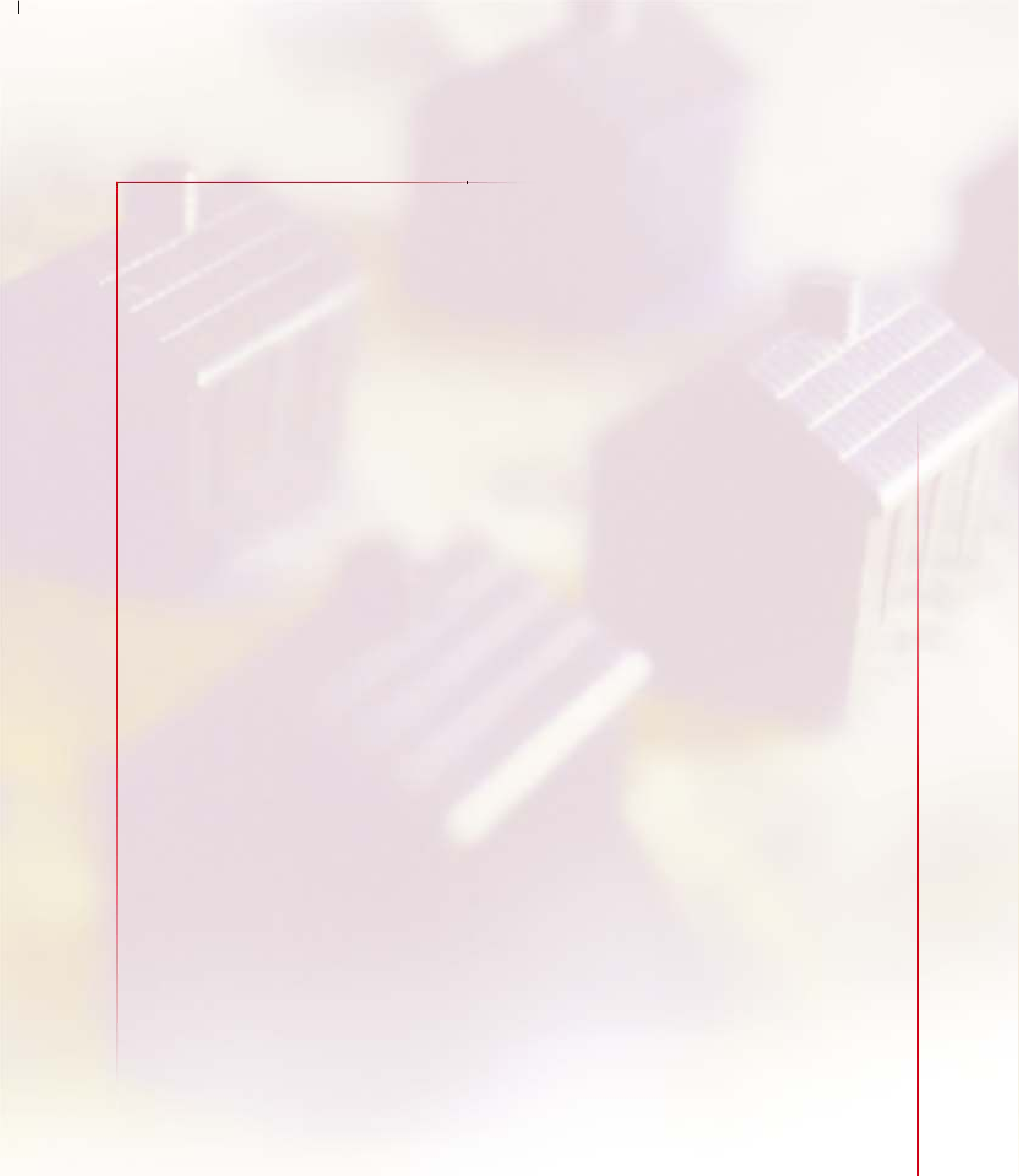
ANNUAL REPORT

OF

NHB

2002-03



NHB's Vision

NHB ensures the functioning of a sound and healthy housing finance system in India through effective regulation and supervision of housing finance institutions. NHB as a financial institution is also known for its commitment, innovation and quality of service, offering a broad spectrum of financial products to address the needs of the housing sector with motivated employees working in a congenial and participative work environment.

When people think of financial services related to housing, they think of NHB.

NHB Board of Directors

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

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

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

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

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

Shri L.M. Mehta,
Chairman & Managing Director,
Housing & Urban Development Corporation Ltd.
(under Section 6(1) (c) of 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 Shekhar Agarwal,
Joint Secretary to the Government of India,
Ministry of Finance
(under Section 6(1) (e) of the National Housing Bank Act, 1987)

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

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

Shri A.K. Samantaray,
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 V. Sridar
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,
Govt. of Orissa

