000 to Rs.1,00,000, provided the property was acquired or constructed with capital borrowed on or after 1.4.99 and the acquisition or construction completed before 31.3.2003.

- The ceiling on the amount eligible for rebate under Section 88 of the Act ibid, on the repayment of principal of housing loan, has been increased to Rs.20,000 from the earlier level of Rs.10,000.

- Exemption from Income Tax under section 54 F in respect of long term capital gains arising from the transfer of capital assets (not being a residential house) and invested in the manner prescribed is now available to an assessee, even if he already owns one house.

Besides the above, the Union Budget includes several measures in respect of rural housing. A goal of providing 25 lakh dwelling units in rural areas has been fixed. The following measures have been included in this regard :

(i) to provide more than 12 lakh houses under the Indra awas Yojana for people below poverty line.

(ii) to construct of 1 lakh houses for families with income below Rs.32,000 per annum, under a credit-cum-subsidy Scheme..

(iii) to increase the equity capital of HUDCO by Rs.100 crores

3.3 Amendment to the NHB Act

In the context of the larger outlay envisaged in the 9th five year plan and since accessibility of credit by the economically weaker sections and affordability continue to be the critical aspect of the housing sector and in the light of experience gained so far, there was a felt need to instill requisite thrust to the sector so as to enable it to respond better to the demands of a dynamic environment. In addition, in the context of establishment of a sound housing finance system, NHB has also been entrusted with responsibilities to regulate the deposit acceptance activities of housing finance companies (HFCs) under the NHB Act. The provisions of the NHB Act pertaining to regulation of the deposit acceptance activities of HFCs are analogus to the provisions contained in the Reserve Bank of India Act, 1934 concerning the regulation of non-banking financial companies (NBFCs). The RBI Act was amended in January 1997 strengthening the regulatory and control provisions. The NHB Act was, therefore, required to be amended on lines of amendment to the RBI Act. The National Housing & Habitat Policy and both the 8th and the 9th five year plans have focussed on the need to augment larger resources for the housing sector through asset securitisation. Further, the Housing & Habitat Policy has ascribed a lead role to NHB in initiating the process of mortgage securitisation and development of a secondary mortgage market. In order to enable NHB to set up appropriate institutional mechanism for this purpose, certain amendments to the existing Act were required.

A Bill to amend the NHB Act was introduced in the Rajya Sabha on March 16, 2000 and after it was considered and passed by both the houses of the Parliament, it received the assent of the President on May 24, 2000. The National Housing Bank (Amendment) Act has come into force from June 12, 2000.

The Amendments to the NHB Act can be broadly classified under four broad heads and these are discussed below:

3.3.1 Regulation of Deposit Acceptance activities:

Amendments have been carried out with a view to safeguard public interest. The important measures are as follows:

(i) Registration of HFCs - HFCs having net owned fund of Rs. 25 lacs or above would require compulsory registration for commencement or carrying on the business of housing finance.

(ii) Maintenance of liquid assets: HFCs are now required to invest/deposit and keep invested/deposited at least ten per cent (which can be increased to twenty five per cent) of the deposits in certain specified assets.

(iii) Creation of Reserve Fund: HFCs are now required to create a reserve fund and transfer in it every year at least twenty percent of their net profit before declaring any dividend. The fund can be appropriated only for the purposes specified by NHB.

(iv) Repayment of Deposits: Where a housing finance company has failed to repay any deposit, officer of the NHB authorised in this behalf by the Central Government shall have the power to order repayment of such deposits. Penalty proceedings can be initiated against a company, if it fails to carry out the said order.

(v) Nomination by depositors: The depositors of housing finance companies will now have the facility of nomination on the lines available to the depositors of scheduled banks.

3.3.2 Mobilisation of additional funds for housing through secondary market:

NHB has been authorised to purchase, sell, or otherwise deal in any loans or advances secured by mortgage or charge on the immovable property relating to scheduled banks or HFCs. NHB has also been allowed to create trusts and also to act as a trustee. To facilitate transfer of securities while undertaking this function, NHB has been exempted from compulsory registration under the Registration Act both at the time of issue of securities by NHB and at the time of their transfer by the investors. Further, in order to instill confidence among the investors in the securities issued by NHB, the Bank acting as a trustee or otherwise in the transaction relating to securitisation of loans has been authorised to recover the dues as arrear of land revenue.

3.3.3 Introduction of speedier recovery mechanism for housing loans:

To provide for introduction of a speedier recovery mechanism a new chapter has been added to the NHB Act. This chapter provides for appointment of officers of approved institutions as recovery officer, the procedures to make application to and hearings by such recovery officers and the procedure for promulgation and enforcement of orders by recovery officers. This chapter also proposes for establishment of appellate tribunal to hear appeals against the orders of recovery officers. The composition, qualifications for presiding officers, salaries, allowances and other terms and conditions of the presiding officers and the staff of appellate tribunals have also been specified.

3.3.4 Other Amendments

The amendment to the Act has enlarged the scope of lending for housing by NHB. NHB can now extend refinance assistance to agriculture and rural development banks instead of subscribing to the Special Rural Housing Debentures floated by these institutions. NHB can also grant financial assistance for housing or residential townships-cum-housing projects or slum clearance projects. The amended Act has also permitted NHB to undertake additional business activities like mortgage insurance and to set up mutual funds.

