

Activities during the quarter

In a nutshell

Nos of HFCs registered with NHB	44
With permission to accept deposits	22
Without permission to accept deposits	22
Refinance Disbursements for the year (till 15-03-06)	Rs. 3556.57 crore
Refinance Outstanding (as on 15-03-2006)	Rs. 14487.72 crore
Disbursements for Housing Projects for the year (till 23-03-06)	Rs. 301.00 crore
Outstanding under Project Finance (as on 23-03-2006)	Rs. 460.00 crore
Capital Gain Bonds subscribed (till 16-03-2006)	Rs. 9257.86 crore

Regulation & Supervision of Housing Finance Companies

HFCs registered under NHB Act:

As on 17.03.2006 there were 44 registered Housing Finance Companies. Out of these, 22 HFCs have Registration Certificate with permission to accept public deposits. Registration earlier granted to one company (SICOM Housing Finance Ltd) was cancelled during the quarter bringing the number of HFCs registered with NHB and having permission to accept public deposits to 22 from 23 of last quarter.

A fresh Certificate of Registration was issued to India Bulls Housing Finance Ltd. The company has been granted registration without permission to accept public deposits U/S 29 A of the NHB Act.

Housing Finance Companies (NHB) Directions, 2001:

EXPOSURE TO REAL ESTATE SECTOR

The lendings by the Housing Finance Companies (HFCs) to the real estate sector have constantly been engaging our attention. While the development of real estate is welcome, there is a need for the HFCs to curb the excessively risky lending by exercising selectivity and strengthening the loan approval process. In this regard, NHB has advised all HFCs that while appraising loan proposals involving real estate, HFCs should ensure that the borrowers should have obtained prior permission from Government/Local Government/Statutory Authorities for the project, wherever required. In order that the loan approval process is not hampered on account of this, HFCs have been informed that while the proposals could be sanctioned in the normal course, the disbursements should be made only after the borrower has obtained the requisite clearances from the Government authorities.

ROTATION OF PARTNERS OF THE STATUTORY AUDITORS OF A HFCs WITH PUBLIC DEPOSITS/DEPOSITS OF RS 50 CRORE AND ABOVE

The need for good corporate governance has been gaining increased emphasis over the years. Globally, Companies are adopting best corporate practices to increase the investors confidence as also that of other stakeholders. Scrutiny of the books of account conducted by auditors rotated periodically would add further value in strengthening corporate governance.

In this context, for HFCs with public deposits/deposits of Rs 50 crore and above, it would be desirable if there is a prior stipulation for rotation of partners of audit firms appointed for auditing the company. The partner/s of the Chartered Accountant firm conducting the audit could be rotated every three years so that same

partner does not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated will be eligible for conducting the audit of the HFCs after an interval of three years, if the HFC, so decides. This can be done by incorporating appropriate terms in the letter of appointment of the firm of auditors.

Financing Activities

Refinance

The Bank has disbursed an amount of Rs.3556.57 crore till 15-03-2006 under the Regular refinance scheme. The performance under the Golden Jubilee Rural Housing Refinance Scheme was Rs.1383.52 crore. The refinance disbursed to various categories of primary lending institutions is as under:

(Rs in crore)

	From 01-01-2006 to 15-03-2006		During 2005-06 upto 15-03-2006	
	Total	Under GJRHRS*	Total	Under GJRHRS
HFCs	406.85	191.83	806.57	533.52
Banks	800.00	100.00	2750.00	850.00
Total	1206.85	291.83	3556.57	1383.52

* Golden Jubilee Rural Housing Refinance Scheme.

In addition, the Bank disbursed an amount of Rs.222.70 crore under the short term scheme for HFCs till 19-01-2006.

Revision in the Interest Rate for Refinance

NHB increased its interest rates on refinance by

25-50 basis points with effect from 31-01-2006 in view of the rising cost of funds due to increase in the benchmark rates by the Reserve Bank of India at its review of Monetary and Credit policy by RBI in January 2006.