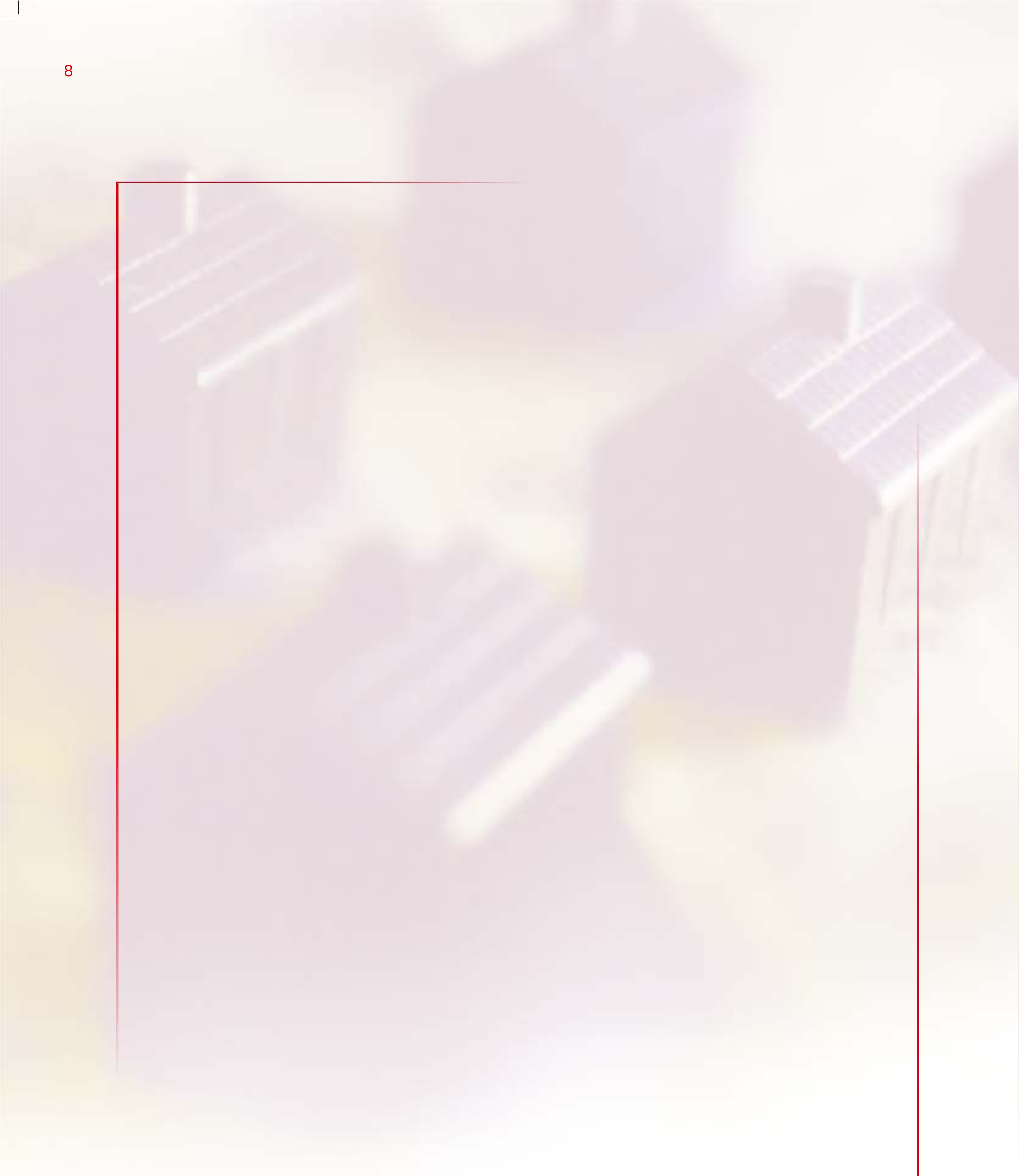
NHB
Audit Committee of the Board

Shri S.B. Mathur
Chairman & Managing Director,
Life Insurance Corporation of India

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



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Performance at a Glance

(Amount in Rs. Crore)

	2002-03	2001-02	% Change
Share Capital	450.00	350.00	(+) 28.57%
Net Owned Fund	1538.63	1317.45	(+) 16.79%
Disbursement	2782.78	1136.05	(+) 144.96%
Total Assets	10289.66	7082.54	(+) 45.28%
Operating Profit *(as per P & L Account)*	136.57	196.27	(-) 30.42%
Operating Profit *(after excluding abnormal items)*	217.40	154.19	(+) 41.00%
Profit on sale of Investment	46.04	11.25	(+) 309.44%
Staff Productivity	117.38	92.00	(+) 27.59%

Working Results

	2002-03	2001-02
Yield on Deployment	10.88%	12.13%
Cost of Borrowing (Cumulative)	9.12%	11.48%
Cost of Borrowing (Incremental)	6.03%	8.92%
CRAR	27.96%	23.56%
Return on Average Working Funds	0.82%	0.91%
Return on NOF	8.45%	8.60%

This is the 15th 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, 2002 to June 30, 2003.

Financial Highlights 2002-03

- Operating profit (after exclusion of abnormal items) increased from Rs. 154.19 crore in 2001-02 to Rs.217.40 crore in 2002-03 – an increase of 41%.
- Capital to Risk-weighted Asset Ratio (CRAR) improved from 23.56% in 2001-02 to 27.96% in 2002-03.

Performance Highlights 2002-03

- The Bank introduced a liberalised refinance scheme for housing finance companies and banks with risk based pricing and floating rate options which was accepted favourably in the market. Consequently, aggregate financial disbursements in 2002-03 increased by 145% as compared to last year and reached a level of Rs. 2782.78 crore.
- Cumulative disbursals crossed Rs.10, 000 crore and stood at Rs. 10312.23 crore as at the end of June, 2003.
- Consequent to the Budget announcement 2002-03, NHB launched the Capital Gains Bonds Issue on August 14, 2002. As on June 30, 2003, NHB received subscription amount of Rs.1947.90 crore from 7678 investors.
- A sum of Rs.400.00 crore was raised under Tier-II capital having a tenor of 63 months at a coupon rate of 5.77%
- The Bank successfully launched two more issues of mortgage-backed securities.

Other Highlights 2002-03

- The Reserve Bank of India has subscribed additional equity capital of Rs.100.00 crore raising the authorised and paid up capital of NHB to Rs.450.00 crore.
- NHB has, for the first time obtained rating of its debt instruments and the same have been rated as 'AAA(ind)' by Fitch Ratings India Private Limited and 'CARE AAA' by Credit Analysis and Research Limited, denoting highest quality carrying negligible investment risk.
- The Bank amended the Housing Finance Companies (NHB) Directions, 2001 thrice during the year 2002-03 to include new provisions for exposure to stock market, increase ceiling on borrowing and deposits of HFCs viś-a-viś their NOF, and to reduce the ceiling on rate of interest payable by HFCs for public deposits.
- NHB introduced policy on interest rate swap transactions (Rupee derivatives) in accordance

with the guidelines of the Reserve Bank of India in order to hedge the interest rate risk associated with its outstanding borrowings.

- With a view to reduce the cost of outstanding borrowings of earlier years, NHB has restructured certain outstanding term loans.

- In order to assess the financial position of housing finance companies and verify their compliance with the Directions issued by NHB, the Bank carried out 29 on-site inspections during 2002-03 as compared to 25 inspections carried out last year.