Considering the difficulty experienced by NHB in obtaining mortgage of the properties from its borrowing institutions, a simple method of creation of charge in favour of NHB by declaration has been provided for. Further any sums received by a borrowing institution in repayment or realisation of loans and advances financed or refinanced either wholly or partly by the National Housing Bank shall be to the extent of the accommodation granted by NHB and remaining outstanding, would be deemed to have been received by the borrowing institution in trust for NHB.

In terms of the amended Act, NHB can also borrow money from scheduled banks, financial institutions and mutual funds. Further NHB can also borrow money for a period less than 12 months.

The period of submission of annual accounts of NHB to RBI and the Central Government has been increased from 3 to 4 months after the completion of the financial year.

NHB was established with an authorised and paid-up capital of Rs. 100 crores which was fully subscribed and paid up by RBI. The said authorised capital was increased by the Central Government by Notifications from time to time to Rs. 350 crores. The additional increased capital was also paid by RBI. Due to increase in business in the last 10 years, and the expected increase in the scope of business of NHB, the Central Government can increase the authorised capital by means of notifications upto Rs. 2000 crores as against Rs. 500 crores prescribed earlier under the Act. In addition, the increase in share capital can be subscribed by the Central Government, scheduled banks, public financial institutions, HFIs and other institutions approved by the Central

Government, besides RBI. However, the share of RBI, Central Government and the institutions controlled by the Central Government cannot at any point of time fall below 51% of the paid-up capital of NHB. Simultaneously the Act has also been amended to provide for representation by institutions holding equity on the Board of NHB.

4. NHB's Operations

4.1 Resources

4.1.1 Capital

There was no change in the authorised and paid-up share capital of NHB, which stands at Rs.350 crores.

4.1.2 Profit

The Bank has earned a profit of Rs.83.69 crores during 1999-2000. This represents an increase of 43.01 per cent over the profit of 1998-99, which was Rs.58.52 crores.

4.1.3 Borrowings

During July 1999- June 2000, NHB raised resources to the tune of Rs.667.00 crore (rupee borrowing) from various sources as per details given below:

Borrowings of NHB 1999-2000

Nature	*Amount raised (Rs in crore)*
(i) Tax Free Bonds	150.00
(ii) Priority Sector Bonds (Taxable)	300.00
(iii) Counter-part rupee borrowing against the borrowing of US $ 50 million from Asian Development Bank (ADB)	217.00
TOTAL	**667.00**

A. INTERNAL BORROWINGS:

(i) Tax-Free Bonds:

The Government allocated to NHB **Rs.150 crore** under Tax Free Bonds during the year for financing 1,25,000 dwelling units under the Golden Jubilee Rural Housing Finance Scheme. The cumulative amount raised by the Bank under Tax Free Bonds has been Rs.550 crore as on June 30, 2000.

(ii) Taxable Bonds

NHB raised **Rs.300 crore** through issue of 11.70% Priority Sector Taxable Bonds having maturity of 8 years, with partial redemption of 40%, 30% and 30% at the end of

6th, 7th and 8th year, respectively and interest payable annually. The cumulative amount mobilised under Priority Sector Taxable Bonds as on June 30, 2000 was Rs.900.20 crore.

(iii) Loan from Asian Development Bank (ADB)

In order to augment long term funds for housing, particularly for low-income households, NHB was sanctioned a loan of US $ 100 million under the Housing Finance I Project of ADB. The first instalment of US$20 million was drawn in December 1997 and the second installment of US $ 30 million during the year 1998-99. During 1999-2000 NHB had drawn the balance amount of US $ 50 million. The counterpart rupee funds have been arranged through issue of Special Series Bonds in favour of Canara Bank under a structured arrangement entered into with them.

4.1.4 In respect of a sum of Rs 95.40 crores paid by NHB in the year 1991-92 to State Bank of Saurashtra (SBS) for purchase of securities, a suit was filed for recovery of the dues, since SBS did not admit its liability. The Special Court decreed the suit in favour of NHB last year and held SBS liable to return Rs 95.40 crores along with interest at 19%. During this year NHB received Rs. 236.78 crores from SBS, consisting of Rs.95.40 crore being the principal amount and Rs. 141.38 crore interest at the rate of 19% thereon.

4.1.5 During the year, sums aggregating Rs.163.83 crore of the borrowings fell due and were repaid.

4.2 Deployment

4.2.1 NHB provides financial assistance by way of refinance to primary lending institutions in respect of (i) housing loans extended by them to individuals and (ii) project finance extended by them to public agencies, professional developers, co-operative sector institutions and for rental housing. Besides, NHB also provides direct finance to public agencies in respect of land development and shelter projects. NHB also provides refinance and direct finance from a Special Fund (Slum Improvement and Low Cost Housing Fund) constituted under the NHB (Voluntary Deposit) Scheme, 1991.

The details of disbursements by NHB during the year 1999-2000 are given as under:

GENERAL FUND

(Rs. in crores)

Refinance Disbursals	1998-99	1999-00	Cumulative
a) Individuals	732.02	841.68	4981.21
b) Projects	14.99	0.00	234.50
Total	747.01	841.68	5215.71
Direct Finance Disbursal	14.76	40.74	62.63
Total disbursals from General Fund	761.77	882.42	5278.34

SLUM IMPROVEMENT & LOW COST HOUSING FUND

Refinance : Projects	11.29	0.00	11.29
Direct Finance : Projects	1.21	9.76	24.50

Total	12.50	9.76	35.79

4.2.2 Refinance

(a) During the year 1999-2000, the disbursement of refinance reached Rs.841.68 **crores** as compared to Rs. 747.01 **crores** in the previous year showing an increase of 12.67 %. With this the cumulative refinance disbursed by NHB crossed Rs.5000 crore mark and stood at Rs. 5215.71 crores. Details of disbursements are as under:

[Rs. in crores]

Institutions	Amount disbursed during the previous year (July'98 to June'99)	Amount disbursed during the current year (July'99 to June'2000)	Cumulative disbursements upto June 30, 2000
Scheduled Banks	38.76	2.40	239.98
Co-operative Sector Institutions	163.09	187.81	926.18
Housing Finance Companies	545.16	651.47	4049.53
Total	747.01	841.68	5215.69

(b) While there has been an increase in disbursements to the Housing Finance Companies and the Co-operative Sector Institutions, the disbursement to the Scheduled Banks was low because of their access to alternative resources at a lower cost.

