

## CHAPTER VI

### ASSET QUALITY IN HOUSING FINANCE

The Banking sector was led to accord significant attention towards the quality of assets due to increasing level of Non Performing Assets (NPAs). However, the level of NPAs in housing finance is comparatively low. This has been the major factor for more and more players to enter the housing finance business. The fact that housing finance is a comparatively safe business can be observed from the fact that during the last few years, the proportion of NPAs to total assets of the HFCs registered with NHB and having asset base of more than Rs. 10 crores, (these HFCs account for more than 99% of the total business of all HFCs) has been declining. However, this trend has reversed during the year 2002-03 and the proportion of gross NPAs to total assets of these companies increased from a level of 2.23% as at the end of March, 2002 to 2.39% as at the end of March, 2003.

There were 27 HFCs(excluding HUDCO) registered with NHB and having asset base more than Rs. 10 crores as at the end of March, 2003. For the purpose of analysis, these companies have been grouped according to their asset size as given below:

**Table 6.1: Asset Base of Approved HFCs**

Asset Size	No. of Companies
Between Rs 10 crore and Rs.150 crore (Group A)	10
Between Rs.150 crore and Rs. 500 crore (Group B)	7
Above Rs.500 crore (Group C)	10

Total assets of these companies increased from Rs. 36145.86 crore as at the end of March, 2002 to Rs. 43053.20 crore by 31<sup>st</sup> March, 2003. During the same period gross non-performing assets increased from the level of Rs.807.32 crore to Rs.1029.98 crore. In the percentage terms, the proportion of gross NPAs to total assets has increased from 2.23% as at the end of March, 2002 to 2.39% as on 31<sup>st</sup> March, 2003.

Similarly, the net NPAs which were Rs. 619.47 crore as on 31<sup>st</sup> March, 2002, increased to Rs. 815.68 crore by the end of March, 2003 and the proportion of net NPAs to total assets increased from 1.71 % on 31<sup>st</sup> March, 2002 to 1.89% as on 31<sup>st</sup> March, 2003.

In the case of HFCs with asset size of more than Rs. 10 crores and up to Rs.150 crore the gross NPAs are increasing over the years. Gross NPAs in this category of HFCs increased from Rs. 50.35 crore as at the end of March, 2001 to Rs. 57.22 crore as on 31<sup>st</sup> March, 2002 and further to Rs.61.55 crore by the end of March, 2003. Similarly, the proportion of gross NPAs to total assets for this category witnessed an increase

from the level of 11.43% as on 31<sup>st</sup> March, 2001 to 13.55% by the end of March, 2002 but marginally declined to 13.5% by the end of March, 2003. A similar trend was observed in the case of net NPAs. The proportion of net NPAs to total assets of these companies increased from 8.66% as on 31<sup>st</sup> March, 2001 to 9.54% by the end of March, 2002 but declined to 9.43% by end of March, 2003. This indicates the increasing level of awareness about asset quality among the small HFCs.

In respect of HFCs having asset size above Rs.150 crore and up to Rs.500 crore the gross NPAs have declined from the level of Rs.186.97 crore as on 31<sup>st</sup> March, 2002 to Rs.175.68 crore by the end of March, 2003. In the percentage terms, the proportion of gross NPAs to total assets of these companies is on the decline and this percentage share declined from 15.16% as at the end of March, 2001 to 10.61% by the end of March, 2002 and further to 8.02% by the end of March, 2003. The variation in the proportion of net NPAs to the total assets has been similar to the variation observed in the case of proportion of gross NPAs to total assets. It decreased from 14.82% to 10.24% during 2001-2002 and further to 5.30% during 2002-2003.

For companies having an asset size above Rs.500 crore, it is observed that the declining trend of NPAs as a percentage of total assets during the last few years has reversed and this proportion has increased during the year 2002-03. This proportion decreased from 1.81% at the end of March, 2001 to 1.66% as at the end of March, 2002 but it has increased to 2.39% by the end of March, 2003. Similarly, the proportion of net NPAs to total assets for these companies decreased from 1.52% to 1.17% during 2001-2002 but increased to 1.89% during 2002-2003. This trend clearly indicates the compromise on the part of big HFCs on account of asset quality in order to maintain/increase their market share in the highly competitive environment due to more and more players taking active interest in housing finance.

**Table 6.2: NPAs for Various Groups of HFCs Classified according to Asset Size**  
(Rs in Crore)

	Total Assets	Gross NPAs	Gross NPAs as % of Total assets	Net NPAs	Net NPAs as % of Total assets
<b>Group A</b>					
2001	440.41	50.35	11.43	38.16	8.66
2002	422.17	57.22	13.55	40.28	9.54
2003	455.92	61.55	13.50	42.97	9.43
<b>Group B</b>					
2001	1160.03	175.86	15.16	171.89	14.82
2002	1762.47	186.97	10.61	180.51	10.24
2003	2190.31	175.68	8.02	116.10	5.30

<b>Group C</b>					
2001	27366.55	495.24	1.81	417.22	1.52
2002	33961.22	563.13	1.66	398.69	1.17
2003	40406.97	792.75	1.96	656.61	1.63
<b>Total</b>					
2001	28966.99	721.45	2.49	627.26	2.17
2002	36145.86	807.32	2.23	619.47	1.71
2003	43053.20	1029.98	2.39	815.68	1.89

*Note: It may not be possible to draw a direct comparison with the figures published in the last report due to regrouping of HFCs on the basis of their asset size as on 31.3.2003*

In terms of the classification of NPAs as per the prudential norms, the sub-standard assets accounted for about 53% of the total NPAs during the year 2001 and by the year 2002 this share increased to 59.32%. However during 2002-03 the percentage of sub-standard assets to total NPAs declined to 58.36%. During the year 2001-02, the share of doubtful assets in the total NPAs has declined from 47.06% to 40.29%. This decrease in the share of doubtful assets is approximately equal to the increase in the proportion of sub-standard assets in the total NPAs. From this it may be inferred that the accounts, which have become doubtful during the last couple of years have shown some improvement during the year. However, the increase in percentage share of loss assets over the last two years is a matter of concern.

**Table 6.3: Break-up of Non-Performing Assets**

*(per cent)*

Category/Year	2001	2002	2003
Sub-standard	52.88	59.32	58.36
Doubtful	47.06	40.29	40.87
Loss	0.06	0.39	0.77