- The long-standing dispute between NHB and the State Bank of India pertaining to securities transaction during 1992 was settled during the year 2002-03.

- During the year NHB organised five training programmes for the various institutions in the housing sector besides sponsoring six programmes conducted by National Cooperative Housing Federation of India (NCHF) and National Centre for Management Development in Agriculture and Rural Development Banking (NCMDARDB). NHB also designed and provided faculty support for specific workshops for the personnel of leading Housing Finance Companies and Banks.

The Domestic Economy 2002-03

The growth momentum observed in the industry and services sector in the previous year continued during 2002-03 and showed stronger signs of revival. These positive trends despite a global economic slowdown, volatile geo-political situations, continued monsoon deficiency and challenge of cross-border terrorism once again proved the resilience of the macro-economic fundamentals of the Indian economy. As a welcome sign these growth recoveries went hand in hand with low inflation, comfortable reserves and stable market conditions. Unlike the earlier years, the drought situations in several parts of the country were tackled through an organized distribution network that prevented any unwelcome flare-up in prices of essential commodities.

Although the money supply growth was slow, the economy observed easy liquidity conditions. The increase in foreign exchange assets and cuts in CRR also added to the liquidity. Besides, the absence of alternative avenues of investment also led to an increase in bank deposits despite falling deposit rates. The softening of the interest rates continued while the non-food credit showed signs of picking up. A revival in industrial activity is expected to lead to a further increase in the off-take of non-food credit.

As per the Central Statistical Organisation data, GDP at factor cost grew at 5.6% in the previous year as against the earlier estimates of 5.4% growth. This was mainly due to an upward revision in growth rates of the manufacturing, trade, transport and communication sectors. However, the growth rate of agriculture and allied activities remained steady without any marked improvement.

While the mid-term Review of Monetary and Credit Policy released in October 2002 by the Reserve Bank of India had projected the GDP growth in the range of 5.0 to 5.5 per cent during 2002-03, the advance estimates for 2002-03 released by the CSO in January 2003 has placed GDP growth at 4.4 per cent, assuming an estimated decline in the output from agriculture and allied activities.

Housing & Related Issues

Housing is one of the basic needs of mankind in terms of safety, security, self-esteem, social status, cultural identity, satisfaction and achievement. It is one of the major determinants of economic well being. The development of satisfactory housing has always been the priority in both policy formulation and its implementation.

A rapid rise in population results in higher demand of dwelling units for residential purposes. This coupled with the growth in household formation and increased rural-urban migration resulting from non-availability of opportunities in rural areas has resulted in severe pressure on urban infrastructure in recent years. The consequence has been overcrowding and unhealthy living environment, shortages of basic amenities and finally social and economic deprivation. All major urban centers in our country are gradually becoming victims of such civic deficiency.

As per the latest Census 2001, India has population of over 1027 million, which is second highest after China, with an unfavourable land-man ratio. As the country enters an era of economic growth, economic liberalisation and prosperity, cities seem not yet ready to accommodate the growing population and provide work and services and environmental infrastructure for all. The twin problems of affordability and availability continue.

The housing problem should not be envisaged as a mere demand-supply problem. Because of inequitable income distribution in our country, there is bound to be a wide gap between the demand for the houses and the need, because the need is translated into demand only when it is backed by the purchasing power. Only a supply side intervention will not solve the problem, though it can alleviate the same.

The housing finance sector, however, continued to grow during the year 2002-03, with the banking sector evincing keen interest which in turn could have been fueled by the lack of preferable alternative avenues for investment. As per the preliminary reports, the banking sector crossed Rs. 30,000 crore mark in housing finance disbursal whereas the housing finance companies also came close to disburse Rs. 18,000 crore in the year 2002-03. However, the fierce competition among the various players trying to share the pie of the housing finance business has resulted in relaxation of sanctioning norms causing regulatory concerns. The Reserve Bank of India has asked commercial banks to be more vigilant while disbursing housing loans.

Budget 2003-04: Broad Strategies

With a view to ensure the total well being of Indian citizens as well as the economic security of the country, the Union Budget 2003-04 announced *"Panch Priorities"* which are outlined below:

a) Poverty eradication by addressing the 'life time concerns' of Indian citizens, such as health, housing, education and employment;

b) Infrastructure development;

c) Fiscal consolidation through tax reforms and progressive elimination of budgetary drags;

d) Agriculture and related aspects including irrigation; and

e) Enhancing manufacturing sector efficiency, including promotion of exports and further acceleration of the reform process.

Acknowledging the entrepreneurial fervor and creativity of Indians as the cornerstone of our basic development, the Government endeavours to unshackle the reservoir of potential by removing the economic and social hindrances mainly manifested in the form of poverty and inequality. It also makes a conscious effort to make available the budgetary provisions to the common populace with a renewed progress on the front of agriculture- the nation's life blood. The underlying importance of infrastructural development as the rudimentary requirement has also been acknowledged for which, private and public interest need to combine so as to generate maximum social welfare. Upon these foundations, and through encouraging specific manufacturing sectors, particularly activities where knowledge is industry, the Government envisages enhancing growth, improving incomes, generating employment and promoting exports. For a sustainable growth, fiscal consolidation would be the central pillar. Government also intends to eliminate budgetary drags. An all round growth, with a wider distributive spread of national wealth and greater disposable income to spend would usher a new era of reform in the Indian economy.

Budgetary Provisions for Housing

Consequent to the announcement made by the Hon'ble Prime Minister on Independence Day, 2002, the Union Budget 2003-04 announced the Government's commitment to improving national well-being by addressing the 'life-time concerns' of Indian citizens. 'Housing' occupies a prominent position as one of the basic necessities. Besides promoting the all important employment-generating activity of construction, it also stimulates demand for core industries like steel and cement. To maintain its present momentum of growth, the interest deductible under income tax up to Rs.1,50,000, for construction or purchase of a self-occupied house property has been continued and in addition, the Union Budget 2003-04 made the income from housing projects for construction of residential units, of prescribed specification, approved by the local authorities up to March 31, 2005, exempt from income tax. Thus, not only has the limitation with regard to the year of sanction, earlier frozen at March 31, 2001, now been extended, but the benefits of the scheme also made available irrespective of the year of completion. The continuance of the fiscal concessions came as a welcome respite to all home-seekers, extant as well as prospective, particularly in the face of the Kelkar Committee recommendations that opined in favour of removal of such fillips. In his budget speech, the Hon'ble Finance Minister announced that the government would further examine what additional incentives could be given to basic infrastructural developments that must accompany slum up-gradation, sewerage system laying and green-field housing projects.