(c) During the year there was only one bank to avail itself of the refinance facility from NHB to the tune of Rs. 2.40 crores.

(d) The housing finance companies however, continued to avail themselves of the major share of NHB's refinance absorbing 77.40% of the total refinance released during 1999-2000 amounting to Rs.651.47 crores. HFCs share of Rs. 4049.53 crores in the cumulative refinance of Rs. 5215.69 crores till 30th June, 2000 also amounted to 77.64%.

(e) The disbursal of Rs. 187.81 crores made by NHB to the co-operative sector institutions during 1999-2000 constituted 22.31% of the total refinance disbursed during the year. This was inclusive of Rs. 109.60 crores disbursed to the Apex Co-operative Housing Finance Federations and Rs. 78.22 crores to the Agricultural and Rural Development Banks (ARDBs) in respect of their lending for rural housing by subscribing to Special Rural Housing Debentures (SRHDs) issued by them. The share of the co-operative sector institutions in NHB's cumulative refinance till 30th June, 2000 stood at 17.76 %.

(f) The entire amount of refinance disbursed during 1999-2000 was in respect of individual loans only.

4.2.3 Project Finance

NHB has been extending financial assistance for projects out of the General Fund as well as from the Special Fund created out of the proceeds of the Voluntary Disclosure Scheme, either directly or by way of refinance. NHB has so far sanctioned 282 projects under its various project finance schemes both direct as well as through the refinance window. During the year NHB disbursed Rs.50.50 crores (including the amount lent from the special fund) in respect of 14 projects. Cumulatively, till the end of June'2000 NHB has disbursed Rs.332.90 crores under this scheme.. Brief details of the funding under the general fund and the special fund are given below:

A. General Fund

During the year, out of the General Fund NHB disbursed a sum of Rs.40.74 crores in respect of 10 projects directly to the eligible institutions. The cumulative disbursal under this head is Rs. 62.63 crores in respect of 19 projects

B. Special Fund

NHB sanctioned 4 projects during the year out of this fund and released a sum of Rs.9.76 crores. Till the end of June'2000 NHB has sanctioned 35 projects under this fund and has disbursed a total of Rs.24.50.

4.3 Asset-Liability Management (ALM)

4.3.1 With the liberalisation of the Indian financial markets over the last few years and growing integration of domestic markets with external markets, the risks associated with the operations of financial institutions (FIs) have become complex. The FIs are exposed to several risks in the course of their business, generally classified as credit risk, market risk and operational risk, which underlines the need for effective risk management systems. Accordingly, RBI issued ALM guidelines in December, 1999 for FIs to address the asset liability mis-match risks in a structured manner by upgrading the quality of their risk management systems. As per these guidelines, there should be a formalised framework for management of risk through measuring, monitoring and managing liquidity, exchange rate and interest rate risks that need to be closely integrated with the FI's business strategy.

4.3.2 As per the RBI guidelines FIs are required to have an Asset Liability Committee (ALCO). Accordingly, NHB constituted ALCO. This committee performs the following functions:

- (i) monitor the market risk levels of the institution by ensuring adherence to the various risk-limits set by the Board;
- (ii) decide the business strategy based on the interst rate movements in the market;
- (iii) determine the desired maturity profile and mix of the assets and liabilities;
- (iv) product pricing - for both assets as well as liabilities side
- (v) deciding the funding strategy;

(vi) reviewing the results of and progress in implementations of the decisions of this committee.

5. NHB's Activities

Policy Changes

5.1 Changes in the Refinance Policy

5.1.1 Considering the fact that the recovery of dues of ARDBs from their borrowers is dependant on account of seasonality of income in the rural areas and on the monsoon-oriented agricultural conditions, the maturity period of SRHDs floated by ARDBs for subscription to SRHDs of State Co-operative Land Development Banks was extended by 1 year in excess of the weighted average period of housing loans, subject to a maximum maturity period of 15 years.

5.1.2 The refinance released to HFCs till now was subject to the HFCs having an overdue percentage of not more than 5%. It was however felt that though overdue level indicates collection efficiency, it does not truly reflect the quality of income generating assets. In order to overcome this, an additional norm of net non performing assets (NNPAs) to risk weighted assets with respect to the HFCs has been introduced. The maximum stipulated overdue level for more than 3 months as a percentage of the aggregate demand for the year has correspondingly been revised to 10% from the existing level of 5%. Besides the overdue norm, the NNPA as a percentage of risk weighted assets should not be more than 5%.