Revision in the refinance scheme for Regional Rural Banks (RRB)

In order to provide additional thrust to rural housing and encourage RRBs to build up a

healthy rural housing portfolio; certain modifications/relaxations in the existing refinance scheme for RRBs have been made in March 2006. The highlights of the revised scheme for RRBs is given below:

Eligibility Criteria and Extent of Refinance

Regional Rural Banks (RRBs) having positive net owned fund fulfilling the following criteria will be eligible to draw refinance from NHB as shown below:

1. RRBs with net NPA to net advances ratio less than or equal to 5% and making profit as per the latest audited accounts would be eligible for refinance to the extent of 100%
2. RRBs with net NPA to net advances ratio not exceeding 7.5% and making profit as per the latest audited accounts or making losses as per the latest audited accounts but showing promising signs of improvement towards profitability would be eligible for refinance to the extent of 50%

Exposure Norm

NHB exposure to RRBs would be restricted to 5 times NOF of the RRB or 10% of NHB's capital fund whichever is less.

Security

The refinance to RRBs would be **unsecured**. RRBs availing refinance would be required to execute a one time Memorandum of Agreement with NHB.

Repricing of Fixed Rates

In case of refinance outstanding at fixed rates of interest, NHB will have the option to revise the rates on outstanding loans on completion of 3 years.

Prepayment

The RRB, after availing of refinance from NHB, may repay the whole or any part of the amount earlier than the due date by giving two months' notice to NHB of its intention to effect such repayment before the due date. NHB will levy a prepayment charge as mentioned below, on such prepayments:

Residual Maturity	Prepayment Levy
Less than 5 years	0.5% of amount to be prepaid
5 years and above	1% of amount to be prepaid

Project Finance

Under project finance, the Bank sanctioned loans to the tune of Rs. 171 crores to state housing agencies. Disbursement have been made for the reconstruction projects for

Tsunami victims in Andhra Pradesh. The project envisages construction of 40,000 houses for fishermen. Construction is undertaken on self-help basis and involving NGOs wherever possible.

Resource Mobilisation

Redemption : During the quarter, the Bank exercised the call option in respect of Capital Gain Bonds having coupon rate of 7.15% and 6.50% in order to contain the cost of borrowings of the bank. Redemption of 7.15% and 6.50% Capital Gain Bonds has started from August 2005. Till December 2005, the Bank has redeemed bonds worth Rs.736.49 crores. The Bank is however, honouring all put options exercised by the investors. The outflow on account of redemption in quarter January-March 2006 in respect of Capital gains Bonds was Rs. 312.47crores.

The detail of amount collected quarterly under the Scheme is as under

(Rs. in crores)

Quarter	Amount Collected
Oct 05 - Dec 05	821.88
Jan 06 -16th March 06	417.89

Securitisation

Guidelines on Securitization of Standard Assets issued by the Reserve Bank of India (RBI)

The RBI issued the final has come out with the Final Guidelines on Securitization of Standard Assets for Financial Institutions, Commercial Banks (excluding RRBs) and Non-Banking Financial Companies vide their Circular No. DBOD.NO.BP.BC.60/21.04.048/2005-06 dated February 01, 2006. These guidelines come into force with immediate effect. Further, the RBI has stated that it would take a view on the treatment for the securitization transactions undertaken in the prior period on a case-by-case basis with the objective of ensuring adherence to basic principles of prudence.



Delhi Rationalises Stamp Duty on Securitization Instruments

The stamp duty charged on instruments of securitization of loans or assignment of debt with underlying securities has been reduced for transactions made in Delhi. Vide Notification No. F.2(19)/Fin.(E-1)/2003-04 dated 12th January, 2006, the Government of National Capital Territory of Delhi, has reduced the duty which is chargeable under article 23 of Schedule 1A of the Indian Stamp Act, 1899.

After this rationalization, the duty applicable to transactions described above will be one rupee for every one thousand rupees or part thereof, of the loan securitized or debt assigned with underlying securities, subject to a maximum of rupees one lakh.