Monetary Policy Measures

The macro-economic essentials of the Indian economy continued to exhibit their inherent flexibility even in the face of upward pressure on inflation rate due to rise in oil prices following the Iraq war, drop in agricultural output and a sluggish revival in the industrial sector. The present monetary system is having excess liquidity, low real interest rates and low spreads. The Monetary & Credit Policy 2003-04 was announced on the postulation that the secondary and tertiary sectors will continue to grow whereas the primary sector will show signs of revival following a balanced spatial distribution of monsoon resulting in around 6% growth in the real GDP during financial year 2003-04.

Highlights

- Bank Rate reduced by 25 basis points from 6.25% to 6.00%
- CRR reduced by 25 basis points to 4.50%.
- RBI to safe guard financially sound banks from liquidity scares by providing liquidity support facility.
- PLR to be arrived at on the basis of actual cost of funds.
- Tenor-linked PLR to be discontinued and lending rates to be arrived at by adding 'term premia' and 'risk premia' to the benchmark PLR.
- Limit to the extent of direct housing loans for construction of houses by individuals as part of priority sector lending raised from Rs 5 lakhs to Rs 10 lakhs even for semi-urban and rural areas.
- Non-bank entities permitted to provide unconditional and irrevocable guarantee as credit enhancement for Commercial Paper issue.
- Indian corporate and resident individuals permitted to invest in rated debt instruments abroad.
- Entire Investment Fluctuation Reserves to be treated as Tier II Capital, thus enabling banks to improve their capital adequacy ratio.

Implications

The reduction in bank rate came as per the market trend. Reduction in CRR would infuse additional liquidity in the already liquidity flushed system. Hence, it may marginally enhance the profitability of the banks by assisting the government borrowing programme. Linking Banks PLR to actual costs and abolition of the system of tenor-linked PLRs will make the pricing system more transparent and more meaningful. Enhancement in the limit of housing loans to individuals in the rural and semi-urban areas to be considered as a part of the priority sector lending, will lead to increased availability of housing loans in rural and semi- urban areas. Permitting non bank entities to provide guarantees for credit enhancement for CP issues will give more flexibility to the lower rated issuers by using credit enhancement and lowering their borrowing costs. Permitting Indian corporate and resident individuals to invest in debt market abroad will provide additional investment opportunities to the investors. Overall the thrust of the monetary and credit policy has been to support the tepid pick-up in industrial activity, enhance transparency in the banking system and to take the rupee closer to full convertibility.

The Tenth Five Year Plan

The National Development Council, in December 2002, approved the Tenth Five Year Plan, with an ambitious target of 8 per cent annual GDP growth on the average. One of the crucial aims of the Tenth Plan is to promote a balanced and equitable regional development and to advance the necessary policy and administrative reforms at the State level. The allocation for 2003-04 includes several additional initiatives such as promoting infrastructure by leveraging public money through private sector partnership, provision of hand-pumps in water-scarce areas and schools, rejuvenation of traditional water sources in villages, research and development (R&D) support in pharmaceuticals, wind and solar energy, among others. The Tenth Five Year Plan estimated the urban housing shortage at 8.89 million dwelling units in 2002. Further, the total number of houses that would be required cumulatively during the Tenth Plan period is estimated at 22.44 million dwelling units. With the continuance of the 2 Million Housing Programme, it is estimated that the investment requirement from public sector institutions would be around Rs.4,15,000 crores. Apart from this, substantial contribution from private players would be required to tackle the growing housing shortage. The major task is to evolve market friendly reforms relating to tax, infrastructure etc. to help in increasing investment flow in housing. Emphasis has been laid on need to supply affordable housing to EWS and LIG through proper programme of allocation of land, extension of funding assistance and provision of support services.

Sums of these magnitudes cannot be entirely located from within the budgetary resources of Central, State and Local Governments. It is, therefore, a compulsion to access financial resources from the market and induce the private sector to participate in housing programs.