5.1.3 Due to the increase in the cost of construction in both rural and urban areas and the increase in the ceiling of housing loans under priority sector to Rs.5.00 lakhs in the rural areas and Rs.10.00 lakhs in urban areas, the loan size for refinance under the Golden Jubilee Rural Housing Refinance Scheme was revised upwards from Rs.2 lakhs to Rs.5 lakhs for all eligible institutions. The maximum individual loan size eligible for refinance in respect of Regional Rural Banks has also been revised from the existing limit of Rs.1.00 lakh to Rs.5.00 lakhs. In respect of individual housing loans for Primary [Urban] Co-operative Banks and Scheduled State Co-operative Banks, the maximum loan size eligible for refinance has been revised to Rs.10.00 lakhs per individual.

5.2 Changes in Project Finance Guidelines

5.2.1 Financial assistance is extended to various agencies in accordance with the guidelines formulated for project finance. These guidelines are reviewed from time to time with a view to adapting these to the changing needs of the market. Based on the feed back received from various agencies, guidelines for financial assistance, both under refinance as well as direct finance windows, in respect of Land Development and Shelter Projects (LDSP), Housing Infrastructure Projects (HIP) and Slum Redevelopment Projects (SRP) pertaining to public agencies were revised during the year.

5.2.2 In case of SRP, loans at 8% rate of interest shall now be available for loan slab upto Rs.50,000 per dwelling unit and at 11% rate of interest between Rs. 50,001 and Rs. 1 lakh per dwelling unit.

Interest rate changes

5.3 Revision in Rates of Interest on Refinance in respect of Loans to Individual Borrowers

The interest rate structure was revised twice during the year in order to keep in tune with the declining trend in the interest rates in the economy. Compared to the interest rates prevalent as on 30th June, 1999, the rates for refinance in the loan slab of Rs.5,00,001 to Rs.10,00,000/- have been reduced by as much as 125 basis points. There has also been a reduction in interest rates in the other loan slabs. The interest rates structure effective from 1 April, 2000 is as under :

Housing Loans	**Rural**	**Urban**
[Rate of Interest per cent per annum to be charged by NHB to Primary Lending Institutions]		
For construction or acquisition of new dwelling units		
Up to Rs.50,000	10.00	11.00
Rs. 50,001-Rs.2,00,000	11.75	12.00
Rs.2,00,001 to Rs.5,00,000	12.00	12.00
Rs.5,00,001 toRs.1,00,000	**12.00**	**12.00**
For upgradation/major repairs		
Up to Rs.50,000	10.00	11.00
Rs.50,001 to Rs.1,00,000	12.00	13.00

5.4 Rates of Interest for Project Finance

In keeping with the general interest rate scenario in the country, the interest rates applicable to the different project financing schemes both under refinance and direct lending windows, were also revised downwards during the year.

5.5 Recovery

An amount of Rs. 705.91 crores, representing principal and interest, which fell due from various primary lenders, viz. scheduled banks, co-operative sector institutions and housing finance companies during the year has been recovered in full and accordingly, the overdue position and net NPA as on 30th June, 2000 was “nil”.

5.6 Promotion and Development

5.6.1 As a part of its promotional policy, NHB subscribes to the equity of the approved Housing Finance Companies. During the year 1999-2000, NHB subscribed the additional equity of two housing finance companies as under:

Name of HFC	**Additional shares subscribed by the Bank**	**Amt. Invested for additional subscription (Rs)**	**Total shares subscribed by the Bank**	**Total Investment (Rs)**

BOB Hsg. Fin. Ltd., Jaipur	24,34,200	2,43,42,000	49,34,200	4,93,42,000
Andhrabank Hsg. Fin. Ltd., Hydrabad	23,32,000	2,33,20,000	42,32,000	4,23,20,000

5.6.2 Housing finance being capital intensive and low spread business, HFCs having smaller capital have been facing difficulties in a falling interest rate regime. As a result, consolidation of the HFCs is on the cards and the process of merger/acquisition has commenced. While this is happening on the one hand, a few large industrial houses in the country have set up HFCs as their subsidiaries.

5.6.3 The Bank had subscribed the equity share capital of three Building Material Companies (BMCs). Taking into consideration the financial position and functioning of these BMCs the Bank decided to disinvest its subscription in these companies. Promoters of one of these companies have since paid the agreed amount towards buy-back of equity shares held by the Bank.

5.6.4 With a view to impart better coordination between the housing finance companies and the regulatory body, NHB has been organising meeting with the CEOs of the HFCs approved by it for refinance assistance. 13^{th} meeting of CEOs was held on February 4, 2000 at New Delhi wherein issues of mutual interest were discussed.

5.6.5 During the year NHB signed an agreement of cooperation with Canada Mortgage & Housing Corporation, a crown corporation established and owned by the Government of Canada. The cooperation will be in areas related to housing and housing finance which will include mortgage insurance and development of innovative debt instruments for funding housing activities. The general areas of cooperation will include mortgage insurance, mortgage backed securities, regulatory and supervisory framework for housing finance system, rating/registration of builders, role of mortgage banks, development of secondary mortgage market, product development & marketing, capacity building and development of market-oriented initiatives for the housing finance system.

5.6.6 The International Finance Corporation (IFC), an affiliate of the World Bank had approached NHB seeking assistance in the execution of their Technical Assistance (TA) programme in Bangladesh and Sri Lanka. The proposal emanated from an arrangement between the IFC and the Export-Import (Exim) Bank of India under which the Exim bank promotes utlisation of Indian consultants for various IFC supported facilities/programmes. The Bangladesh study has since been completed.

