

NHB ANNUAL REPORT



2001-02

NHB
Board of Directors

Chairman & Managing Director
Shri Shekhar Agarwal
(Till November 10, 2002)

Chairman & Managing Director
Shri V. Sridar
(Since November 11, 2002)

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

Shri G.N. Bajpai (up to February 19, 2002)
Chairman, Life Insurance Corporation of India
(under Section 6(1) (b) of the National Housing Bank Act, 1987)

Shri A. Ramamurthy (from February 20, 2002 to July 31,2002)
Chairman, Life Insurance Corporation of India
(under Section 6(1) (b) of the National Housing Bank Act, 1987)

Shri S.B.Mathur (from August 16, 2002)
Chairman, Life Insurance Corporation of India
(under Section 6(1) (b) of the National Housing Bank Act, 1987)

Shri Ashok Kumar (from February 22, 2002)
IAS (Retired)
(under Section 6(1) (b) of the National Housing Bank Act, 1987)

Shri Deepak S. Parekh (up to November 15, 2001)
Chairman, housing Development Finance Corporation Limited,
(under Section 6(1) (c) of the National Housing Bank Act, 1987)

Shri V.Suresh, (up to June 04, 2002)
Chairman & Managing Director,
Housing & Urban Development Corporation Ltd.
(under Section 6(1) (c) of the National Housing Bank Act, 1987)

Shri Pankaj Jain, (from June 05, 2002)
Chairman & Managing Director,
Housing & Urban Development Corporation Ltd.
(under Section 6(1) (c) of the National Housing Bank Act, 1987)

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

Shri K. Madhava Rao

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 Development & Poverty Alleviation
(under Section 6(1) (e) of the National Housing Bank Act, 1987)

Shri Satish Chandra (up to April 30, 2002)

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

Shri Wilfred Lakra (from June 05, 2002)

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 (up to November 15, 2001)

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

Shri A. Bhattacharya (from November 16, 2001)

Secretary (Housing),
Urban Development and Urban Housing Department,
Government of Gujarat
(under Section 6(1) (f) of the National Housing Bank Act, 1987)

Shri Ravi Bhushan Budhiraja (up to November 15, 2001)

Principal Secretary,
Housing & Special Assistance,
Government of Maharashtra
(under Section 6(1) (f) of the National Housing Bank Act, 1987)

Shri J.K. Dev (from November 16, 2001 to June 04, 2002)

Principal Secretary to the Government of Orissa,
Housing and Urban Development Department,
Government of Orissa
(under Section 6(1) (f) of the National Housing Bank Act, 1987)

Shri A.K. Samantaray (from June 05, 2002)
Principal Secretary to the Government of Orissa,
Housing and Urban Development Department,
Government of Orissa
(under Section 6(1) (f) of the National Housing Bank Act, 1987)

NHB
Executive Committee of Directors

Shri Shekhar Agarwal
Chairman & Managing Director

Shri Vepa Kamesam
Deputy Governor, Reserve Bank of India

Shri K. Madhava Rao
Director, Central Board of Directors, Reserve Bank of India

Shri A.K. Samantaray
Principal Secretary to the Government of Orissa,
Housing and Urban Development Department

NHB
Audit Committee of the Board

Shri Vepa Kamesam
Deputy Governor, Reserve Bank of India

Shri K. Madhava Rao
Director, Central Board of Directors, Reserve Bank of India

Shri A. Bhattacharya
Secretary (Housing),
Government of Gujarat

Shri Pankaj Jain
Chairman & Managing Director,
Housing & Urban Development Corporation Ltd.

CONTENTS

Performance at a Glance

Highlights of Operation 2001-02

Macro Economy & Housing Sector

Budget 2002-03

Fiscal & Monetary Incentives

Financial Operation of the Bank 2001-02

Activities of the Bank 2001-02

Future Outlook

Annual Accounts

Performance at a Glance

This is the 14th Annual Report 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, 2001 to June 30, 2002.

NHB : Last 5 years' Performance at a Glance

(Amount in Rs. Crore)

Items	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Share Capital	350.00	350.00	350.00	350.00	350.00
Reserves & Surplus	425.00	480.77	565.7	670.77	766.89
Net Owned Funds	775.00	830.77	915.7	1020.77	1116.89
Gross Profit	53.18	58.52	83.69	111.36	158.21
Net Profit	53.18	58.52	83.69	103.51	94.55
Disbursal (Refinance +Direct Finance)	532.98	774.27	892.18	1077.64	1136.05
Refinance Cumulative	3626.99	4373.99	5215.68	6221.48	7251.36
No. of Housing units financed*	35082	39662	44619	68592	55005
Standard Assets	2609.66	3145.32	3707.32	4341.75	5095.29
Recovery	100%	100%	100%	99.95%	100%
Approved HFCs	26	29	29	31	31
GJRHFS-No. of Units	51,272	1,25,731	1,41,363	1,58,426	1,87,268
Return on Average Assets (%)	1.08	1.15	1.42	1.59	1.37
Return on Average Equity** (%)	7.35	7.29	9.58	10.69	8.85
Net Margin ***	0.13	0.12	0.15	0.16	0.12
CAR(%)	16.76	16.86	16.61	16.83	20.16

* Excluding the number of units refinanced under Land Development and Shelter Projects (LDSP) / Rental Housing Projects (RHP) to the lending institutions and line of credit to Housing and Urban Development Corporation Ltd.(HUDCO) & GIC Housing Finance Limited.

** Equity includes paid up Capital and Reserves & Surplus

*** = Net Profit / Total Income

Financial Highlights 2001-02

- Gross profit increased from Rs. 111.36 crore in 2000-01 to Rs. 158.21 crore in 2001-02 – an increase of 42.07%
- Operating profit as a percentage of working funds increased from 1.71% in 2000-01 to 2.29%
- Capital Adequacy Ratio improved from 16.83% in 2000-01 to 20.16%
- Return on average assets declined from 1.59 % in 2000-01 to 1.37%
- Return on average equity declined from 10.69 % in 2000-01 to 8.85%

Performance Highlights 2001-02

- For the second consecutive year the refinance disbursal of the Bank crossed the 1000 crore mark. The total financial disbursal of the Bank during the year stood at Rs. 1136.05 crore.
- Cumulative refinance disbursal stood at Rs. 7251.36 crore as at the end of June, 2002.
- The Bank successfully launched the fifth issue of mortgage-backed securities which was fully subscribed.
- The refinance rates were revised downward four times during the year with the current interest rate being in the range of 7.25%-9.50%.
- During the year 2001-02, the Bank made 100 per cent recovery.

Other Highlights 2001-02

- The Bank modified the Housing Finance Companies (NHB) Directions, 1989 and the same was notified as Housing Finance Companies (NHB) Directions, 2001 on December 29, 2001. The new Directions include the guidelines on prudential norms as well.
- The Bank issued the Guidelines for Asset-liability Management for the HFCs in June 2002.

- The National Housing Bank (Recovery of Dues of the Approved Institutions) General Regulation, 2002 was notified on May 8, 2002 providing procedure for transfer by sale, lease or otherwise the mortgaged property by the recovery officer.
- During 2001-02, the Bank carried out 25 on-site inspections of housing finance companies so as to ensure their compliance with the regulatory discipline and to assess the financial health.
- The long-standing dispute between NHB and ANZ Grindlays Bank Ltd. pertaining to securities transaction during 1992 was settled during the year 2001-02.
- For the fifth consecutive year the targets under the Golden Jubilee Rural Housing Finance Scheme of NHB was successfully achieved.
- During the year NHB organised six training programmes for the various institutions in the housing sector besides extending financial assistance to National Cooperative Housing Federation of India (NCHF) and National Centre for Management Development in Agriculture and Rural Development Banking (NCMDARDB) for conduct of training programmes pertaining to cooperative sector and rural housing.
- NHB introduced a Scheme for extending Guarantee to the Bonds to be floated by the HFCs. This Scheme is aimed at providing credit enhancement for the long-term resource mobilisation instruments of HFCs.

The Domestic Economy 2001-02

During the year 2001-02, the Indian economy experienced several unfavourable domestic and external developments. The agricultural performance for the second consecutive year failed to match the expected level. The security environment remained adverse and the aftermath of natural disasters like Orissa Cyclone and Gujarat earthquake have also hit the economy hard. The industrial deceleration also continued. All these played a part in bringing down the estimated average annual growth rate during the Ninth Plan period to 5.4% from the earlier targeted growth rate of 6.5%. However, the situation was more promising in respect of certain other core sectors of the economy. The financial and other services performed well. The balance of payment position remained reasonably comfortable without any major fluctuation in the exchange rate of the rupee. The economy also showed remarkable improvement in the external debt during the year.

