

CHAPTER-II

INSTITUTIONAL FRAMEWORK FOR HOUSING FINANCE: HOUSING FINANCE COMPANIES (HFCs)

The banking institutions have entered the housing finance market with great vigor in the last few years compelling the housing finance companies to reinvent their areas of core competence. This phenomenon has brought into significant qualitative change in the fabric of housing finance system in India. As a result of aggressive competition and gradual softening of the rate of interest, the HFCs are being compelled to operate on a basis of a comparatively thinner spread. The coming years are expected to witness many mergers and consolidations in this segment of financial institutions which would eventually determine the future of HFCs. The key survival factors of a mortgage lender would depend on its ability to successfully manage the interest rate risk and maintain asset quality, to introduce and adopt technology advancement, to improve service range and quality while controlling the operating expenses. In this chapter, we will discuss in detail the operations of the housing finance companies and analyze their performance through certain important parameters during the year 2002-03.

With the Amendment of the National Housing Bank Act 1987 in 2000, HFCs are required to obtain Certificate of Registration (COR) from NHB to be eligible to carry on or commence the business of a Housing Finance Institution (HFI) effective from 12th June, 2000.

NHB has received data from 63 HFCs (including 17 HFCs which are not registered with NHB) under its system of off-site supervision in terms of the Housing Finance Companies (NHB) Directions, 2001. For the purpose of analysis of the data, these 63 HFCs are grouped into three categories as follows:

<i>Categories of HFCs</i>	<i>31st March, 2001</i>	<i>31st March, 2002</i>	<i>31st March, 2003</i>
A] Number of HFCs which have furnished the data	85	78	63
Out of above;			
A1] Number of HFCs approved for financial assistance from NHB (approved HFCs)	28	29	30
A2] Number of HFCs having NOF of Rs.50 lakh and above (excluding approved HFCs)	26	25	22
A3] Number of HFCs having NOF less than Rs.50 lakh (other HFCs)	31	24	11

Although with the introduction of the Liberalized Refinance Scheme of NHB in February 2003, the concept of approved HFCs has been done away with and substituted with the minimum rating through an internal credit rating model, the concept is used here to facilitate comparison. As the financial year of most of the HFCs is from April to March, the financial data given in this chapter is as on 31st March.

During the year 2002-03, there has been an increase in the paid up capital of the approved HFCs. Paid up capital which was Rs.2243.93 crore as on 31st March, 2002 increased to Rs.2700.53 crore as on 31st March, 2003, an increase of Rs.456.60 crore. As a result of increase in the paid up capital, aggregate NOF of this category of HFCs, which constitute the major part of the housing finance sector, increased by 12.23% (previous year 21.6%) from Rs. 6667.83 crore as on 31st March, 2002 to Rs.7483.11 crore as on 31st March, 2003. The decline in the rate of increase in NOF is mainly because of huge provisioning done by 2 major HFCs on account of their NPAs. Aggregate NOF of HFCs having NOF of Rs.50 lakh and above increased substantially from Rs. 72.32 crore as on 31st March, 2002 to Rs. 271.84 crore as on 31st March, 2003. This increase is due to inclusion of one HFC promoted by a State Government with a NOF of Rs. 213.97 crore under this category. On an overall basis, NOF increased from Rs.6733.23 crore as on 31st March, 2002 to Rs. 7757.93 crore as on 31st March, 2003, a net increase of Rs.1024.70 crore.

The outstanding housing loans as on 31st March, 2003 showed an increase of 18.34 % over the last year. It stood at Rs. 49237.97 crore, an increase of Rs. 7394.32 crore from Rs. 41843.65 crore as on 31st March, 2002. Out of the total outstanding of housing loans of Rs. 49237.97 crore, Rs. 48788.89 crore was on account of approved HFCs (accounting for 99.09%), Rs. 440.28 crore on account of HFCs with NOF more than Rs. 50 lakh. The other HFCs accounted for a meager Rs. 8.81 crore worth of out standing housing loans.

Table 2.1 : Broad financial information as on 31st March, 2003

(Rs. in crore)

Category of HFC	Paidup capital*	Free Reserves	Net Owned Fund (NOF)	Public Deposits o/s	Housing Loans o/s
A1] HFCs approved for financial assistance from NHB					
As on 31 st March, 2003	2700.53	5251.21	7483.11	12725.36	48788.89
As on 31 st March, 2002	2243.93	4596.86	6667.83	11216.90	41678.43
As on 31 st March, 2001	1892.55	3921.18	5483.54	8640.90	33100.96
A2] HFCs having NOF Rs.50 lakh and above (excluding approved HFCs)					
As on 31 st March, 2003	57.62	225.16	271.84	31.98	440.28
As on 31 st March, 2002	66.08	14.54	72.32	40.92	137.34
As on 31 st March, 2001	68.39	12.93	71.60	51.98	127.41
A3] Other HFCs					
As on 31 st March, 2003	3.62	0.36	2.98	2.98	8.81
As on 31 st March, 2002	12.03	1.06	(6.92)	10.36	27.88
As on 31 st March, 2001	10.01	0.59	0.67	26.41	21.43
A] Total					
As on 31 st March, 2003	2761.77	5476.73	7757.93	12760.32	49237.97
As on 31 st March, 2002	2322.04	4612.46	6733.23	11268.18	41843.65
As on 31 st March, 2001	1970.95	3934.70	5555.81	8719.29	33249.80

Source: Annual returns¹

* including preference shares which are compulsorily convertible into equity.