5.7 Regulatory & Supervisory Function

5.7.1 Guidelines on Prudential Norms applicable to HFCs

NHB modified some of the provisions of the Guidelines. A brief summary of the amendments is given below:

a. ***Income recognition and provisioning norms in respect of lease and hire-purchase assets***

Lease and hire purchase assets will be treated as NPA where lease rentals/hire purchase installments are 'past due' for twelve months (instead of six months). Also, separate provisioning norms have been prescribed for lease/hire purchase assets.

b. ***Accounting for Investments***

Valuation norms for different kinds of investments, viz. quoted current investments, unquoted current investments, quoted long term investments, and unquoted long term investments are being prescribed. In particular, valuation norms for unquoted equity shares and preference shares and also for ICDs have been prescribed.

c. ***Asset Classification: Reschedulement***

The waiting period for upgrading an asset in respect of which terms of the loan agreement regarding interest and principal have been re-negotiated or rescheduled is reduced from two years to one year. Board of Directors of HFCs have been advised to issue necessary policy guidelines for reschedulement of loans specifying the circumstances in which reschedulement is permissible and the conditions to be stipulated while permitting reschedulement. The relaxation to the effect that an asset may be treated as standard if the installments of the principal amount are rescheduled with due consent of the board of the concerned HFC, has been withdrawn.

d. ***Capital Adequacy Norms: Tier I Capital***

Definition of Tier I capital has been modified to include preference shares which are compulsorily convertible into equity. Preference shares other than those compulsorily convertible into equity would come under Tier II capital.

e. ***Minimum Requirement of Capital Funds***

The HFCs have been "advised to achieve a capital adequacy ratio of 10 percent on or before March 31, 2001 and 12 percent on or before March 31, 2002.

f. ***Risk Weighted Assets***

Risk weights assigned to investments made in bonds of public sector banks and fixed deposits/certificates of deposits/bonds of public financial institutions and units of UTI have been reduced from 100% to 20%.

g. ***Concentration of Credit/Investment***

Ceiling of 15% of owned funds for investment in shares of another company and 25% for investment in shares of a single group of companies has been prescribed. In addition, ceilings for credit and investment taken together have also been prescribed.

h. ***Disclosure in Balance Sheet***

HFCs are required to disclose in the balance sheet the provisions made for depreciation in investments and for sub.-standard, doubtful and loss assets separately in respect of housing loans and non-housing loans.

i. ***Loans against Own Shares***
A new provision asking the HFCs not to lend against their own shares has been introduced. As a consequence of amendment of NHB act, NHB has been empowered to issue directions on these matters which shall have a statutory effect.

5.7.2 Relaxation in credit rating requirement for acceptance of Deposits by HFCs

HFCs have been permitted following relaxations under paragraph 17 of the Directions:

- An HFC not having the minimum required credit rating can accept public deposits upto 2 times of its net owned fund or Rs. 10 Crores, whichever is lower, (including any amount remaining outstanding in its books as on the date of acceptance or renewal of such deposits), subject to the following conditions:

i. It shall comply with all the prudential norms as contained in the Guidelines on Prudential Norms issued by NHB and as amended from time to time.
ii. The capital adequacy ratio as per the last audited balance sheet of the HFC shall not be less than 15%
iii. The HFC has been issued certificate of registration in terms of paragraph 3A of the Directions which has not been canceled by NHB or HFCs existing as on September 17, 1997 have applied for registration and the application is pending consideration with NHB.

5.7.3 The format of the Schedule HFC.DIR-1 has been revised to take into account the modifications made earlier in the Directions.

5.7.4 Mailing List

During the year, 8 new companies were added and 21 HFCs were deleted from the mailing list of HFCs maintained by NHB. As on June 30, 2000, there were 340 HFCs on the mailing list of NHB.

5.7.5 Show Cause Notices and Prohibitory Orders:

During the year, three HFCs were issued show cause notice for the contravention of various provisions of the Housing Finance Companies (NHB) Directions, 1989. The total number of HFCs prohibited by NHB from accepting / renewing public deposits till June 30, 2000 stood at 32.

In terms of the National Housing Bank Act, 1987, NHB was given powers to regulate the deposit acceptance activities of the HFCs. NHB has issued the Housing Finance Companies (NHB) Directions, 1989 which specify the conditions for accepting deposits. These relate to the interest rate payable on deposits, maturity period of deposits, credit rating of deposit instruments, quantum of deposits that can be accepted and compliance with the Advertisement Rules. When instances are observed of housing finance companies (HFCs) not complying with any of the provisions of the Directions issued by NHB particularly in respect of repayment to depositors/complaints by depositors, action in terms of Section 31 (4) of the NHB Act, 1987 is initiated. This includes the issue of show cause notice prohibiting the errant companies from accepting deposits from the public and publishing particulars of such companies in various national and regional newspapers in the interest of public awareness. The powers to deal with such cases have recently been strengthened with the passing of the National Housing Bank (Amendment) Act, 2000.Under Section36 A of the Act, an "authorised officer" of NHB, who may be notified in this behalf by the Central Government, can order repayment of deposits in case of default by HFCs. Besides under Section 33 B of the Act, if continuance of a housing finance company is detrimental to the public interest or to the interests of the depositors, the National Housing Bank can file an application for winding up of the company (See Box).

5.7.6 On-site and Off-site Supervision

Thirty HFCs were inspected during the year to assess their health and verify their compliance with the Directions and Guidelines on Prudential Norms. The short comings observed during the course of inspections were communicated to the concerned HFCs for rectification. Prescribed statutory returns and other information were obtained from the reporting HFCs and the same were scruitnised/ analysed, with emphases on ensuring compliance by the /HFCs with Directions and Prudential norms.