On the demand side, the real consumption growth declined considerably and the real gross domestic capital formation (GDCF) has exhibited signs of instability. The saving and investment rate continued to remain high as judged by the country's level of economic development with the maximum contribution coming from household savings. Certain major fiscal reforms have also been undertaken for broadening the income tax base and to reduce pressure on public finances, increase the efficiency of public sector and reduce incremental capital output ratio. The Central support for human resource and social sector development in the country has also progressively increased from 8.1% in 1992-93 to 10.7% in 2001-02.

The external factors

The world economy went through a phase of general global economic recession in the aftermath of September 11, 2001 terrorist attack in the USA. This hampered the export growth and industrial profitability. However, the resilience of the Indian economy, which had been manifested during the period of East Asian crisis in 1997-98 and the oil price increase in 2000-01, has enabled the country to successfully combat the challenges put forward by the world economic slow-down. The growth in real GDP in 2001-02 is expected to be 5.4% as per the estimation of the Central Statistical Organisation which is higher than the growth rate of 4% in the year 2000-01 and it will still be one of the highest in the current world scenario.

Housing & Related Issues

The phenomenon of urbanization increased from 25.7% in 1990-01 to 27.8% in 2000-01 necessitating investment in urban infrastructure for the provisions of roads, water supply and sewerage, urban transportation and the like. Recent studies also suggest that large productivity gain could be obtained if regulatory impediments to land assembly, development and construction in urban areas are removed. Whereas, the Urban Land Ceiling Act has already been repealed by the Central Government, most of the State Governments are yet to follow suit. Many State Governments still have the Rent Control Acts, which inhibit the construction and maintenance of rental houses.

Despite certain inherent problems such as scarcity of long-term funding, inelastic supply of land, legal issues related to land mortgaging and foreclosure, the housing sector continued to grow during the year 2001-02. The banking sector registered a spectacular performance by crossing the Rs.10, 000 crore mark, whereas the housing finance companies approved by NHB for refinance assistance also came close to disburse Rs. 15,000 crore in the year 2001-02. As the

housing sector is closely intertwined with the macro economy, broad changes in the policy and performances therein affects the sector to a great extent. NHB continued with its endeavor to bring about favourable policy pronouncements for the sector in consultation with the Government of India and the Reserve Bank of India.

Budget 2002-03: Broad Strategies

The current signals indicate an overall recovery during 2002. As the world economy picks up, the deflationary trend would also begin to be reversed enabling improved profitability in the Indian manufacturing sector. The export sector is also expected to be rejuvenated. It is in this backdrop, that the Union Budget for the year 2002-03 was announced. The broad strategies outlined in the Budget are detailed below:

- *Continued reform in agriculture and food economy*
- *Increased public & private investment in infrastructure*
- *Strengthening of the financial sector & capital markets*
- *Deepening of structural reforms and revival of industrial growth*
- *Provision of social security to poor*
- *Consolidation of tax reforms with continued fiscal adjustment at both the Central & State levels*

Budgetary Provisions for Housing

- The Hon'ble Finance Minister announced that the National Housing Bank would launch a Mortgage Credit Guarantee Scheme that would be extended to all housing loans thereby fully protecting the lenders against default.
- The target under the Golden Jubilee Rural Housing Finance Scheme for 2002-03 has been set at 2.25 lakh units, up from 1.75 lakh units during 2001-02.
- The allocation of the Indira Awas Yojana has been increased by 13% to Rs.1725 crore. The increased allocation under the scheme is expected to lead to a larger number of dwelling units being provided to people of the targeted class who neither have the desired affordability nor the accessibility to formal sector financial assistance.

- The houses constructed under the Indira Awas Yojana in the disaster-prone areas will be provided insurance cover through a Master Policy. This measure is expected to go a long way in boosting the financial security and morale of the people residing in such areas, and hence increasing the off take under the Scheme.
- An Urban Reform Incentive Fund (URIF) is proposed to be set up with an initial corpus of Rs.500 crore to provide reform linked assistance to States. The fund will seek to incentivize reforms in the areas of rent control laws and repeal of Urban Land Ceiling Act, rationalization of high stamp duties, streamlining of approval process for development and construction of buildings, simplification of procedures for conversion of agricultural land for non agricultural purposes, and revision of municipal laws in line with model legislation prepared by the Ministry of Urban Development and Poverty Alleviation. This fund has been established to address some of the critical problems and long standing demands of the housing sector in the country. It is expected that the steps contemplated will simplify various laws and procedures related to housing and iron out any anomalies, thereby propelling the sector on to a faster growth path.

Fiscal Policy Incentives

For the fourth consecutive year the Union Budget provided certain tax incentives to the housing sector such as:

- The deduction for interest payable on housing loans for self occupied houses will be allowed even if the house is constructed or acquired after March 31, 2003, provided such acquisition or construction is completed within three years from the end of the financial year in which the loan was taken. The interest rate concession under Section 24(b) of the Income Tax Act, 1961 was introduced with the specific purpose of enhancing consumer interest in the housing sector, and so far this concession has proved to be a major facilitating factor towards the growth in the sector during the last few years. It is expected that the waiver of the time limit for construction/acquisition will lead to a much-simplified procedure in claiming this concession and thus pave the way for a continued growth of the sector.
- The capital gains exemption provided under Section 54EC of the Income Tax Act, 1961 has been extended to bonds issued by the National Housing Bank. The proposed measure is expected to help NHB in mobilizing low cost funds from the public, thereby leading to a lower rate of interest on refinance

offered by NHB. This could further reduce the overall interest rate in the housing finance market, leading to its expansion.

- The customs duty on cement has been lowered from 25% to 20%. Cement accounts for around 18% of the cost of construction of a house. This measure is expected to bring down the prices of imported cement, thereby lowering the overall cost of construction of a house. This would go a long way towards increasing affordability and thus promoting the growth of the sector.
- The provisions of Chapter XX-C, which require a clearance to be obtained from the Appropriate Authority before registering the transfer of an immovable property, have been abolished. Chapter XX-C of the Income Tax Act, 1961, comprising Section 269U, required that any person selling or purchasing any immovable property above a specified value should obtain clearance from the income tax authorities for sale or purchase before registering the transfer of the property. The abolition of these provisions is aimed at creating a taxpayer friendly regime. This step is expected to expedite the procedure of transfer of immovable properties thereby leading to greater volumes and thus providing an impetus to the growth of the housing sector.

The Union Budget for the year 2002-03 is expected to usher in an era of accelerated growth for the housing sector since various measures have been introduced which address numerous problems hitherto being faced on the demand as well as the supply side of the sector. While the extension of capital gains exemption provided under Section 54EC of the Income Tax Act, 1961 to bonds issued by the National Housing Bank would enhance the flow of funds for the sector, the increased target for Golden Jubilee rural Housing Finance Scheme and enhanced allocation under Indira Awas Yojana are expected to redress the problem of rural housing shortage more effectively. Thus, it is expected that the Budget 2002-03 could lead to a healthy growth of the housing sector.

Monetary Policy Measures

In the recent years commercial banks have been playing an important role in providing credit to the housing sector in consonance with the goals of National Housing and Habitat Policy. Recognising the contribution of the banking sector in the housing finance sector in the country, the Reserve Bank of India (RBI) in the Credit and Monetary Policy in April, 2002, announced certain other measures for housing finance by Banks.

Until now, banks' loans and advances secured by mortgage on residential property and also commercial property were assigned a risk weight of 100 per cent for capital adequacy purposes. However, no explicit risk weights had been

prescribed for banks' investment in securitised papers. The Basel Capital Accord of 1988 and also the New Capital Adequacy Framework, which is at the consultative stage, envisage risk weight of 50 per cent and 100 per cent for claims secured by residential property and commercial real estate, respectively.