RESIDEX

Based on the discussion on the concept paper, Ministry of Finance vide its letter dated 15th June 2005 advised NHB to set up a Technical Advisory Group (TAG). Accordingly, TAG was formed with Economic Adviser, Ministry of Finance as the Chairman. The other members of TAG are representatives from Reserve Bank of India, National Housing Bank, Central Statistical Organisation, Labour Bureau, LIC, HDFC, HUDCO, LIC Housing Finance Ltd., Dewan Housing Finance Corporation Ltd., and the Society for Development Studies. The terms of reference for the TAG include:

- To suggest appropriate methodology along with concepts, definitions and methods of data collection for constructing Real Estate/Housing Price Indices for metropolitan cities and big towns;
- To suggest the most appropriate Base Year for the preparation of these indices;
- To advise on types of houses and real estate to be covered and to evolve a suitable system for allocation of weights over regions and types of real estate;
- To advise on sampling techniques for selection of centers and types of houses;
- To advise on organizational arrangements and the machinery for collection of data, construction of indices and dissemination of real estate price statistics on a regular basis;
- To guide the consultants of NHB and monitor their work during the pilot surveys.

The first meeting of the TAG was held in July 2005 and so far six meetings of the TAG have been held. based on the discussions in the meetings, it was decided that

(i) to begin with, a pilot project would be taken up for the city of Delhi. For this purpose, 2001 will be

taken as the base year and the index will be constructed on a half yearly basis.

(ii) to have a structured survey (based on uniformity of price band and nature of colonies), divide Delhi into eight urban property Tax Zones in accordance with the tax zoning adopted by the Municipal Corporation of Delhi under the Unit Area Method for property tax assessment. The classification of the colonies is largely based on the level of services and the capital value of housing units.

(iii) proportionate sample number of colonies falling in each of these categories totaling 30 colonies in Delhi be taken up for the survey.

(iv) to use both the hedonic regression model and the basic Laspeyre's weighted index for constructing an HPI for Delhi. Based on the final results of both the methods, appropriate methodology will be adopted.

(v) at first phase of the pilot study, only residential houses (both independent houses and flats, and both old and new for sale) in urban areas with basic amenities be considered. At the second phase, commercial housing units be considered and finally land may be included in order to make a comprehensive real estate price index.

The fieldwork and database development activities both from primary and secondary sources have been completed. The methodology for calculation of residential price indices for Delhi using both Weighted Average method and Hedonic Model for developing HPIs have been tested on the data collected for this purpose and the observations are being examined by the members of the Group.

This initiative taken by the Ministry of Finance, Government of India and NHB has been reported in the Economic Survey 2005-06 (Chapter 5, Box 5.3 page 88).

HIGHLIGHTS OF THE BUDGET 2006-07

ECONOMY

- FY05 GDP growth was 7.5%
- GDP growth likely to be 8.1% in 2006-07
- Govt determined to take country to 10% growth rate

FISCAL

- Non-food credit growing over 25%
- Outcome Budget for 2006-07 will be placed before the Lok Sabha by March 17, 2006
- To unwind special securities by converting to SLR papers
- FY07 fiscal deficit pegged at 3.8% of GDP
- FY07 total expenditure pegged at 5.639 trln rupees

AGRICULTURE

- Farm credit to be raised to 1.75 trillion rupees in FY07
- Banks asked to add 5 mln more farmers to credit portfolio
- Interest subsidy of 200 bps for farm loans takeim 2005-06
- Short-term credit to farmers at 7%
- Special new NABARD credit line for self-help groups

INFRASTRUCTURE

- 870,000 rural houses built under Bharat Nirman
- 870,000 rural houses built in Apr-Jan 2006
- Budget support of 186.96 bln rupees for Bharat Nirman FY07

DEBT MARKETS

- Cap on FII in gilts raised to \$2 bln
- Cap on FII investment in corp debt raised to \$1.5 bln
- To remove 10% cap on overseas investment by mutual funds
- NDS-OM to be extended to some MFS, PFs, pension funds
- To create unified exchange traded mkt for corporate bonds

DIRECT TAX

- No change in personal, corporate income tax rates
- Minimum Alternate Tax rate up to 10% from 7.5%
- Abolished one by six scheme
- Rate for Securities Transaction Tax increased by 25%
- Bank deposits of over 5 year under section 80C of IT Act
- To continue with cash withdrawal tax

OTHER HIGHLIGHTS

Discontinuance of Capital Gains Bonds facility

The Hon'ble Finance Minister while presenting Union Budget (2006-07) has restricted scope of 54EC (Tax Shelters) availability of CG Bonds to NHAI and REC only and has discontinued access to the capital gains bonds to NHB, SIDBI and NABARD. The Government announced that these institutions shall have access to zero coupon bonds to raise low cost funds. Further, Government will, if needed, provide appropriate support to these institutions, "to enable them to access resources to fulfill their mandate effectively". Accordingly, the benefit of section 54ED has been withdrawn with effect from April 1, 2006.