Financial Operations of the Bank during 2002-03

Resource Mobilization

Highlights of NHB's Resource Mobilization 2002-03

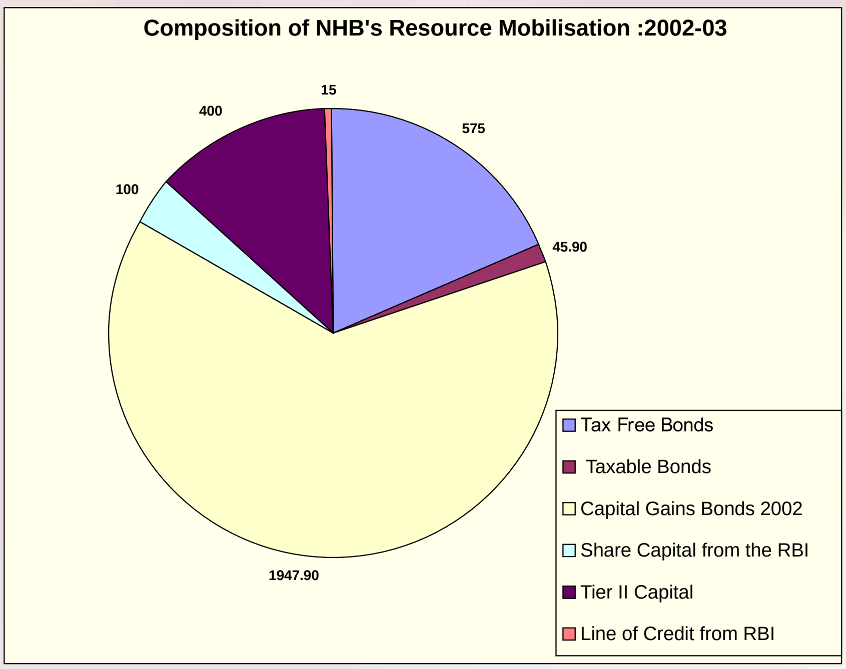
- NHB mobilized subscription amount of Rs.1947.90 crore from 7678 investors under the Capital Gains Bond Issue that provided tax exemption to capital gains under Section 54 EC of the Income Tax Act 1961
- The Government of India had allocated Tax Free Bonds for Rs.75.00 crore towards implementation of the Golden Jubilee Rural Housing Finance Scheme.
- The Government made a special allocation of tax-free bonds for Rs.500.00 crore to NHB during the last year for extending loan assistance to the Gujarat earthquake victims. The borrowing programme was successfully completed during the current year.
- NHB has, for the first time obtained rating of its debt instruments and the Fitch Ratings India Private Limited and Credit Analysis and Research Limited have rated the same as 'AAA (ind)' and 'CARE AAA' respectively, denoting highest quality carrying negligible investment risk.
- A sum of Rs.400.00 crore was raised under Tier-II capital having a tenor of 63 months at a coupon rate of 5.77% payable annually. The entire Issue was subscribed by the Life Insurance Corporation of India, on private placement basis.
- NHB has introduced a policy on interest rate swap transactions (Rupee derivatives), in accordance with the guidelines of the Reserve Bank of India, in order to hedge the interest rate risk associated with its outstanding borrowings.
- With a view to reducing the cost of outstanding borrowings of earlier years NHB negotiated with the LIC of India and restructured certain outstanding term loans aggregating Rs.602.00 crore carrying an average interest rate of 13% thereby reducing the rate of interest payable to 8% per annum .

Details of borrowings during the year

The position of resource mobilization by the Bank during the year July 2002- June 2003 is as under:

(Rs. in crore)

Source		Amount Mobilized
i)	Tax Free Bonds	575.00
ii)	Taxable Bonds	45.90
iii)	Capital Gains Bonds 2002	1947.90
iv)	Share Capital from the RBI	100.00
v)	Tier II Capital	400.00
vi)	Line of Credit from RBI	15.00
TOTAL		3083.80



The details pertaining to each of the sources of borrowings are as under:

(i) Tax Free Bonds: (a) The Central Government had allocated tax free bonds for an amount of Rs.75.00 crore for funding a portion of the loan assistance under the Golden Jubilee Rural Housing Finance Scheme for construction of 2,25,000 dwelling units during the year. The coupon on the Bond was 5.75% p.a. with a tenor of 10 years with a put/call option at the end of 7th year. As on June 30, 2003, the outstanding cumulative borrowing under Tax Free Bonds since the inception of the Scheme in 1997-98 was Rs.600.00 crore .

(b) Special allocation of Tax Free Bonds for extending loan assistance to Gujarat Earthquake victims: Towards extending loan assistance to earthquake victims of Gujarat, the Government had allocated tax free bonds of Rs. 500.00 crore to NHB during 2001-02. The funds were mobilized during the current year in two tranches – Rs.300.00 crore at a coupon rate of 5.15% p.a. and Rs.200.00 crore at 5.25% having a tenor of 7 years with put and call option at the end of the 5th year. Interest is payable at annual rests.

ii) Taxable Bonds: An amount of Rs. 45.90 crore was raised through issue of Taxable Bonds on private placement basis at a coupon rate of 6% per annum, payable annually with a tenor of 3 years. The cumulative outstanding amount of Taxable Bonds (Seven series) issued so far by NHB stood at Rs.1, 333.30 crore as on June 30, 2003.

(iii) Capital Gains Bonds 2002: The Capital Gains Bonds Issue 2002 with a tenor of 7 years (put/call option at the end of 3rd year) was opened for subscription on private placement basis on August 14, 2002 with a coupon rate of 7.15% p.a. Keeping in tune with the declining trends in the general interest rates, the coupon on the Bonds was revised thrice during the year. The amount of subscription received and the number of investors are given below:

Coupon Rate (p.a.)	Period of Issue	No. of Investors	Amt Received (Rs.)
7.15%	14.08.2002-06.11.2002	628	706,87,40,000
6.50%	11.11.2002-05.01.2003	503	370,81,10,000
6.00%	15.01.2003-07.02.2003	918	74,95,40,000
5.50%	10.02.2003-30.06.2003	5629	795,26,30,000
	TOTAL	7678	1947,90,20,000

iv) RBI's additional contribution towards paid-up capital: The Reserve Bank of India has contributed an additional amount of Rs.100.00 crore towards the paid-up capital of the NHB during the year. With this contribution, the authorised and paid up capital of the NHB stood increased to Rs.450.00 crore as on June 30, 2003 as compared to Rs.350.00 crore as on June 30, 2002.

v) Tier II Capital: The Bank mobilized Rs.400.00 crore by issuing Tier II Bonds having tenor of 63 months at a coupon rate of 5.77% payable annually. The entire issue was subscribed to by the Life Insurance Corporation of India. This first time induction of the Tier II capital has helped NHB in leveraging its business operations and is expected to substantially impact refinance disbursements during the year 2003-04. The issue was rated 'AAA(ind)' by Fitch Ratings India Private Limited and 'CARE AAA' by Credit Analysis and Research Limited.

vi) Line of Credit from the RBI: The Reserve Bank of India had approved a line of credit of Rs.1000.00 crore to the National Housing Bank for extending financial assistance to the earthquake affected people of Gujarat. During the year, a total amount of Rs.15.00 crore was availed from the RBI under the line of credit whereas an amount of Rs.13.53 crore was disbursed to the commercial banks, housing finance companies and public agencies towards construction of 1130 housing units. As on June 30, 2003 a cumulative amount of Rs.90.00 crore has been drawn from under this facility from RBI and Rs.88.65 crore was disbursed for construction of 13083 housing units.