¹ All data used in this chapter have been sourced from Annual Returns submitted by HFCs to NHB

A. Public deposits

The aggregate outstanding public deposits with all reporting HFCs increased by 13.24 % to Rs.12760.32 crore as on 31st March 2003 as against the previous year's figures of Rs. 11268.18 crore.

a1] HFCs approved for financial assistance from NHB

The outstanding public deposits as on 31st March, 2003 of approved HFCs was Rs. 12725.36 crore as against Rs. 11216.90 crore during the previous year. The HFCs in this category accounted for 99.73% of the outstanding public deposits with all HFCs.

a2] HFCs having NOF of Rs.50 lakh and above (excluding approved HFCs)

The outstanding public deposits with HFCs having NOF Rs.50 lakh and above were Rs. 31.98 crore as against Rs. 40.92 crore as on 31st March, 2002, a decrease of Rs. 8.94 crore. This is largely due to the fact that certain HFCs in this category became ineligible to hold / accept fresh deposits on account of non-compliance with the provisions of the NHB Directions / National Housing Bank Act.

a3] Other HFCs

The outstanding public deposits with other HFCs, which were Rs.10.36 crore as on 31st March 2002 substantially reduced to Rs.2.98 crore as on 31st March 2003. Reduction in the public deposits of this category of HFCs is due to the same reasons as mentioned under a2 above.

A.1. Size-wise Classification of Public Deposits

The share of public deposits of over Rs.1,00,000 accounted for 58.53% of the total deposits as on 31st March, 2003 whereas it was 56.67% as on 31st March, 2002.

Table 2.2: Size-wise public deposits with all reporting HFCs

(Rs. in crore)

Size	Outstanding public deposits as on 31 st March					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
Upto Rs.5,000	84.14	0.97	53.55	0.47	45.64	0.36
Rs.5,001 to Rs.10,000	353.15	4.05	467.13	4.15	291.64	2.29
Rs.10,001 to Rs.25,000	1042.04	11.95	1240.28	11.01	1184.96	9.29
Rs.25,001 to Rs.50,000	1393.31	15.98	1808.71	16.05	1936.18	15.17
Rs.50,001 to Rs.1,00,000	1281.89	14.70	1313.09	11.65	1832.59	14.36
Over Rs.1,00,000	4564.76	52.35	6385.42	56.67	7469.31	58.53
Total	8719.29	100.00	11268.18	100.00	12760.32	100.00

A.2 Maturity-wise Classification of Public Deposits

An analysis of maturity wise classification of public deposits indicates the depositors' preference for public deposits having maturity period of 24 months or more but less than 48 months. In as much as 45.45% (previous year 49.28%) of the deposits outstanding with the HFCs were concentrated in this category.

The public deposits with maturity period of 12 months or more but less than 24 months decreased from Rs. 871.37 crore as on 31st March, 2002 to Rs. 785.10 crore as on 31st March, 2003. But, public deposits with a maturity period of 24 months or more but less than 48 months increased from Rs. 5553.14 crore as on 31st March, 2002 to Rs. 5799.53 crore as on 31st March, 2003, but in percentage term, it reduced from 49.28% to 45.45% of the total outstanding deposits as on 31st March, 2002 and 31st March, 2003, respectively. Considering the fact that the housing loans are long-term in nature, it is observed that outstanding deposits with more than 48 months maturity accounted for 48.39% of the total outstanding deposits.

Table 2.3: Maturity-wise public deposits with all reporting HFCs

(Rs. in crore)

Maturity period	Outstanding public deposits as on 31 st March					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
Less than 12 months	9.98	0.11	9.55	0.09	1.68	0.01
12 months or more but less than 24 months	736.44	8.45	871.37	7.73	785.10	6.15
24 months or more but less than 48 months	4904.80	56.25	5553.14	49.28	5799.53	45.45
48 months or more but less than 60 months	344.91	3.96	192.06	1.70	499.37	3.91
60 months	1727.86	19.82	2510.03	22.28	2520.14	19.75
More than 60 months but less than 84 months	413.49	4.74	617.53	5.48	743.83	5.83
84 months	331.52	3.80	926.27	8.22	1224.66	9.60
More than 84 months	250.29	2.87	588.23	5.22	1186.01	9.30
Total	8719.29	100.00	11268.18	100.00	12760.32	100.00

A.3 Interest rate-wise Classification of Public Deposits

Keeping pace with the declining trend in the interest rates observed in the financial sector, the maximum amount of deposits clustered around the interest rate of 9% to 11%, which accounted for 51.19% (previous year 62.03%) followed by interest rate of 6% to 9% which accounted for 28.59% of the public deposits outstanding as on 31st March, 2003. The share of deposits carrying interest rates of 11% or more came down sharply from 59.88% as on March 31, 2001 to 20.15% as on 31st March, 2003.