Accordingly, in order to improve the flow of credit to the housing sector, the prudential requirements for housing finance by banks have been liberalised as under:

- Banks extending loans against residential housing properties would be required to assign risk weight of 50 per cent, instead of present 100 per cent. Loans against the security of commercial real estate would continue to attract 100 per cent risk weight as hitherto.
- Investments made by banks in Mortgage Backed Securities (MBS) of residential assets by HFCs, which are recognised and supervised by NHB, would also be assigned a risk weight of 50 per cent for the purpose of capital adequacy. However, investment by banks in MBS of housing assets, which include commercial properties would attract 100 per cent risk weight.
- Investments by banks in MBS issued by HFCs supervised by NHB will be reckoned for inclusion in the prescribed housing finance allocation of 3.0 per cent.
- Besides, it is proposed to set up a Working Group to suggest modalities for widening the investor base in MBS, improving the quality of assets, creating liquidity for trading in such assets and other related issues.

All over the world, the provision of satisfactory housing has been a major problem and continuous efforts have been made to meet the ever-increasing needs of each generation. In developing countries housing and community developments still present the most serious problem and requires an urgent solution because only through proper housing can a nation acquire higher productivity, better health and sanitation and an improved quality of life. Whenever an economy has been facing growth problems, housing sector has been looked upon to improve it. Homes have done much more than shelter the people from wind and rain and have helped to shelter the whole world economy from deep recession. In recent years, the housing sector in India has successfully established its credential as the potential 'engine-of-growth'. The Government and the Central Bank (RBI) have been providing the necessary impetus to the sector and it is now for the housing sector to respond to these initiatives.

Financial Operation of the Bank during 2001-02

Resource Mobilization

During the year ended June 30, 2002 NHB mobilised resources to the extent of **Rs. 286.70 crore** from various sources. The source-wise categorization of resources is indicated below:

- *Priority Sector Bonds - Taxable*

The Bank mobilised **Rs. 114.70 crore** from the market sources during December 2001 by means of priority sector taxable bonds. The coupon rate of the Bonds was 8.75% payable annually and the same was arrived at through the book building process with range from 8.25%-8.75% payable annually. The Bonds have a tenor of seven years with put and call option at the end of fifth year. The cumulative outstanding amount of taxable bonds stands at Rs. 1287.40 crore at the end of June, 2002.

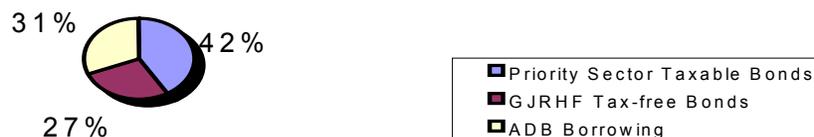
- *Tax Free Bonds*

The Government of India made an allocation of **Rs. 75.00 crore** under tax-free bonds to NHB during September 2001 to facilitate fund mobilisation for the Golden jubilee Rural Housing Finance Scheme. NHB mobilised the entire amount during February 2002 at 7.85% per annum payable annually by issuing tax free bonds having tenor of seven years with put and call option at the end of fifth year. As on June 30, 2002, the Bank has an outstanding amount of Rs. 725.00 crore under this head.

- *ADB Housing Finance II Project Loan*

During the year, NHB availed of the first tranche of US \$ 20 million of the ADB Housing Finance II Project Loan from out of the sanctioned loan amount of US \$ 40 million. Under the swap/structured arrangement, the EXIM Bank of India made available a rupee equivalent of **Rs. 97.00 crore** by way of subscription to NHB's Special Series Priority Sector Bonds 2001-02. The Bonds carry a coupon rate of 9.75% payable half yearly and have a tenor co-terminus with the repayment schedule of ADB loan (twenty-five years). In addition, guarantee fee @ 0.20% to the Government has been paid. The Bank has availed from ADB so far a loan amount of Rs. 564 crore, the entire amount of which was outstanding as on June 30, 2002.

Composition Of NHB Resource Mobilisation in 2001-02



Repayment

The Bank has met its repayment and interest payment obligations on the due date and an aggregate amount of Rs. 205.45 crore was repaid towards principal during the year.

Dematerialization of Bonds

As per the RBI guidelines, all the outstanding investments of banks/financial institutions/primary dealers/satellite dealers are to be converted into the dematerialized (Dmat) form by June 30, 2002. In order to conform to this guideline, the National Housing Bank (Issue and Management of Bonds), 1989 Regulations have been suitably amended to provide for issue/convert the new/existing Bonds in the Dmat form. NHB has appointed Registrar and Transfer Agent and Depository for the purpose. The existing Bonds have been lodged with the Depository for conversion into Dmat form. NHB has thus complied with the instruction of the RBI.

Issue of Capital Gains Bonds

As has already been indicated, in order to give further impetus to investment in the housing sector, the Hon'ble Finance Minister had, in the current year's Budget, announced extension of capital gains exemption provided under Section 54 EC of the Income Tax Act 1961 to the bonds issued by the National Housing Bank also. This avenue is expected to enable NHB to mobilise funds at a comparatively lower cost, which can be utilised to provide financial assistance to housing finance institutions at a lower rate. The Scheme has since been launched.

Home Loan Account Scheme (HLAS)

The outstanding amount of HLAS held in the books of the designated banks and housing finance companies as on March 31, 2002 was Rs. 159.88 crores. Out of which, an amount of Rs. 14.96 crores was utilised as automatic refinance.

Deployment

The details of financial assistance extended by NHB during 2001-02 in the form of refinance and direct finance are given below:

GENERAL FUND

(Rs. in crore)

Refinance Disbursals	2001-2002	2000-2001	Cumulative
a) Individuals	1023.80*1	1003.75*1	7011.39
b) Projects	0.00	0.00	234.50
Total	1023.80	1003.75	7245.89
Direct Finance Disbursal	92.21*2	42.05	196.89
Total disbursals from General Fund	1116.01	1045.80	7442.78

SLUM IMPROVEMENT & LOW COST HOUSING FUND

Refinance : Orissa Cyclone Projects	1.00	4.47	5.47
	0.00	0.00	11.29
Direct Finance : Projects	19.04	27.37	70.91
Total	20.04	31.84	86.67

*1 Including amount released to Scheduled Banks and eligible HFCs in respect of their lending to people in the earthquake affected areas of Gujarat

*2 Including amount released under scheme for earthquake affected people of Gujarat

REFINANCE

During the year under review, the refinance disbursement of NHB crossed the Rs.1000 crore threshold for the second time in a row with a total refinance assistance of Rs.1024.80 crore in 2001-02. This, however, shows a marginal improvement from the previous year's performance of Rs.1003.75 crore. The institution-category wise classification of refinance disbursement is as below:

(Rs. in crore)

Institutions	Disbursements during 2001-02	Disbursements during 2000-01	Cumulative disbursements upto June 30, 2002
Scheduled Banks	86.35	105.67	434.66
Cooperative Sector Institutions	219.15	140.57	1285.89
Housing Finance Companies	719.30	761.98	5530.81
Total	1024.80*	1008.22 *	7251.36*

* inclusive of financial assistance provided under Orissa Cyclone Scheme and Gujarat Earthquake Scheme

The disbursements during 2001-02 have shown a marginal growth of 1.64% over the previous year. Sector-wise, the current year disbursements have shown a marked shift in the growth pattern in favour of cooperative institutions showing growth of around 56 per cent whereas the disbursement to HFCs came down by around 6 per cent as compared to the previous year.

The HFCs, however, remained the dominant claimant of NHB refinance with a considerable share of Rs. 5530.81 crore in the cumulative refinance of Rs. 7251.36 crore till 30-06-2002 which constitutes as high a percentage as 76% followed by the cooperative sector institutions at 18% and the scheduled banks at 6%.

Golden Jubilee Rural Housing Refinance Scheme: The Golden Jubilee Rural Housing Refinance Scheme (GJRHRS) was launched in the year 1997 following the announcement made by the then Finance Minister in his Budget speech. Under the scheme, the bank disbursed Rs.222.20 crore during 2001-02. The housing finance companies accounted for about 37% (Rs.83.12 crore) of the disbursements made under the scheme.

Refinance Scheme for victims of Orissa cyclone: This refinance scheme was introduced in 2000-01 for scheduled commercial banks in respect of their lending to individuals for housing in cyclone affected areas in Orissa under a special dispensation and Rs.100 crore was earmarked (Rs.75 crore under the General Fund and Rs.25 crore under the Special Fund) for the purpose. Allocation under the General fund has been fully utilised and a part of VDS Fund earmarked for the purpose remains to be utilised. The validity of the scheme has been extended upto 31-12-2002. The ceiling on individual loan slab has also been revised from Rs.30,000 to Rs.60,000.