Securities Transaction Tax:

The rates for the Securities Transaction Tax (STT) were fixed when prices of securities were much lower. Reflecting the increase in implicit capital gains in securities transactions, the Government has proposed an increase of 25 per cent, across the board, on all rates of STT.

Training

During the quarter a programme on Rural Housing was organized at Jaipur. The programme was held in January and was targeted at the junior and middle level officials of the housing agencies who are extending finance for rural India. The programme was aimed to familiarize the participants with the mechanics of the formal housing finance system with specific reference to rural housing.



Shri Lalit Kumar, AGM, NHB inaugurating Training Programme on Rural Housing in Jaipur

The participants were made aware of the various Initiatives of the Government in promoting rural housing in the country and the scope and challenges of market for lenders in the field of rural housing finance. Twenty two participants from various institutions attended the programme.



Section of participants during Training Programme

Delegation of Saudi Arabia

A five member team from the Kingdom of Saudi Arabia visited our office on January 27, 2006. The team visiting NHB were members of the entourage accompanying the King of Saudi Arabia, India's Chief Guest for the Republic Day Celebrations. The objective of their visit to NHB was to understand our business model and in general the

changing scenario in the Indian Housing Finance System. Shri R V Verma, Executive Director welcomed the delegates and gave a brief on the development of the housing finance sector in India. The delegates were interested to know in detail, inter-alia, how Banks and HFCs operate in the housing finance market, how NHB performs its regulatory role, NHB's role in promoting securitization in India and other activities of NHB like project financing. The delegates were also interested to know whether NHB has been providing consultancy in the area of housing finance based on its experiences. After detailed discussions on the above issues and also on the role of Government in housing sector, lending to moderate and low income categories, resource mobilization and management etc., the delegates thanked NHB officials for providing an insight into the Indian housing finance market and the hospitality extended to them at a short notice.



Shri R.V. Verma & Shri Surindra Kumar, Executive Directors, NHB along with the members of delegation from Saudi Arabia & Officers of NHB.

Golden Jubilee Rural Housing Finance Scheme (GJRHFS)

The Golden Jubilee Rural Housing Finance Scheme was launched in the year 1997-98 with a view to provide improved access to housing finance to the people living in the rural areas. The Scheme provides for construction of a new dwelling unit or upgradation of the existing unit. The Scheme is implemented through various Primary Lending Institutions (PLIs) namely Housing Finance Companies (HFCs), Public Sector Banks (PSBs) and co-operative sector institutions. The GOI sets national targets and NHB being the monitoring agency, sub-allocates the target among the Primary Lending Institutions.

**Performance under Golden Jubilee Rural Housing Finance Scheme 2005-06
[Achievement during First Three Quarters of 2005-06 (April to December 2005)]**

Amount in Crores

Type of Institution	Yearly target 2005-06	Progress during April-December 2005			% achievement vis-vis 3 quarter target	% achievement vis-vis yearly target
		Target	Achiev.	Amt		
Housing Finance Companies	82500	56925	52461	1935	92%	64%
Public Sector Banks	192500	132825	171892	4772	129%	89%
TOTAL	275000	189750	224353	6707	118%	82%

Meeting with the Public Sector Banks

To review the performance of public sector banks (PSBs) in implementation of the Golden Jubilee Rural Housing Finance Scheme (GJRHFS) during the first three quarters of the year 2005-06 (April to December 2005), a meeting with the Senior Executives of Public Sector Banks was convened on March 8, 2006 at New Delhi. The meeting was chaired by Shri P K Gupta, CMD, NHB. During the meeting, the representatives of Banks have assured that yearly targets allocated to them under the scheme for the year 2005-06 would be met by end March 2006.



Shri P.K. Gupta, CMD, NHB greeting the participants at the meeting with the Commercial Banks on 8th March '06.