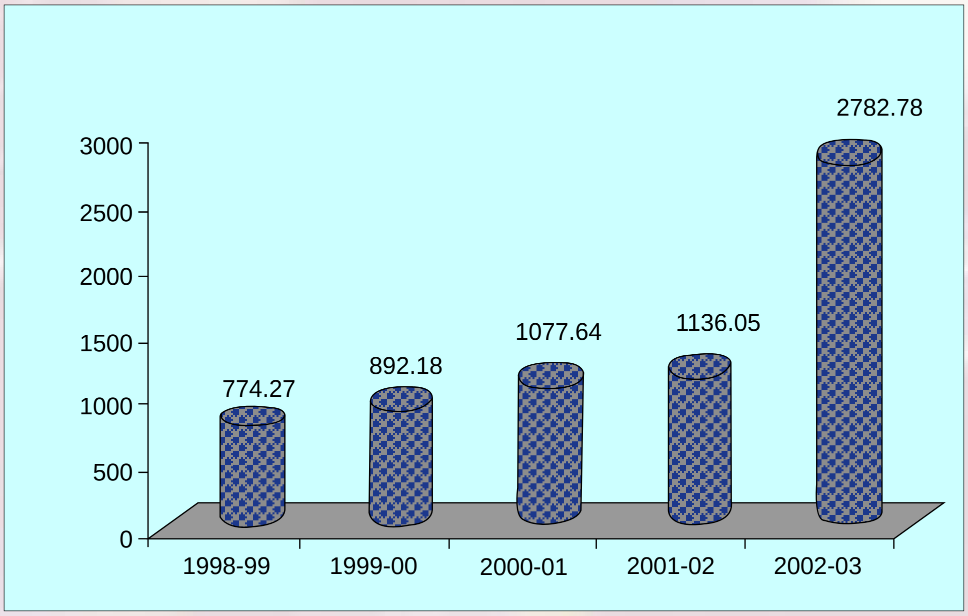
Rating of borrowing programme

During the year, rating exercise of NHB's debt instruments for Rs.1800 crore was completed. The borrowing programme has been rated 'AAA (ind)' by Fitch Ratings India Private Limited and 'CARE AAA' by Credit Analysis and Research Limited. Instruments carrying the above rating, which is the highest in this category, are considered to be of the best quality, carrying negligible investment risk. The ratings reflect the status of NHB- wholly owned by Reserve Bank of India, as the Apex Financial Institution for the housing sector, very strong asset quality with zero NNPAs and 100% recovery, strong parentage and high capital adequacy, strong resource raising abilities, good profitability and comfortable interest coverage. The strong growth prospects of the housing sector and very low default rates demonstrated by housing loans over past several years are additional comforting factors.

Deployment

The details of financial assistance extended by NHB during 2002-03 in the form of refinance and direct finance are given below:

General Fund			
			(Rs. in crore)
Refinance Disbursals	2001-02	2002-03	Cumulative
a) Individuals	1023.80	2709.72	9721.11
b) Projects	0.00	0.00	234.50
Total	1023.80	2709.72	9955.61
Direct Finance Disbursal	92.21	58.27	255.16
Total disbursals from General Fund	1116.01	2767.99	10210.77
Slum Improvement & Low Cost Housing Fund			
Refinance : Orissa Cyclone	1.00	0.00	5.47
Projects	0.00	0.00	11.29
Direct Finance : Projects	19.04	14.79	85.70
Total disbursals from Special fund	20.04	14.79	101.46



REFINANCE

The year 2002-03 has been a year of unprecedented growth and achievement as far as refinance disbursal was concerned. The refinance disbursements reached an all time high of Rs. 2709.72 crore, as compared to the previous year's figure of Rs. 1024.80 crore resulting in a growth of around 164% over the previous year. The growth in disbursements is attributable largely to the Liberalised Refinance Scheme (LRS) launched in February 2003 which has evoked enthusiastic response both from HFCs and Scheduled Commercial Banks (SCBs). The comparative chart showing disbursements to various categories of PLIs vis-à-vis the corresponding figures last year is as under :

(Rs. in Crore)

	2002-03			2001-02
	Fixed	Floating	Total	
Releases to HFCs	550.01	1216.68	1766.69	705.33
Old Scheme (Jul 2002 - Feb 2003)	219.61	0.00	219.61	
New Scheme (Mar 2003 - Jun 2003)	330.40	1216.68	1547.08	
Releases to Banks	770.00	20.00	790.00	76.99
Old Scheme (Jul 2002 - Feb 2003)	0.00	0.00	0.00	
New Scheme (Mar 2003 - Jun 2003)	770.00	20.00	790.00	
Releases to Cooperative Institutions	139.77	0.00	139.77	219.15
Releases Under Gujarat Scheme	13.26	0.00	13.26	23.33
Total	1473.04	1236.68	2709.72	1024.80

Asset quality has been the main focus of NHB as can be seen from the fact that funds disbursed during the year to 6, 5 and 4 star rated companies aggregates Rs. 1668 crores and the funds lent to rated scheduled commercial banks and cooperative banks was Rs. 790 crores, in all aggregating to Rs. 2458 crores. Further, funds have been lent in the cooperative sector to select ACHFS and ARDBs which aggregate to Rs. 140 crores. The funds to 3 star and 2 star companies were Rs. 69 crores and Rs. 30 crores respectively besides Rs. 13 crores under Gujarat Earthquake Scheme.