Gujarat Earthquake Scheme: In order to provide relief to the earthquake victims of Gujarat, NHB, with financial assistance from the RBI, had introduced a special scheme with 100 per cent refinance facility in 2000-01, applicable to Scheduled Banks and HFCs in respect of their lending in the earthquake affected areas of Gujarat for acquisition/construction of new housing units or for purchase of existing dwelling units provided they were not more than 10 years old and were certified as structurally sound. The loan ceiling was Rs.5.00 lakhs for rural/semi-urban areas and Rs.10.00 lakhs in case of urban/metropolitan areas. The refinance rate was 6.50 % and the on-lending rate was fixed at 8.00 %. NHB provided moratorium of 3 years over the normal 15-year period of refinance repayment. Similar moratorium is to be extended by the borrowing institution to individual borrowers. Till the end of June, 2002 an amount of Rs. 23.94 crore was released under the Scheme.

PROJECT FINANCE

Under its project-financing window, NHB has so far sanctioned 339 projects (including projects sanctioned to support Gujarat earthquake victims) where financial assistance has been made available through the direct as well as the refinance route. These projects have a cost component of Rs. 2252.73 crore and a loan component of Rs. 1605.08 crore. Out of these 339 projects, refinance assistance was provided to 218 projects from the General Fund whereas refinance assistance to 10 projects was provided under the Special Fund.

During the year 2001-02, however, no refinance assistance was provided under project finance schemes. The 30 projects sanctioned during 2001-02 have a cost component of Rs.758.32 crore and loan amount of Rs. 671.10 crore.

The Bank provided direct financial assistance to the tune of Rs.111.25 crore during the current year (including the amount lent from the Special Fund and the assistance under Gujarat earthquake scheme). Cumulatively, till the end of June, 2002, NHB has disbursed Rs.513.59 crore under its project financing window. Brief details of direct financial assistance provided by the Bank under the General Fund and the Special Fund are given below:

A. General Fund

Under this window, a total of 6 Land Development & Shelter Projects (LDSP) have been sanctioned during 2001-02 having a cost component of Rs. 92.39 crore and loan amount of Rs.54.08 crore. Cumulatively, 32 projects having a project cost of Rs. 730.82 crore and loan component of Rs.342.63 crore have been sanctioned under this window. During the year 2001-02 NHB disbursed a sum of Rs. 41.04 crore under this window.

B. Special Fund

Under this window, NHB sanctioned 21 Projects during 2001-02 having project cost of Rs. 122.63 crore and loan amount of Rs. 73.71 crore. Cumulatively, 76 projects having a project cost of Rs. 282.72 crore and loan component of Rs.176.63 crore have been sanctioned under this window. During the year 2001-02 NHB disbursed a sum of Rs. 19.04 crore under this window, taking the cumulative disbursement under this head to Rs. 70.91 crore.

C. Assistance to Gujarat Earthquake Victims

With a view to ameliorate the large-scale destruction of property and infrastructure caused by the Gujarat earthquake in January 2001, NHB had

formulated guidelines for providing financial assistance to state government agencies engaged in relief work in Gujarat. Under this Scheme, NHB sanctioned 2 projects of Gujarat State Disaster Management Authority (GSDMA) and 1 project of Gujarat Rural Housing Board (GRHB) with a loan component of Rs. 542.31 crore and Rs.0.99 crore respectively. During 2001-02, Rs. 50.50 crore and Rs. 0.67 crore have been disbursed respectively to GSDMA & GRHB.

Activities of the Bank during 2001-02

Policy Review

Changes in the Refinance Policy

Changes in the Interest Rate Structure

The interest rate structure on refinance was revised four times during the year July 2001–June 2002 keeping in tune with the falling interest rate regime. The latest revision came into force with effect from June 10, 2002. NHB has been playing a key role in introducing competitive interest rates in the housing finance industry as is evidenced by the fact that during 2000-01, the interest rates on refinance had been revised southward thrice to keep them in harmony with the rest of the economy. The interest rate structure effective from June 10, 2002 is given below:

	Rural	Urban
Size of the housing loan	Rates of interest per annum to be charged by NHB to PLI	
For construction or acquisition of new dwelling units		
Up to Rs. 1,00,000	7.25	8.25
Rs. 1,00,001 to Rs.2,00,000	8.50	8.75
Rs. 2,00,001 to Rs.5,00,000	9.00	9.00
Rs. 5,00,001 to Rs.10,00,000	9.00	9.00
Rs. 10,00,001 to Rs.15,00,000	9.00	9.00
Rs. 15,00,001 to Rs.25,00,000	9.25	9.25
Rs. 25,00,001 to Rs.50,00,000	9.50	9.50
For up-gradation/major repairs		
Up to Rs. 1,00,000	7.75	8.75
Rs. 1,00,001 to Rs.5,00,000	9.00	9.50

PLI: Primary Lending Institution

Keeping in view large-scale prepayment/takeover of individual housing loan portfolios of HFCs, NHB introduced flexibility in repayment of refinance between 5 years and Weighted Average Period of Loan (WAPOL), not exceeding

15 years, in respect of HFCs with effect from February 04, 2002. In the month of June 2002 NHB introduced the option of flexible repayment period between 5 to 7 years for all primary lending institutions (PLIs), with interest rate incentive of another 25 basis points across all loan slabs for PLIs desirous of exercising this option. This move was aimed at easing out the pressure on demand for medium term funds by borrowing institutions. However, interest on refinance on repayment based on WAPOL not exceeding 15 years would continue to be charged at the applicable refinance rate.

Increase in the refinance eligibility

During the year, the maximum individual loan amount eligible for availing refinance in the case of HFCs and Scheduled Commercial Banks was enhanced from the existing Rs.15.00 lakhs to Rs.20.00 lakhs in November, 2002 and further to Rs.50.00 lakhs in January, 2002.

Conversion of past refinance to lower interest rate

In order to offer the dedicated housing finance institutions a level playing field in the backdrop of the fiercely competitive interest-rate regime, it was decided, as a one-time measure, to reduce the interest rate being charged from HFCs and cooperative sector institutions on the refinance availed in the past. It was decided to convert loans availed at rates of interest above 13% to 11.50% subject to payment of one time conversion fee equivalent to 1% (for loans at interest rate above 13% and upto 14%) and 2% (for loans at interest rate above 14%) of the outstanding refinance amount on which the interest rate was reduced. However, refinance given for project loans was not eligible for the above benefit. The conversion scheme received excellent response from the primary lending institutions.

Modification in the Gujarat Earthquake Scheme

Under the captioned scheme, the owner of a house/flat against G4 category of damage (G4: *Severe structural damage. Diagonal and torsional cracks including relative movement in parts of column and floor; Building either to be demolished or extensive restoration and strengthening to be carried out before reoccupation*) was made eligible to avail housing loan for construction/purchase of new house/flat. It was decided that in respect of such category of houses if the owner demolished the house for reconstruction, the tenant of the said house could also avail loans under the captioned scheme for purchase/construction of new house/flat. However, the primary lender would have to satisfy itself with the proof of tenancy of borrower seeking loan against such affected unit, which is inhabitable.

However, under the G5 category of damage, i.e. totally collapsed houses, the owner as well as the tenant shall continue to be eligible for housing loan for purchase/construction of new dwelling unit.

In other categories of damage, i.e. G1 to G3 (G1: *Fine cracks in columns, Seismic strengthening required*, G2: *Wider visible cracks in columns, Seismic strengthening required* and G3: *Moderate structure damage with larger cracks in column, Structural restoration and seismic strengthening required*), owners are eligible to avail loan for repairs of damaged units. The categories of damage, i.e. G1 to G5, are notified by the local revenue authorities for the purpose of compensation, etc.

The refinance scheme for victims of Gujarat earthquake, which was earlier valid till 30-06-2002, has now been extended till 30-06-2003.

Extension of Gujarat Earthquake Scheme to the victims of Riots

In the aftermath of recent riots in Gujarat, NHB, on approval from RBI, has decided to extend refinance assistance to HFCs and SCBs in respect of their lending for housing to the riot victims. Refinance up to Rs. 10.00 lakhs will be available for construction/acquisition of houses/flats and up to Rs.5.00 lakhs upgradation (including major repairs) of the houses affected in the riots. The rate of interest and other terms and conditions will be the same as under the scheme introduced earlier for earthquake victims in the state.