Meeting with CEOs of HFCs

A meeting of the Chief Executive Officers of Housing Finance Companies was held on March 8, 2006 at New Delhi. Representatives of 25 HFCs attended the meeting which was chaired

by our CMD, Shri P K Gupta. Shri P K Gupta in his key note address briefed the House on the Growth in the Housing Finance Sector, the current Housing Shortages, proposals in the Union Budget for the year 2006-07 affecting the housings sector and fraudulent transactions prevalent in the housing finance market.



Shri P.K. Kaul, GM, NHB addressing the delegates

A presentation was given by Dr. Anil Sood of Administrative Staff College, Hyderabad to the CEOs of HFCs based on the Research Paper on Understanding Credit and Pre-payment Risk in the Indian Housing Finance Market. The presentation was highly appreciated by the members.



Shri Keki Mistry MD, HDFC during the meeting of the CEOs of HFC

Study on Understanding Credit & Prepayment Risk in the Indian Housing Finance Market

In order to expand the scope of Mortgage Backed Securitisation and streamline its processes, NHB commissioned the Administrative Staff College of India (ASCI) to undertake a study in order to better understand the nature of risks endemic to the Indian primary housing finance market, in particular default risk and prepayment risk. The main focus of the study was to understand, analyse and assess the trends of credit & prepayment risk(s) and identify appropriate measures to relate and quantify such risks for better valuation and pricing of mortgages.

Dr. Anil Sood, Senior Faculty Member of ASCI undertook the study and the Final Report was submitted in January 2006. The sample size for the study of Credit Risks was over 6,50,000 housing loans and that for Prepayment Risk was over 6,25,000 housing loans, across the country. The study covered the loans sanctioned from January 1988 to October 2004. Dr. Sood has in his Report, inter-alia, indicated that while the expected participation from firms in the industry was not realized, the sample size taken into account for the purpose of the study is expected to be a fair representation of credit & prepayment risk in India. The statistical method used in the study is the Cox-Proportional Hazard (CPH) model. Survival Analysis or Proportional Hazard Model is stated to be a tested method for analysis of Credit & Prepayment Risk for housing finance. The technique allows inclusion of

even those cases where the behaviour has not been observed completely, any other form of analysis would require the use of cases that have been fully observed i.e. to say that the loan has been closed-with or without default.

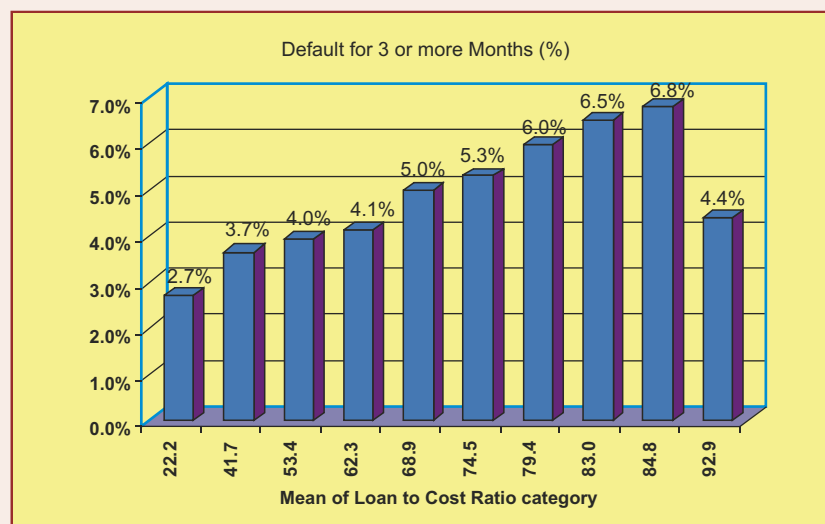
A presentation was also made by Dr. Sood in the conference of the Chief Executive Officers of Housing Finance Companies held on March 08, 2006.