The National Housing Bank (Amendment) Act, 2000-
modifying the regulatory role of NHB

Regulation of deposit-taking activities of housing finance companies (HFCs) is a statutory responsibility of the National Housing Bank (NHB). The NHB (Amendment) Act, which has come into force on 12th June 2000, has given additional powers to NHB in respect of its regulatory functions. Relevant features of the Act having a bearing on the regulatory role of NHB are as follows :

a. *Requirement of registration and net owned fund (Section 29A)*

No HFC with NOF of 25 lakhs and above, shall commence or carry on the business of a housing finance institution without obtaining a certificate of registration from NHB. Existing companies shall make an application within six months and may continue the business until the application is rejected. Existing HFCs having NOF below Rs. 25 lakhs have been allowed to carry on the business for three years for the purpose of enabling them to fulfill the requirement of the NOF.

b. *Maintenance of percentage of assets (Section 29B)*

The requirement of maintaining liquid assets as a percent of the outstanding deposits has been made a part of the Act.

c. *Reserve fund (Section 29C)*

The newly inserted section stipulates that every HFC shall create a reserve fund and transfer at least 20% of its net profit to the fund every year. No appropriation from the reserve fund can be made except for the purpose as may be specified by NHB and every such appropriation should be reported to NHB within 21 days.

d. *Power to determine policy and issue directions (Section 30A)*

NHB has been given power to determine the policy and give directions to housing finance institutions relating to income recognition, accounting standards, provision for bad and doubtful debts, capital adequacy and also deployment of funds. Issue of directions on prudential norms in supercession of the existing guidelines is being contemplated.

e. *Powers and duties of auditors (Section 33)*

NHB may issue directions to any HFI or to the auditors of HFIs relating to balance sheet, profit and loss account, disclosure of liabilities in the books of accounts, etc. NHB may direct that a special audit of a HFI in relation to any transaction/any period shall be conducted and may appoint an auditor for such special audit.

f. *Power to prohibit acceptance of deposit and alienation of assets (Section 33A)*

NHB may prohibit any housing finance institution from accepting deposit if it violates the provisions of any section or fails to comply with any direction or order given under any provision of chapter V of the NHB Act. NHB may also direct an HFC against which an order prohibiting from accepting deposit has been issued not to sell, transfer, create charge or mortgage or deal in any manner with its property and assets without prior permission of the Bank for a period not exceeding six months.

g. *Power to file winding up petition (Section 33B)*

NHB may file an application for winding up of a housing finance company under the Companies Act, if it is satisfied that the company is unable to pay its debt, or has become disqualified to carry on business by virtue of section 29A, or has been prohibited from accepting deposits and the prohibitory order has been in force for at least three months, or the continuance of the company is detrimental to public interest or to the interest of the depositors.

h. *Power to order repayment of deposit (Section 36A)*

If an HFC fails to repay a deposit in accordance with the terms and conditions of the deposit, an authorised officer of NHB may, either on his own motion or on any application of the depositor, direct the HFC to make repayment of the deposit.

i. *Nomination by depositors (Section 36B)*

A Depositor of a housing finance institution may nominate one person to whom the amount of deposit may be returned by the institution in the event of the death of the depositor. The nomination shall be made in the manner prescribed by the rules made be the Central government under section 45 ZA of the Banking Regulation Act, 1949.

5.8 Golden Jubilee Rural Housing Finance Scheme

5.8.1 The Golden Jubilee Rural Housing Refinance Scheme was launched for provision of institutional credit to individuals desirous of constructing/acquiring new dwelling units and for improving or adding to existing dwelling units in rural areas. The eligible institutions are Agriculture Rural Development Banks (ARDBs), State Level Apex Co-operative Housing Finance Societies (ACHFS), Regional Rural Banks (RRBs), Scheduled Commercial Banks, Scheduled State Co-operative Banks and housing finance companies.

5.8.2 The target of financing 50,000 dwelling units under the captioned scheme during its first year of operation (1997-98) , 1,00,000 dwelling units during the second year (1998-99) were achieved. The achievement of the Scheme for the year 1999-2000 also exceeded the enhanced target of financing 1.25 lakh units for the year. Encouraged by the continued success of the Scheme , the target for the financial year 2000-2001 has been increased to financing 1,50,000 dwelling units. Details of the targets and achievements for last 3 years and also the targets for 2000-2001, for the HFCs, Banks and Co-operative Sector Institutions, are as follows:

	1997-98		1998-99		1999-2000		2000-01
	Target	Achieved	Target	Achieved	Target	Achieved	Target
HFCs	18900	23289	38900	35266	60000	77389	75000
Banks	30000	11146	50000	25951	50000	37786	65200
Cooperatives	1100	16837	11100	64514	15000	26188	9800
TOTAL	50000	51272	100000	125731	125000	141363	150000

5.9 Training

5.9.1 As a part of it's promotional role, NHB provides training assistance with a view to render a greater thrust to larger human resource development in the sector. Towards this objective NHB has taken a number of initiatives to meet the growing training needs of the sector. NHB's endeavour has been to design and conduct training programmes for the personnel of primary lending agencies engaged in providing housing finance, viz. HFCs, Scheduled Banks, ARDBs, ACHFS, Housing Boards, etc. in specialised areas relating to housing finance.