Interest rate concession to riot victims

On the lines of the relief package announced by the RBI for riot victims, NHB extended interest rate concession to HFCs in respect of housing loans of affected person where repayment capacity of the borrower has been impaired by the riots. Under the scheme, NHB would charge simple interest @10% per annum in place of applicable rate of interest for the period upto 31.03.2004 on outstanding amount of refinance which have been claimed by the HFCs in respect of housing loans extended by them to individual borrowers, provided the same interest concession on loans at a simple interest rate of 10% per annum is extended to such individual borrowers.

Further, in cases where the borrowers whose repayment capacity has been impaired by the riot to the extent that interest cannot be paid periodically, simple interest @10% per annum may be funded by the HFC in a non-interest bearing funded account. If such a facility is extended by the HFC to the borrowers, NHB would also provide similar facility to HFC in respect of NHB's refinance for the period upto 31.03.2004.

Changes in Project Finance Guidelines

The guidelines pertaining to financial assistance under project finance are reviewed and amended from time to time to incorporate the emerging needs and expectations of various public agencies. During the year 2001-02 a revision was made pertaining to area parameters viz. size of plots and dwelling units etc. contained in the guidelines for financing Land Development and Shelter Projects (LDSP) for Public Agencies. The guidelines have been amended to limit the average area of plots to 250 m². (from the earlier limit of 150 m²), the maximum size being limited to 500 m² (from the earlier limit of 300 m²). Further, amendments were incorporated to limit the average Built-up Accommodation (BUA) of dwelling units to 150 m² (from the earlier limit of 90 m²), the maximum BUA of any dwelling unit being limited to 300 m² (from the earlier limit of 130 m²)

Revision in Interest Rates

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 revised downwards during the year. The revised rates are as under:

- Direct Finance: The interest rate for Land Development and Shelter projects and Housing Infrastructure projects has been fixed at 11.50% for loans secured by Govt./Bank guarantees (from earlier level of 12.25%) and at 12.00% for other acceptable securities (from earlier level of 12.50%). The interest rates for Slum Redevelopment projects have not been changed.
- Refinance: For refinance in respect of Land Development & Shelter projects and Housing Infrastructure projects by public agencies, the interest rate has been fixed at 11.25% per annum (from earlier level of 12.00%).

Recovery

Repayment of instalment and interest by various borrowing institutions was regular, with no overdues towards the repayment of instalments and payment of interest that fell due during the year.

Promotion & Development Activities of NHB during 2001-02

A meeting with the representatives of Forum of Housing Finance Companies was held in August, 2001 at NHB, New Delhi to discuss certain issues relating to enhancement of capital adequacy ratio for HFCs, reduction in risk weights on housing loans, reduction in NHB refinance rate etc. The sixteenth meeting with the Chief Executives of approved housing finance companies was held on June 12, 2002 at New Delhi in which issues pertaining to resource scarcity in housing finance sector and scope for mobilisation of additional resources, appointment of recovery officers and bond guarantee scheme were discussed.

The National Housing Bank (Amendment) Act, 2000 envisaged for a speedier method of recovery of dues from the defaulting borrowers of housing finance institutions (HFIs), through recovery officers who are in regular service of HFIs. The Bank, after due deliberations with industry leaders and complying with other requirements of the said Act, framed the National Housing Bank (Recovery of Dues of the Approved Institutions) General Regulation, 2002 providing inter alia procedure for transfer by sale, lease of otherwise the mortgaged property by recovery officer. Further, as per the provisions of the Amended Act, the Central Government also framed rules to give effect to the provisions of the Act. The said Regulations and Rules were notified on 8th May 2002.

As was mentioned in last year's report, the Government of India through the Department of Economic Affairs and the Canadian Government are jointly operating multi-phase programmes on financial sector reforms, aided and supported through the funds under the Canadian International Development Agency (CIDA). A number of initiatives have been mooted by Government of India under this programme. Three such initiatives are Asset Securitisation, Mortgage Insurance and Awareness building and Expertise Development. As the arrangement between NHB and Canada Mortgage Housing Corporation (CMHC) was found to be quite appropriate for these initiatives, NHB and CMHC have been identified as working partners for implementation of the above initiatives. These initiatives include proposals for study of housing finance system in Canada and expose the Indian working partners and the other stake holders to the Canadian experience and the role of CMHC in the development of housing finance sector in India. The above initiatives are presently under implementation simultaneously.

Under the Initiative on Mortgage Insurance, a team comprising five members from NHB and Department of Economic Affairs (DEA), Government of India visited Canada during June - July 2001 for understanding the mortgage finance and insurance system in Canada. Another team comprising officers from NHB

went to Canada in November, 2001 to further initiatives regarding setting up of a mortgage credit guarantee corporation in India under NHB-CMHC collaboration.

Under the Initiative on Awareness Building and Expertise Development, a team from Canada including officials from CMHC visited India during July - August 200 and a team comprising representatives from NHB and housing finance institutions visited Canada in December, 2001 to exchange ideas related to training need and initiatives in the housing sector in India and issues related to capacity building.

As a part of the Technical Assistance programme of the Asian Development Bank (ADB), a study tour was organised to USA during February-March, 2002 in which 7 NHB officers were nominated. During the course of the tour, the team participated in a Securitisation symposium organised by Fannie Mae in Miami, Florida, which was followed by specific meetings in New York and Washington.

Regulation & Supervision

2001-02 has been a significant year in the process of evolution of the regulatory framework for Housing Finance Companies (HFCs). Subsequent to amendments to the National Housing Bank Act, 1987 in the year 2000, conferring additional powers on NHB in respect of its regulatory role, the policy framework for regulation and supervision of HFCs has been strengthened.

The Housing Finance Companies (NHB) Directions, 2001

In order to regulate the activities of the HFCs, NHB had earlier issued Directions for HFCs in 1989 and Guidelines on Prudential Norms in 1995 which were amended from time to time, in view of developments in the general financial system and emerging structure and needs of the housing finance system.

NHB issued a new set of Directions known as the Housing Finance Companies (NHB) Directions, 2001, in supercession of the earlier Directions and the Guidelines on Prudential Norms. These Directions were notified on December 29, 2001. The Directions cover various aspects of an HFC's functioning, including acceptance of public deposits and prudential norms relating to income recognition, asset classification, provisioning, concentration of credit/investment, etc. In addition, NHB had for the first time issued directions

to auditors of the HFCs, requiring them to make a separate report to the Board of Directors of the HFC on the company's compliance with various regulatory requirements and exception reports directly to NHB in case of non-compliance.

Some of the new provisions of the Directions are as under:

Definition of public deposits: The definition has been modified in line with the amendments made by RBI in the NBFC directions. The changes are in respect of money received from mutual funds, money received from relatives of directors, money received from shareholders of a private limited company and hybrid/subordinate debt having maturity period less than 60 months.

Introduction of depositors: HFCs are now required to obtain introduction of all prospective depositors, either from one of the existing depositors or on the basis of income tax PAN, election identity card, passport or ration card.

Opening and closing of branches: In terms of the new Directions, an HFC is required to inform NHB before opening a branch. Further, an HFC accepting public deposits is required to publish a public notice 3 months in advance and inform NHB before closing a branch.

Disclosure about exposure to sister concerns: HFCs are required to make certain disclosures in the application form and the advertisement for acceptance of public deposits. Now, an HFC will have to also include information about its exposure to companies in the same group or other entities in which the directors/the HFC hold substantial interest.

Ceiling on borrowings: In view of the enhanced capital adequacy requirement of 12% from March 31, 2002, the ceiling on total borrowing of HFCs has been reduced to 10 times of NOF from the earlier 10, 11 and 12 times based on the NOF size.

Ceiling on rate of interest on public deposits: The rate of interest payable on public deposits of HFCs are subject to a ceiling prescribed under the Directions. The earlier Directions provided that an HFC would be free to determine the rate, notwithstanding the ceiling if it obtains a certificate from NHB about its compliance with the directions, guidelines and instructions of NHB. The freedom allowed to HFCs to pay interest on public deposits in excess of the ceiling stipulated on a case-to-case basis has now been withdrawn. Subsequently, the

ceiling on interest rate has also been reviewed in tune with the market trends and with effect from April 24, 2002, the applicable ceiling has been reduced to 12.5% per annum from the earlier level of 14% per annum.

Subordinated debt: Subordinated debt forms part of Tier II capital. The book value of the instrument is subjected to discounting at specified rates depending on remaining maturity of the instruments. The discounting rates earlier specified have been revised so that they are in alignment with the rates applicable to NBFCs in terms of RBI's Directions.