The salient findings of the study are as hereunder:

Default Risk (Summary)

- Geography: Loans originated in the West have higher default risk, followed by the Southern, Northern and the Eastern Region
- Origination Period: While default risk for earlier period loans is observed to rise only during the later years of loan age, the loans during the recent period show an increase in probability of default during the earlier years of loan age
- Loan Amount: Smaller loans have higher risk of default during the later years of loan age
- Loan term: Loans with term between 5 to 15 years carry higher risk as compared to the Below 5 years and the Above 15 year loans
- Presence of co-obligant significantly mitigates the risk of default except in the Northern region
- Borrower profession: Self employed borrowers carry higher risk, except in recent loans
- Loan Purpose: Loans for new dwelling units higher risk compared to the loans for old dwellings

Default Rates across LCR Categories



- The Study observes a significant difference in default rate as the Loan to Cost Ratio increases, except in the largest

LCR Category. These findings are consistent across sanction period and region.

Prepayment Risk (Summary)

- Geography: Loans originated in the South have higher prepayment risk, followed by the North, West and the East
- Origination Period: Recent period loans carry higher prepayment risk
- Loan Amount: Smaller loans have lower initial prepayment risk compared to larger loans
- Loan term: Prepayment risk decreases with loan term up to 15 years and but it is higher for loans Above 15 years of maturity

- Loan and Financial Purpose: Loans for old dwellings and non-residential purposes have higher prepayment risk
- Channel of Acquisition: Loans acquired through indirect channel have higher prepayment risk

A negative relationship between interest rate difference (defined as a reduction in interest rate) and the probability of prepayment is observed, i.e., a decline in interest rate of 1% reduces the probability of prepayment by about 30-40% and the probability is observed to increase over time.

राष्ट्रीय आवास बैंक की राजभाषा संबंधी गतिविधियां

राष्ट्रीय आवास बैंक अपने स्थापना काल से ही भारत सरकार की राजभाषा नीति के सफल कार्यान्वयन एवं इसके प्रभावी अनुपालन के लिए कटिबद्ध रहा है एवं बैंक ने हिंदी के प्रचार-प्रसार के लिए कई कदम उठाए हैं। बैंक की हमेशा से यही नीति रही है कि प्रेरणा और प्रोत्साहन की नीति अपनाकर हिंदी के प्रयोग को उत्तरोत्तर बढ़ाया जाए और इसमें बैंक को आशातीत सफलता भी मिली है।

भारत सरकार द्वारा निर्धारित राजभाषा संबंधी विभिन्न संवैधानिक उपबंधों जैसे : हिंदी में प्राप्त पत्रों का उत्तर हिंदी में देना, धारा 3(3) के तहत आने वाले कागजातों को द्विभाषी रूप में जारी करना, विभिन्न रिपोर्टों व अन्य प्रकाशनों को द्विभाषी रूप में मुद्रित करना, स्टेशनरी की सभी मदों का द्विभाषीकरण, हिंदी चेतना मास एवं हिंदी कार्यशालाओं का आयोजन, क्षेत्रीय कार्यालयों की राजभाषा प्रगति पर निरीक्षण, जांच बिंदुओं की स्थापना एवं नियमित रूप से विभागीय राजभाषा कार्यान्वयन समिति की बैठकों का आयोजन लगातार किया जा रहा है।

बैंक की "आवास भारती" पत्रिका को दिल्ली बैंक नगर राजभाषा कार्यान्वयन समिति द्वारा वर्ष 2004-05 के लिए "हिंदी गृह पत्रिका प्रतियोगिता" में द्वितीय पुरस्कार से सम्मानित किया गया है।

राष्ट्रीय आवास बैंक राजभाषा के प्रति अपने दायित्व को निभाते हुए "सभी के लिए आवास" के अपने अधिदेश को पूरा करने के लिए कटिबद्ध है।

Other Updates

NHB has won the IHC TT Tournament for the 6th time. NHB 'A' team, comprising of Shri S.P. Rizvi, Shri Aditya Sharma and Shri Hem Raj Singh Hyanki, lifted the championship by beating TERI in a gruelling five setter match on 26th March, 2006.



Shri R.V. Verma, ED, NHB greeting the members of the winning team of IHC TT Tournament

During the quarter, Shri P.S. Juneja, Deputy General Manager retired from the Bank's services. Shri Juneja was heading the Resources Department of the Bank. At a get together held at the Bank's head office on 28th February, 2006, the officers of the Bank wished him a happy life after the retirement.



Executive Director, Shri R.V. Verma greeting Shri Juneja on the occasion of his farewell from the Bank's services.