5.9.2 During the year, six training programmes were designed and conducted by NHB for the various institutions active in the housing sector viz., HFCs, banks, co-operative sector institutions, state housing boards and development authorities. The programmes ranged from orientation programmes on housing finance to specialised programmes on new developments in the housing sector. The Bank also organised an induction programme for the newly recruited officers of the Bank.

5.9.3 NHB also extended support by way of programme design and faculty assistance to such institutions in respect of their own training efforts in the field of housing finance.

5.9.4 Besides these, NHB provided financial support to the National Co-operative Housing Federation of India (NCHF) for conducting four training programmes and one seminar on housing finance for the officials of the various Apex Co-operative Housing Finance Societies (ACHFS). Financial support was also provided to the National Centre for Management Development in Agriculture and Rural Development Banking (NCMDARDB) for conducting two training programmes for the officials of co-operative institutions and banks operating in the rural areas.

5.10 Organisation:

5.10.1 Change in Incumbency of Directors :

Section 6(1) (c)

Shri G.I.Patel, ex-Chairman of National Co-operative Housing Federation of India (NCHF) who was appointed as Director on the Board of NHB passed away on 8th December, 1999.

Section 6(1)(e)

Shri S.S. Chattopadhyay, Secretary, Ministry of Urban Employment & Poverty Alleviation in place of Shri Ashok Pahwa , w.e.f. December 6, 1999.

Shri Devi Dayal, Special Secretary, Ministry of Finance, Banking Division in place of Shri C.M.Vasudev, w.e.f. July 22, 1999.

Section 6(1)(f)

Shri Vishwas S. Dhumal, Secretary, Housing & Special Assistance, Govt of Maharashtra in place of Shri Govind Swarup, w.e.f. December 17, 1999.

5.10.2 Board meetings

The Board of Directors of the Bank met four times during the period from July 1999 to June 2000.

5.10.3 Meetings of the Executive Committee of Directors

The Executive Committee (EC) of Directors of the Bank met twice during the between July 1999 and June2000.

5.10.4 Audit Committee

An Audit Committee of the Directors has been constituted during the year having four members from the Board of Directors of the Bank. The functions of the Audit Committee broadly are to oversee financial reporting process, review annual financial statements, reviewing the adequacy of the internal audit system, reviewing the findings of investigations, discussion with external auditors, reviewing financial and risk management policies.

5.10.5 Compliance with RBI Directions and Prudent Policies

RBI as the central monetary authority has laid down norms to be followed by FIs and refinancing institutions including NHB. These relate to income recognition, asset classification and provisioning and capital adequacy. NHB has been complying with these in letter and spirit. RBI has introduced Financial Institutions' Information System (FIIS) for the purpose of prudential supervision of FIs. These relate to such aspects as solvency, capital adequacy, asset quality/ portfolio, risk profile, concentration of exposures and connected or related lending in such FIs. This has ensured closer monitoring of the working of the FIs, which includes NHB. Besides, NHB has evolved its own exposure norms in respect of refinance to different primary lenders.

5.10.6 Evidence before the Standing Committee of Parliament on Finance

The Standing Committee of Parliament on Finance desired the CMD of NHB to appear before it for presentation on June 23, 2000. CMD presented before them the current housing scenario as well as the problems being faced by the sector.

5.10.7 Staff-strength

During the year, the Bank did not undertake any fresh recruitment exercise for appointment of officers. The total strength of officers in the Bank as at the end of the June 30, 2000 stood at 79 as against 83 at the close of previous year.

5.10.8 SC / ST / OBC (compliance with reservation policy)

The police of the Government of India regarding compliance of matters relating to reservation policy has been strictly adhered to by the Bank. A cell under a liaison officer has been functioning in the Bank. In accordance with the directions of the Government of India, the Bank's vacancy based rosters were revised to post based rosters.

5.11 Rajbhasha

5.11.1 In continuance with its tradition, NHB continued to accord high priority to the Official Language Policy and Programmes and intensified its efforts to make Hindi as the language of internal functioning. NHB has been constantly following Official Language Policy of the GOI.

5.11.2 A number of several special activities were conducted to commemorate 50th anniversary of recognition of Hindi as Official Language in the Constitution of India.

5.11.3 The Bank celebrated the "Hindi Chetna Month" from 16 August, 1999 to 14 September,1999 wherein different competitions & a Seminar on "use of Hindi" were held and 16 officers were awarded prizes. Besides, two officers were awarded under the Hindi Incentive Scheme. The Bank has introduced an inter-departmental Rajbhasha

Running Trophy to develop a healthy Hindi atmosphere in the Bank and this trophy is granted to the Department which does the maximum work in Hindi.

5.11.4 During the year, two Hindi Workshops were organized from which 21 officers were benefited.

5.11.5 As per instructions from Indian Banks' Association, the Bank organized "Hindi Vyakaran Gyan Pratiyogita" on 31st January, 2000 at all India level for all banks & financial institutions(FIs) and 4 officers/employees from various banks/FIs were awarded. Similarly, under the aegis of Delhi Bank Official Language Implementation Committee, NHB organized "Hindi Ashu Chitra Lekhan Pratiyogita" on 28th April, 2000 for all banks & FIs located in Delhi.

5.11.6 As in the past, NHB regularly participated in the meetings organised by the Banking Division, Ministry of Finance, the Reserve Bank of India and the Delhi Bank Official Language Implementation Committee. Similarly, meetings of the Departmental Official Language Implementation Committee were also held regularly in every quarter to oversee implementation of Official Language Policy in the Bank.