Table 2.4: Interest rate-wise public deposits of all reporting HFCs

(Rs. in crore)

Rate of interest (Rate per annum)	Outstanding public deposits as on 31 st March					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
Below 6%	9.84	0.11	8.74	0.08	8.94	0.07
6% to below 9%	18.75	0.21	548.38	4.87	3648.43	28.59
9 % to below 11%	3470.14	39.80	6990.08	62.03	6531.46	51.19
11% to below 13%	3825.00	43.87	2994.91	26.58	2108.32	16.52
13% or more	1395.56	16.01	726.07	6.44	463.17	3.63
Total	8719.29	100.00	11268.18	100.00	12760.32	100.00

B. Borrowings and other deposits (excluding public deposits)

The aggregate outstanding borrowings of HFCs as on 31st March, 2003 were Rs. 46980.51 crore as compared to Rs.38183.88 crore as on 31st March, 2002, showing an increase of around 23% over previous year.

C. Housing Loans

Table 2.5: Housing Loan Sanctioned & Disbursed by HFCs

(Amount in Rs. crore)

	2000-2001	2001-2002	2002-2003
SANCTIONED	14289.16	17633.27	22338.34
DISBURSED	12637.85	14614.44	17832.01

Data provisional; Based on the periodic information received from approved HFCs

The aggregate outstanding housing loans of all reporting HFCs, which were Rs.41843.65 crore as on 31st March, 2002 increased by 17.67% and stood at Rs. 49237.97 crore as on 31st March, 2003. Here again, the HFCs receiving financial assistance from NHB accounted for a little more than 99% of the outstanding housing loans. The outstanding housing loans with these HFCs which was Rs.41678.43 crore as on 31st March, 2002 increased to Rs.48788.89 crore as on 31st March, 2003.

A trend based on the data received from 20 major HFCs indicated that the loans in the term period above 7 years which formed 63% of the total housing loans outstanding as on 31st March, 2002 reduced to 48% as on 31st March, 2003.

Table 2.6: Term-wise Housing Loans outstanding of Approved HFCs

(Data received from 20 major HFCs* approved for refinance from NHB)

(figures in percentage)

Term of Housing Loan	2001-2002 (%)	2002-2003 (%)
<i>Upto 1 year</i>	9.81	9.23
<i>1 to 3 years</i>	9.13	15.88
<i>3 to 5 years</i>	9.48	14.00
<i>5 to 7 years</i>	8.56	12.70
<i>Above 7 years</i>	63.02	48.19
TOTAL	100.00	100.00

* Excluding HUDCO

The housing loans upto Rs. 3 lakh which formed 40.22% of the total loans disbursed by this category of HFCs during 2002 reduced to 32.34% of the total loans disbursed during 2003. The share of housing loans in the category above Rs.5 lakhs increased from 37.78% to 42.99% during the same period.

Table 2.7: Size-wise disbursements of Housing Loans by Approved HFCs

(Data received from 20 major HFCs* approved for refinance from NHB)

(figures in percentage)

Size of Housing Loan (Rs.)	2001-2002 (%)	2002-2003 (%)
<i>Less than 50,000</i>	11.38	0.18
<i>50,001 – 1,00,000</i>	1.52	1.68
<i>1,00,001 – 3,00,000</i>	27.32	30.48
<i>3,00,001 – 5,00,000</i>	22.00	24.67
<i>5,00,001 – 10,00,000</i>	21.33	23.06
<i>Above Rs. 10,00,000</i>	16.45	19.93
TOTAL	100.00	100.00

* Excluding HUDCO

D. Other loans and advances

Other loans and advances outstanding of all reporting HFCs were Rs. 13357.94 crore as on 31st March, 2003 (corresponding figure as on March 31, 2002 were Rs.9666.35 crore) These loans and advances mainly included urban infrastructure loans disbursed by HUDCO.

E. Investments

Aggregate investments of all reporting HFCs has recorded an increase of 14.29% over the previous year and stood at Rs. 6516.66 as on 31st March, 2003 from Rs. 5702.07 crore as on 31st March, 2002.

A comprehensive table with important financial parameters pertaining to major HFCs is given in the annexure.