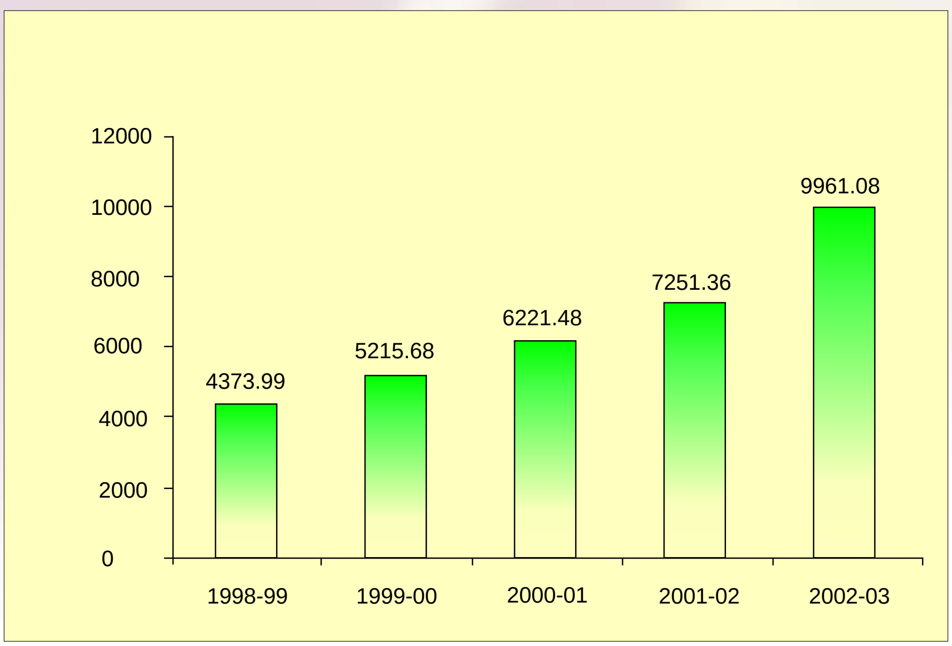
While the disbursements to Scheduled Banks in the previous year was Rs. 86 crores, the comparative figure for this year is Rs. 798 crores, showing more than a ninefold increase, due to the LRS. We are hopeful that in the year 2003-04, we would be able to bring more banks into our fold.

The incremental yield on all disbursements for 2002-03 (July to June) aggregating to Rs. 2697 crores was 7.34%. The incremental cost of funds for the year was 6.03% giving an incremental spread of 1.31%.

Cumulative Disbursements up to 30th June, 2003

(Rs. in Crore)

Institution Category	
Housing Finance Companies	7303.00
Scheduled Banks	1232.42
Cooperative Sector Institutions	1425.66
Total	9961.08



Performance under the Golden Jubilee Rural Housing Refinance Scheme
(included in the total figures given above)

The Golden Jubilee Rural Housing Refinance Scheme was launched in the year 1997 for promotion of housing activity in the rural areas. In order to give a boost to the flow of funds for rural housing, it was also decided during the year 2002-03, to extend 25 basis points concession in interest rates for claims made under this scheme. A total of Rs.335.96 crore was disbursed under the scheme during 2002-03 as compared to Rs 222.20 crore disbursed during the previous year. The break up of the disbursements made under the scheme is as under:

(Rs. in Crore)

Institution Category	Amount
Housing Finance Companies	298.06
Scheduled Banks	0.00
Cooperative Sector Institutions	37.90
TOTAL	335.96

Gujarat Earthquake Scheme
(included in the total figures given above)

During the year, an amount of Rs.13.26 crore was released under the scheme, taking the cumulative disbursements made under the scheme to Rs.37.21 crore till 30th June, 2003.

Year-wise refinance disbursement under the Gujarat Earthquake Scheme is given below:

Year	(Rs. in Crore)
2000-01	0.62
2001-02	23.33
2002-03	13.26
TOTAL	37.21

PROJECT FINANCE

The Bank extends financial assistance to public housing and development agencies all over the country for undertaking various types of housing projects. The financial assistance is extended either out of the General Fund or through Special Fund.

The Bank provided direct financial assistance to the tune of Rs.73.06 crore during the current year (including the amount lent from the Special Fund and the assistance under Gujarat earthquake scheme) and sanctioned projects with a cost component of Rs.117.66 crore and loan amount of Rs.84.46 crore.

Cumulatively, till the end of June, 2003, NHB has disbursed Rs.586.63 crores under its project financing window. NHB has so far sanctioned 353 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 had a cost component of Rs.2370.71 crore and a loan component of Rs.1689.54 crore. Out of these 353 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 2002-03, however, no refinance assistance was provided under project finance schemes.
Summary of project finance 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 2002-03 having a cost component of Rs.85.27 crore and loan amount of Rs.64.05 crore. Cumulatively, 38 projects having project cost of Rs.816.08 crore and loan component of Rs.406.68 crore have been sanctioned under this window. During the year 2002-03, NHB disbursed a sum of Rs.58.00 crore under this window in addition to finance for projects under Gujarat earthquake scheme.

Assistance to Gujarat Earthquake Victims

With a view to ameliorating the trauma caused by large-scale destruction of property and infrastructure 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. So far, under this Scheme, NHB has sanctioned Rs.546.35 crore. However, the major portion of this amount is yet to be drawn by the implementing agencies.

B. Special Fund

Under this window, NHB sanctioned 6 Projects during 2002-03 having project cost of Rs.28.77 crore and loan component of Rs.17.36 crore. Cumulatively, 82 projects having project cost of Rs.311.49 crore and loan component of Rs.193.99 crore have been sanctioned under this window. During the year 2002-03, NHB disbursed a sum of Rs.14.79 crore under this window, taking the cumulative disbursal under this head to Rs.85.70 crore.

Activities of the Bank during 2002-03

Policy Review

Changes in the Refinance Policy

Introduction of Liberalised Refinance Scheme for HFCs and Scheduled Banks

In view of the growing competition in the housing finance sector with takeovers and re-pricing of loans, requirement of many primary lending institutions for varying maturities of loans, a choice of fixed and floating interest rate and finance against prospective loans based on their growth projections became evident. The felt need was to make a more meaningful market foray making NHB the **"most preferred destination"** for housing finance institutions in the long run.

Towards this objective NHB has introduced a Liberalised Refinance Scheme (LRS) applicable to Scheduled Banks and Housing Finance Companies, 2003 in February 2003.

The important policy changes effected through the LRS are as under**:**

i. *Introduction of internal credit rating for HFCs.*

ii. *Introduction of floating rates of interest and maturity based rates of interest.*

iii. *Refinance assistance could be used for covering prospective disbursements to be made by HFCs*

Rates of Interest

Keeping in tune with the overall softening of the interest rate regime, NHB rationalized its refinance rates in the past on an ongoing basis. Under the earlier Scheme, with the change effected in June 2002 the refinance rate ranged between 7.25%-9.50% in rural areas and 8.25%-9.50% in urban areas.