Income from investments: Separate income recognition norms have been prescribed in the Directions in respect of income from investments.

Inter Corporate Deposits (ICDs): Separate asset classification norms have been prescribed for ICDs. For the purpose of definition of non-performing assets, these will be treated in a manner similar to other loans and the 'six months overdue' norm applies.

Provisioning for lease and hire purchase assets: Provisioning requirements for lease and hire purchase assets have been made the same as those stipulated by RBI for NBFCs.

Government guaranteed loans - asset classification: In terms of the erstwhile Guidelines on Prudential Norms which have been superceded by the new Directions, loans and advances to public housing agencies guaranteed by Central/State Government were to be treated as non-performing assets only when the Government concerned repudiates the guarantee. In the new Directions, however, the asset classification norms and the basis of treating a credit facility as NPA have been made identical for all loans, irrespective of the borrower's status or government guarantee and there is no separate treatment for government guaranteed loans.

Capital adequacy - risk weight on housing loans: An HFC is required to maintain a minimum capital adequacy ratio of 12% of its aggregate risk weighted assets and risk adjusted off-balance sheet items. The capital adequacy requirement for HFCs was reviewed in the light of the general principles and practices prevalent internationally in this regard. In view of the fact that housing loans secured by mortgage of property are considered all over the world to be sound and safe with low risk element and given the stage of development of foreclosure system, mortgage insurance and underwriting standards in the country, it was decided to prescribe a lower risk weight for individual housing

loans - 75%, to begin with. Accordingly, in terms of the new Directions, risk weight on individual housing loans that are classified as standard and where loan to value ratio does not exceed 75% has been reduced from 100% to 75%.

Safe custody of approved securities: An HFC is required to entrust the approved securities maintained by it for compliance with the statutory liquidity ratio to a scheduled bank in the place of its registered office. The new Directions provide that such securities may, with prior approval of NHB, be entrusted to the Stock Holding Corporation of India Ltd. or be kept in the form of constituent's Subsidiary General Ledger (SGL) account with its designated scheduled commercial bank.

Defaulting HFCs prohibited from making loans/investments: Section 36 A (1) of the NHB Act provides that every deposit accepted by an HFC unless renewed shall be repaid in accordance with the terms and conditions of the deposit. In terms of the Directions, an HFC that has failed to repay a public deposit in accordance with the terms and conditions, is prohibited from granting loans or making investments or creating any other assets, as long as the default exists.

Ceiling on investments in real estate and in unquoted shares: In view of concerns having been expressed about deployment of funds in high risk and speculative avenues, ceilings have been prescribed for investments in real estate and in unquoted shares. An HFC accepting public deposits cannot invest more than 10% of its owned fund (a) in land/building except for own use; or (b) in unquoted shares except in shares of subsidiaries or group companies

Maintenance of Liquid Assets

In terms of the earlier Directions of 1989, an HFC was required to maintain liquid assets at least at 12.5% of the public deposits outstanding on the last day of the second preceding quarter. By the Amendment Act of 2000, a provision on the subject was inserted in the NHB Act (section 29B), which requires the HFCs to maintain liquid assets at least at 10% of the deposits outstanding on the last day of the second preceding quarter and empowers NHB to further increase the percentage by a notification. In order to ensure that the liquid assets requirement continues to be at the same level as prescribed before coming into force of the Amendment Act, a notification has been issued by NHB specifying the requirement in this regard.

Requirement of Registration and Net Owned Fund

Entry point norms for HFCs have been prescribed under the NHB Act, in terms

of which no HFC can commence or carry on the business of a housing finance institution without obtaining a certificate of registration from NHB and having the minimum specified NOF. The minimum required NOF which had originally been specified at Rs. 25 lakh, has now been enhanced to Rs. 2 crore. The enhanced requirement of NOF applies to an HFC that commences the business of a housing finance institution on or after February 16, 2002 and not to a company whose application for registration has been submitted to NHB before this date.

Guidelines for Asset Liability Management System in HFCs

With the expansion in the business of HFCs and gradual integration of the housing finance system with the general financial system, the risks associated with the operations of HFCs are getting increasingly complex requiring strategic management. HFCs in general are, because of the nature of their business, vulnerable to the problem of asset - liability mismatch and the concomitant interest rate and liquidity risks. In view of this, it has been decided to introduce an Asset Liability Management (ALM) system for the HFCs, as part of their overall system for effective risk management. Guidelines for ALM system in HFCs have been issued in June 2002, laying down broad guidelines in respect of systems for management of liquidity and interest rate risks which forms part of the ALM function. To begin with, HFCs meeting the criteria of asset base of Rs. 100 crore or more or holding public deposits of Rs. 20 crore or more as per the audited balance sheet as of March 31, 2002 have been advised to put in place the ALM system, though in due course of time, the system could be implemented in all HFCs. HFCs have been advised to commence trial run during the period ending September 30, 2002, which may continue during the half year beginning October 1, 2002. The guidelines should be fully operational by the year ending March 31, 2003.

HFCs' investments in units of US 64 - relaxation

In the light of the Government decision to allow the redemption of US 64 units on May, 2003 either at Rs.10 or at Net Asset Value (NAV) as on that date, it has been decided to permit HFCs, which desire to do so to carry their investments in the said units as long term at book value, subject to the conditions :

- i) HFCs would be required to amortize the premium over the face value over a period upto May 23, 2003
- ii) HFCs would not be allowed, for any reason, to sell/shift these units before the redemption date, i.e. May 31, 2003 either in part or full.

HFCs under the Regulatory Ambit of NHB

The total number of HFCs on the mailing of NHB stood at 386 as on June 30, 2002. There have been 46 additions to the list and 2 deletions during the year. The additions include companies that applied for registration under NHB Act and were found to be housing finance institutions in terms of the definition given under the said Act.

In terms of section 29A of NHB Act, every HFC is required to obtain a certificate of registration from NHB for commencing or carrying on the business. Of the above 386, 257 HFCs have not applied for registration as required in terms of NHB Act and consequently are not eligible to carry on the business of housing finance institution. A large number of these companies are not traceable at their last known addresses and may have vanished. As per the last information available with NHB, many of these companies held public deposits. Of these 257 HFCs, as many as 30 HFCs stand prohibited from acceptance of deposits. Appropriate follow-up action in co-ordination with other regulatory authorities is being initiated in these cases to ensure that these ineligible HFCs do not carry on the business of a housing finance institution, in contravention of the provisions of the NHB Act. Excluding these ineligible HFCs, there are 129 HFCs on the mailing list, of which 50 are known to be holding public deposits.

Activities of the HFCs are monitored through a system of off-site surveillance and on-site inspections so as to ensure their compliance with the regulatory discipline and to assess the financial health. As a part of the off-site surveillance system, the prescribed returns and statements are obtained from the HFCs and scrutinised/analysed. Returns have been received from 85 HFCs during the year. 25 HFCs were inspected during the year. These included different categories of companies, viz. those prohibited from acceptance of deposits (to verify compliance with the prohibitory order), those accepting/holding public deposits (to verify compliance with provisions of the Directions) and those where inspection was undertaken to facilitate a decision on the application for registration or for financial assistance from NHB. Based on the on-site and off-site feedback about a company's affairs, appropriate interventions are made wherever warranted. During the year, two HFCs were prohibited from acceptance of deposits and alienation of assets. The total number of HFCs which have been prohibited from accepting/renewing deposits stood at 35 as on June 30, 2002.

Under section 29A of the NHB Act, certificates of registration have so far been issued to 32 HFCs, including 5 cases where certificates not valid for acceptance of public deposits have been issued. Applications for certificate of registration have

been declined/rejected in 5 cases, while in one case, the application has been withdrawn.

Supervision of HFCs: Coordination with other Regulatory Authorities

A close and continuous co-ordination among the various agencies and authorities is essential for effective enforcement of the legal and regulatory framework. Towards this end, the Reserve Bank of India has been organising State Level Co-ordination Committee meetings, where NHB has begun participating as the regulator of HFCs. The meetings bring together various regulatory authorities concerned with protection of depositors' interest and provide a platform for exchange of information and views. Besides deliberations on issues of concern from a policy perspective, specific/individual cases are also discussed at these meetings with a view to evolving a coordinated approach.