6. Recent Initiatives

Securitisation

6.1 Housing is a basic human need. In view of severe resource constraint existing in the formal financial system the task of providing shelter for all has proved to be a formidable challenge. Capital deficiency and limited flow of funds have caused the housing shortage to grow alarmingly over the years. Since the number of specialised institutions engaged in housing finance business is increasing resulting in a quantum jump in the volume of lending, a sustained and regular flow of funds into the sector is of paramount need. In our country the capital market is fast emerging as the central pool of resources which the housing sector must be enabled to access. Securitisation thus offers a viable alternative source for mobilisation of resources for housing.

6.2 In developed financial markets, securitisation has been a popular instrument for financing and helps in mobilising large volume of funds at relatively cheaper cost through the process of integration with the capital market. In a regulated housing finance system like ours too, securitisation has assumed considerable importance on account for variety of reasons. While on one hand, it facilitates tapping of household savings and channelising them to the housing finance sector, on the other hand it helps in making more funds available for mortgage lending. It also helps the HFIs in reducing asset-liability mismatches and in meeting capital adequacy norms and is expected to improve the inter-sectoral and inter-regional flow of funds for housing and make housing loans more affordable

6.3 The opportunity of recycling of funds provided by the process of securitisation can be considerably made use of for meeting the growing demand of funds by the various sectors of the economy. It is thus a potentially viable market oriented alternative for mobilisation of resources for housing.

6.4 NHB has taken up a pilot project for securitisation of housing loans originated by Housing Development Finance Corporation (HDFC) and LIC Housing Finance Limited. The aggregate size of the pool of housing loans being securitised amount to Rs. 135.00 crores. Out of the above amount, an amount of Rs. 103.00 crores shall be issued as mortgage backed securities (in the form of pass through certificates) for subscription to by the investor institutions.

6.5 The above loan portfolio has been picked up from the four states of. Maharashtra, Gujarat, Tamil Nadu and Karnataka. This has been done in view of reduction in stamp duty on the instruments of securitisation by these State Governments.

6.6 The transaction of securitisation involves assignment of retail housing loans from the HFCs to NHB. The loans, repayable in equated monthly instalments (EMIs), are repackaged and offered to investors by NHB as tradeable securities in the form of Pass Through Certificates (PTCs). The PTCs are in the nature of trust certificates and represent proportionate undivided beneficial interest in the pool of housing loans. The housing loans which constitute the receivables securitised, are to be held by a Special Purpose Vehicle in the nature of a trust, declared by NHB.

6.7 Support to Mortgage backed securitisation is a major policy initiative of the Government of India as manifested in its National Housing and Habitat Policy announced in 1998. NHB, as the country's apex institution in housing finance sector, has been making efforts for putting in place the appropriate institutional and operational mechanism for the development of a secondary mortgage market (SMM) in the country. The issue of MBS will help develop a secondary market for such instruments in the country.

6.8 The above transaction of mortgage backed securitisation will help the seller of housing loans i.e. the HFC raise resources from the capital market and lend again for housing. Thus, resources for housing can be multiplied and augmented for the housing sector. Hence, the total amount raised through this channel will augment the lendable resources of the HFC concerned.

7. Assessment and Prospect

7.1 The housing finance disbursed by the 29 HFCs approved by NHB for refinance support has witnessed a growth rate of about 25% on an average during the last four years. Assuming that this trend would be maintained this year also, the disbursement by these companies should reach a level of around Rs.12,000 crores during the year 2000-2001. The growth of disbursements during the first quarter of the year has been higher than the growth witnessed during the corresponding period of the previous year.

7.2 The housing finance system forms a part of the general finance system and therefore, the happenings in the general financial system has its impact on the housing finance system, albeit with a lag. The recent policy announcements by RBI increasing the Bank rate and the cash reserve ration in the wake of the continued pressure on the rupee in the forex market has led to an increase of 50 to 75 basis points in the prime lending rate of the banks. Normally in the second half of the year, the demand for funds goes up. This coupled with a fact that the Government is yet to complete its open market borrowing programme, could pose pressure on the interest rates and the interest rates are likely to firm up only during the remaining part of the current fiscal. This will have an impact on the interest rate on the housing loans.

7.3 The inflation rate which has shown an increasing trend during most period of the first quarter of the current year (April to June) is still below the level what it was two years back. In the real estate market, the prices have stabilised now to attract genuine buyers. As such there is greater demand for properties including residential properties. To ensure that the increase in demand does not lead to increase in prices, the supply side has to be toned up. This will ensure that the genuine buyers are not priced out.

7.4 The level of non-performing assets(NPAs) in the housing finance sector is low as compared with the levels in the financing of other activities. However in view of the low spreads available in the housing finance business, the housing finance institutions need to ensure that there is no increase in the level of NPAs. An easier method to recover the loans from defaulters has been evolved through an amendment to the National Housing Bank Act, 1987 and it is expected that the system would be in place during this year.

7.5 As the business level expands, the risks associated with the business also increases. The housing finance institutions are exposed to credit risk much more than the other financing institutions in view of the special characteristics associated with it. Similarly, they are also faced with the serious problems of asset-liability mismatch and the resultant interest rate and liquidity risks. Therefore, the efforts of all the housing finance institutions should be towards establishing a sound risk management systems.

7.6 The National Housing Bank (Amendment) Act 2000, has widened the scope of the activities of NHB. Accordingly, NHB is proactively planning the additional activities under the amended Act. As mentioned elsewhere in the Report, NHB will be striving to create a market for mortgage backed securities and secondary mortgage market in the country.