Scheme for Guaranteeing Bonds of HFCs

Housing Finance companies depend to a great extent on refinance assistance from NHB. However, the extension of refinance assistance by NHB is constrained by various factors like NHB's own NOF, HFCs' borrowing power etc. In addition, in the present liberalized environment, the HFCs prefer to raise resources directly from market in order to eliminate the cost of intermediation. Besides NHB refinance, HFCs mainly depend upon term loans from banks and public deposits. Of late, the maturity profile of public deposits has been shortening leading to asset liability mismatches for HFCs. One way to overcome this problem is floatation of bonds/debentures having a longer maturity period of say five to seven years. To attract the investors at competitively low rates, such bonds/debentures should have sufficiently high rating. Many of the HFCs have not been able to float bonds/debentures because of the lower credit rating from the rating agencies for various reasons including the inherent mismatch between assets and liabilities. NHB's intervention in this area was considered critical and accordingly a scheme was introduced to extend guarantee to the bonds/debentures to be floated by HFCs meeting certain laid down criteria. Under the scheme, NHB will provide top ended guarantee relating to the repayment of principal and interest which will provide necessary credit enhancement and will enable HFCs to acquire higher credit rating leading to competitive pricing of these instruments. The salient features of the scheme are as under:

Scope of the Scheme

The Scheme envisages provision of guarantee by NHB to the investors regarding repayment of principal and interest during the top end (say last two years)

irrespective of the repayment schedule fixed by the HFC and the guarantee shall not exceed 67% of the total amount to be raised and the interest thereof.

Terms and Conditions for Guarantee

The HFC desirous of availing the guarantee from NHB shall comply with the following terms and conditions:

(i) The bond issue shall carry at least a rating of "AA-" from an approved rating agency. However, the Bank may consider providing the guarantee in the case of an instrument being rated 'A' subject to the HFC meeting the following requirements:

- a) NOF shall be Rs.30 crores or more
- b) Net NPA shall be less than 2%
- c) The HFC shall have earned profit during the last three years or since its inception if it is in existence for less than 3 years
- d) The overdue for more than 3 months should not exceed 10% of the aggregate demand for the year
- e) The promoters and the management of the HFC are found to be satisfactory
- f) The HFC shall have complied with all the provisions of the Housing Finance Companies (NHB) Directions, 1989 as amended from time to time and all the provisions of the Guidelines on prudential norms.

(ii) The maturity of the bonds/debentures shall be for a period of five years to begin with.

(iii) The market shall determine the coupon rate.

Exposure Norms

For the purpose of extending guarantee to the HFCs, exposure limits will be fixed by NHB along with the annual refinance limit. The aggregate amount of the guarantee in a year can be maximum up to the actual amount of the bond to be floated at a time or the annual refinance limit provided in a particular year, whichever is less. The overall borrowing including the amount to be mobilised through the bond/debenture issue shall not be more than 7 times the NOF of the company.

Minimum Size of Each Issue

The minimum size for each issue should be Rs.10 crores and it will be subject to the overall borrowing powers fixed under the Housing Finance Companies

(NHB) Directions, 1989, as amended from time to time.

Security

The HFCs desirous of availing the guarantee will have to create a floating charge on the assets equivalent to 125% of the principal amount in favour of NHB. In case the HFC offers any other security in addition to a floating charge for its existing borrowing or is in a position to provide further security, the same shall also be asked for. In case of the HFCs, where personal or corporate guarantee has been obtained, the same shall be extended to cover the guarantee for the bonds/debentures.

Guarantee Fee

For extending the guarantee, the HFCs shall be charged 75 basis points per year of the amount to be floated as guarantee commission and this shall be payable upfront.

Creation of Reserves

The HFC shall create appropriate bond/debenture redemption reserves as may be laid down under the Companies Act from time to time

Returns

The HFC shall furnish such returns/information as may be laid down from time to time for the purpose of availing refinance.

Golden Jubilee Rural Housing Finance Scheme

The targets under Golden Jubilee Rural Housing Finance Scheme (GJRHFS) were successfully achieved for the fifth consecutive year during 2001-02 by the various implementing agencies. The achievement figures for the year 2001-02 are detailed below:

(number of dwelling units)

Institution	Target 2001-02	Achievement 2001-02	Target 2002-03
Approved HFCs	88800	65754 (74.05)	102400
Public Sector Banks	83100	106584 (128.26)	106300
Cooperative Sector	3100	14930 (481.61)	16300
TOTAL	175000	187268 (107.01)	225000

Figures in parenthesis indicate percentage achieved

NHB has extended training assistance to implementing agencies and awareness building programmes to ensure effective implementation of the Scheme. The State Level Bankers' Committee (SLBC) forum has also been successfully utilised by NHB to monitor the progress of the Scheme.

Training

Among the multiple promotional responsibilities entrusted to NHB, development of human capital assumes a position of prominence. This is sought to be addressed through training programmes, seminars and symposia on matters related to housing for the officials of HFCs, banks and public housing agencies.

During the year, NHB conducted six training programmes all over the country involving participation from HFCs, state housing boards and development authorities. The programmes addressed various specialised topics such as regulatory framework, securitisation, project finance etc. In one programme, officials from leading housing finance institutions in Bangladesh also participated.

NHB extended financial and design support to NCHF for conducting four training programmes for the personnel of housing co-operatives. NCMDARDB was also provided financial assistance for training programmes for officials of co-operative institutions and banks operating in the rural areas. NHB also provided design and faculty support to banks, HFCs and Human Settlement Management Institute (HSMI).

Mortgage-Backed Securitization (MBS)

NHB introduced the MBS transactions in the industry under their provisions of the National Housing Bank (Amendment) Act, 2000 and has been floating MBS issues from time to time as part of its Charter. NHB launched its fifth issue of MBS in June 2002 comprising of a pool of 4526 mortgages involving Rs. 85.35 crores originated by Canfin Homes Limited. The issue witnessed an overwhelming response from the investors' community. The issue was subscribed by 7 institutional investors at a coupon of 8.90%. The subscription of this issue signifies growing investors' interest in the MBS paper. With this issue, NHB completed securitization of 5 pools of housing loan assets aggregating Rs. 360 crores.

The NHB structure involved assignment of retail housing loans from the HFCs to NHB. The loans, repayable in equated monthly instalments, are packaged and offered to investors as Pass Through Certificates (PTCs) by NHB acting as Issuer

and Trustee. The housing loan assets which constitute the receivables together with the underlying security are held by the Special Purpose Vehicle (SPV) in the nature of a Trust declared by NHB.

Recognizing the role of mortgage backed securitization (MBS) in linking the housing sector with the capital market and pursuant to the credit policy announcements of April 2002, the Reserve Bank of India issued guidelines in May 2002 for investments by banks in MBS. In terms of the RBI guidelines, investments by banks in MBS backed by the mortgages of housing finance companies recognized and supervised by National Housing Bank, will carry risk weightage of 50% for the purpose of capital adequacy and shall qualify for inclusion in the annual housing finance allocation stipulated for the banks by the RBI.

The overwhelming response by investors to the NHB issue reflects growing confidence in MBS Paper. It also underscores NHB's role as a market developer and facilitator of MBS transactions. NHB is also in the process of developing operational systems and behavioural models of MBS as an on-going exercise based on the experiences drawn from its previous issues. Frequent MBS issuances is expected to spur the secondary market activity in the MBS products paving the way for a vibrant and deep secondary mortgage market in the country.

Board of Directors

Change in incumbency

Section 6(1)(b)

Shri A. Ramamurthy, Chairman, Life Insurance Corporation of India w. e. from February 20, 2002 in place of Shri G.N. Bajpai, Chairman, Life Insurance Corporation of India.

Shri S.B.Mathur, Chairman, Life Insurance Corporation of India w.e.from August 16, 2002 in place of Shri A.Ramamurthy, Chairman, Life Insurance Corporation of India .

Shri Ashok Kumar w. .e. from February 22, 2002.

Section 6(1)(c)

Shri Pankaj Jain, Chairman & Managing Director, Housing & Urban Development Corporation Ltd. w. .e. from June 05, 2002 in place of Shri V. Suresh, Chairman & Managing Director, Housing & Urban Development Corporation Ltd.

Section 6(1)(e)

Shri Wilfred Lakra, Joint Secretary to the Government of India, Ministry of Rural Development w. e. from June 05, 2002 in place of Shri Satish Chandra, Joint Secretary to the Government of India, Ministry of Rural Development

Section 6(1)(f)

Shri J.K. Dev, Principal Secretary to the Government of Orissa, Housing and Urban Development Department, Government of Orissa w. e. from November 16, 2001 in place of Shri Ravi Bhushan Budhiraja, Principal Secretary, Housing & Special Assistance, Government of Maharashtra

Shri A.K. Samantaray, Principal Secretary to the Government of Orissa, Housing and Urban Development Department, Government of Orissa w. .e. from June 05, 2002 in place of Shri J.K. Dev, Principal Secretary to the Government of Orissa, Housing and Urban Development Department, Government of Orissa.

Shri A. Bhattacharya, Secretary (Housing), Urban Development and Urban Housing Department, Government of Gujarat, w.e. from November 16, 2001 in place of Shri Babu Jacob, Principal Secretary, Public Works and Housing Department, Government of Kerala

Meeting of Board of Directors

During the year 2001-02 (July-June), the Board of Directors met 10 times.

Meeting of Executive Committee of Directors

During July 2001 to June 2002 the Executive Committee of Directors met twice.

Audit Committee of the Board

An Audit Committee of the Board comprising of four non-executive directors of the Bank was constituted in June, 2000. The Audit Committee acts as an interface between the management and the statutory and internal auditors overseeing the internal audit functions. It reviews the annual accounts, the internal audit reports

and compliance and also holds periodic dialogue with the statutory and internal auditors. The members of the Audit Committee met twice during the year 2001-02.

Human Resources

As a result of the recruitment exercise undertaken in the year 2000-01, the total strength of officers of the Bank increased to 79 as at the end of June 30, 2002 as compared to 73 as at the end of June 30, 2001. A total of 18 officers were promoted during the year.

The Bank continued in its endeavor of development of human capital by organising induction-training programme for its new recruits. Besides, officers across ranks were nominated for various general and specialised training programmes / seminars organised by NHB and other institutions as well as international agencies.

The pre-tax profit per employee increased from Rs.1.53 crore in 2000-01 to Rs. 2.00 crore in 2001-02.

Compliance with Reservation Policy

The policy 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, post-based rosters are being maintained by the Bank.

Rajbhasha

The Bank continued with its endeavour to ensure successful implementation and effective compliance of the Official Language Policy of the Government of India. The Bank has initiated 5 programmes to encourage enhanced use of Hindi in official work and the officers are being awarded for making valuable contribution in this regard.

The Bank celebrated the 'Hindi Chetna Month' from 14 August, 2001 to 14 September, 2001 wherein various in-house competitions were organised to develop Hindi usage skill among officers. Shri Shekhar Agarwal, CMD, awarded 11 officers under the various Hindi competitions and incentive schemes. Rajbhasha Running Trophy was awarded to 'Department of Economics & Statistics' for doing maximum work in Hindi.

During the year, Hindi Workshops on General and Technical subjects were also organized which proved very useful to the officers of the Bank.

Banking Division, Ministry of Finance inspected Head Office of the Bank regarding progress in use of Official Language. Officers of the Bank's Official Language Department attended regularly the meetings convened by Rajbhasha Implementation Committee, Reserve Bank of India and Delhi Bank Nagar Rajbhasha Implementation Committee.

NHB also launched its Hindi quarterly newsletter "Awas Bharti" during the year 2001-02. The Bank is now having two quarterly newsletters, viz., "Housing News" in bilingual and "Awas Bharti" in Hindi.

Miscellaneous

During the year 2001-02, a long-standing dispute between NHB and ANZ Grindlays Bank Ltd. was settled. In December 2001, the Hon'ble Supreme Court was informed that the parties have decided to settle the dispute on the lines suggested by it. Thereafter, the Court was pleased to pass an Order to the effect that out of the proceeds of the FDR lying with the Court amounting to Rs. 1645.87 crore, the appellant - ANZ Grindlays Bank Ltd. would be entitled to get Rs. 620.44 crore and the respondent - National Housing Bank will get Rs. 1025.43 crore. It also directed the parties to work out the remaining details. The long pending litigation is accordingly resolved.

During January-February, 2002, a team of officers from the Reserve Bank of India carried out an inspection to assess NHB's financial performance till the year ended June 30, 2001.

New Initiatives: Mortgage Credit Guarantee Company

The National Housing Bank, in collaboration with Canada Mortgage Housing Corporation (CMHC) has been developing the proposal for setting up the Mortgage Credit Guarantee Company. Other international financial institutions viz. The Asian Development Bank (ADB), International Finance Corporation (IFC) and the United Guarantee Corporation, a subsidiary of the American International Group (AIG) have also evinced interest in the proposed Company as partners and co-promoters.

The objective behind setting up of the Company is to expand lending operations for housing and improve home ownership among all segments of the population. The proposed Company will enable the borrowers to access housing loans on more affordable terms and conditions and will protect the lenders against

defaults from the borrowers. A joint presentation by NHB and CMHC was made to the Hon'ble Finance Minister. The Union Budget for the year 2002-03 announced the formulation of the scheme by the National Housing Bank. NHB is coordinating with all the proposed partners and is actively pursuing the proposal for its early implementation in terms of the announcement made in the Union Budget speech for 2002-03.

Future Outlook

The housing finance disbursed by the HFCs to the individuals has once again showed a robust growth during the year. However, like in the past, their presence is felt mainly in the urban and metropolitan areas. Some of the HFCs had during the year 2001-2002 opened branches in the semi-urban areas. The rural areas still continue to be underserved by the specialised housing finance institutions. However, the problem for the formal sector institutions to lend in the rural areas has been the availability of a suitable security. Usually, the formal sector financing institutions insist on mortgage of the property as security for the loan. But in most cases, due to non availability of lands records, it is not possible to verify the title to the land on which the house has been constructed. There is thus an urgent need to have these records created, preferably a computerised one for easy retrieval. The Government of India has introduced a scheme for the purpose in the year 1988-89. While some of the states have done well in computerising the land records in the rural areas, some other states are yet to do so. Early implementation of this scheme in all the states would lead to a better flow of institutional credit for housing in the rural areas where the shortage of housing is more.

It was mentioned in the last year's report that NHB is contemplating to introduce mortgage insurance in India. Significant progress towards this objective has been made during the current year. Besides the Canada Mortgage and Housing Corporation, the Asian Development Bank, the International Finance Corporation and the United Guarantee Mortgage Indemnity Company, a member of the American International Group Incorporated have expressed their interest to participate in this venture. It is likely that the new company would be operational before the end of March 2003. With the introduction of mortgage credit guarantee, it is expected that the housing finance market will expand and the section of the population which hitherto could not access credit from an institution in the formal sector will be in a position to do so through the scheme, thus the Government's objective of expanding homeownership in the country among all segments of the population will be achieved.

With the commercial banks evincing keen interest in extending loans for housing due to factors like low level of NPAs in this section and due to lack of demand

for funds from the other sectors of the economy, the ultimate borrower is benefited because of wider choice. Further, the cost of funds for the commercial banks being lower than that of the HFCs, the commercial banks in order to attract the business has reduced their rates of interest on housing loans. In addition, they have also waived some other charges like the processing fee and done away with certain other requirements like the guarantor etc. This has triggered a price war among the institutions extending housing loans and quite a good number of loans have been refinanced. In a highly fragmented and segmented market, the profit margins could be driven down to survival levels when volume drops precipitously. Luckily, the volume of new loans disbursed especially to the individual segment has maintained a steady growth during the previous year. The number of refinanced loans is expected to come down in the coming year as the rate differential among the institutions has narrowed down and there is more number of loans which are being originated at the new low level and the chances of these loans being refinanced are low.

Any economic activity undertaken is beset with risk and the business of extending housing loans is no exception. It is in this context, the National Housing Bank has introduced the Asset Liability Management guidelines for the housing finance companies which is more or less on the similar lines issued by the Reserve Bank to the commercial banks and the non-banking financial companies. Asset Liability Management is an effective tool for the overall risk management and the HFCs are expected to implement this during the year 2002-2003.

The next year could also see a series of mortgage backed securities issue in view of the significant concessions extended to the banking system by the Reserve Bank regarding their investment in such securities. Further the notification of the rules and procedures for recovery of housing loans as envisaged under the National Housing Bank (Amendment) Act, 2002 should also strengthen the confidence of the investors.

Thus, with the introduction of a mortgage credit guarantee scheme and the scheme for recovering the loans from wilful defaulters being made easy, the housing finance sector is expected to witness further growth during the coming years. With the mortgage backed securitisation picking up, the much needed long term resources should also be available for the sector.