Under LRS, HFCs/Banks have the option to choose either floating or fixed interest rate. The interest rate to be charged to HFCs/Banks will be as prevailing on the date of disbursement and in case of HFCs will depend on their respective internal credit rating. In the earlier schemes repayment period was between 5-15 years. Under LRS, HFCs/Banks will have the flexibility to choose repayment period of refinance between 2 years to 15 years (both inclusive). In order to safeguard both NHB and PLIs from extreme volatility in interest rate movements, in the case of fixed rates NHB will have the option to review and revise the rates on outstanding loans on completion of 3 years. As on June 30, 2003 the interest rate range under LRS was 6.90%-8.55% (fixed option) and 6.70%-7.95% (floating option).

There is also option available for conversion from fixed to floating rate and vice versa on payment of a fee. Refinance availed can also be prepaid after giving 2 months notice to NHB and on payment of a nominal levy.

Further Reduction in interest rate for Rural Housing: To augment the flow of funds in rural areas the interest rate on refinance in respect of individual housing loans up to Rs.5 lakh in rural areas claimed under Golden Jubilee Rural Housing Refinance Scheme (1997) has been further lowered by 25 bps from the interest rate under LRS as applicable to HFCs and SCBs. This reduction in interest rate has also been provided to other categories of PLIs excluding ARDBs where the reduction in interest rate has been factored in their present interest rates on refinance.

Conversion of past refinance to lower interest rates: NHB in the year 2001-02 had provided a reduction in interest rates from above 13% to 11.5% in respect of all existing refinance loan accounts of HFCs and co-operative sector institutions (i.e., ACHFS and ARDBs). In the year 2002-03, a similar reduction in interest rate on refinance (released till June 30, 2002 has been provided in case of Scheduled Commercial Banks and in case of Scheduled Co-operative Banks (including Primary

Urban Co-operative Banks). Conversion of past refinance to lower interest rate has been availed by all borrowing institutions.

Modifications in Refinance Scheme for ACHFS

The Refinance Scheme applicable to ACHFS has been modified such that ACHFS shall now have the option to choose the repayment period upto 15 years in respect of individual housing loans and the interest rates have been linked with the maturity period of refinance chosen. The ceiling on loan slabs has also been increased. Further, NHB will have the option to revise the rates on outstanding loans on completion of 3 years as per the usual terms applicable to other agencies.

Modifications in Scheme for Subscription in Special Rural Housing Debentures (SRHDs) of ARDBs

The recovery norms have been modified factoring the type of organisational structure i.e., federal or unitary character prevailing in respect of an ARDB. Further, flexibility in the redemption period of SRHDs has been introduced and the interest rate on subscription in SRHDs has been linked to redemption period, at the option of ARDB.

Considering the success of the Liberalised Refinance Scheme, the Bank proposes to leverage on higher growth in the coming years with focus on asset quality.

Revision in Project Finance Interest Rates

The interest rates applicable to the refinance and direct finance schemes of Project Finance have also been revised downwards during the year 2002-03.

Promotion & Development Activities of NHB during 2002-03

During the year 2002-03 NHB revised its Guidelines for extending Equity Support to HFCs w.e.f March 1, 2003. The major changes effected under the revised Guidelines are i) Minimum paid up capital of the HFC should not be less than Rupees Ten crores ; ii) minimum promoters' contribution in the share capital will always be the same as applicable to a company making an issue to the public; iii) NHB's participation in equity in any case will not exceed 10% of paid up capital of the HFC; iv) HFCs should get their shares listed on any recognised stock exchange(s) in India; v) NHB, at any time, may advise the HFC to go for public issue and in case of non-compliance, NHB will not extend any further capital support and insist on buy-back of NHB's holding and vi) HFCs shall enter into a shareholder's agreement with NHB which, inter-alia, contains the clause of buy-back of equity shares.

During the year, the Bank disinvested its entire equity holding in Andhra Bank Housing Finance Limited and Vysya Bank Housing Finance Limited.

NHB subscribed Rs.1.60 crores towards 1.6 lac equity shares of Cent Bank Home Finance Limited of Rs. 100/- each at par under the Rights Issue.

The Bank has been organizing meetings with CEOs of HFCs for better understanding and resolving of issues of mutual importance. During the current financial year one such meeting was organized and cumulatively, NHB has so far organized 17 such meetings.

Regulation & Supervision

Developments on Regulatory Issues

With a view to imparting a more vibrant regulatory regime for the HFCs, NHB had comprehensively amended the Housing Finance Companies (NHB) Directions, 1989 and issued a revised set of Directions namely Housing Finance Companies (NHB) Directions, 2001 during the year 2001-02, superseding the earlier one. NHB has been making amendments to these Directions from time to time to keep pace with the changing market dynamics. The following amendments have been made to the Housing Finance Companies (NHB) Directions, 2001 during the year 2002-03:

A. New provisions for exposure to stock market including stipulation on engaging brokers and policy/prudential norms applicable to demand/call loans have been introduced. Ceiling on exposure to shares, convertible debentures of corporate and units of equity-oriented mutual funds for HFCs has been prescribed at 5% of the total outstanding advances (including commercial paper) as on March 31 of the previous year. Within this overall ceiling of 5% for total exposure to capital market, the total investment in shares, convertible bonds and debentures and units of equity-oriented mutual funds by a housing finance company should not exceed 20 per cent of its net worth. HFCs are now required to put in place clear cut policy for demand/call loans. Prudential norms relating to asset classification and provisioning have been made applicable to such loans as well. Besides, the 'past due' concept has been dispensed with. The following changes in respect of asset classification will come into effect from March 31, 2005 onwards:

- The period of default for classification of asset as non-performing asset (NPA) will be reduced from 180 days to 90 days.
- An asset which is classified as sub-standard would remain in that category for a period not exceeding 12 months instead of 24 month as prescribed earlier.
- A sub-standard asset would become doubtful asset if it remains sub-standard for a period exceeding 12 months instead of 24 months as of now.
- Risk weight assigned to housing loans to individuals backed by mortgage of immovable property which are standard assets has been reduced to 50% from the existing 75%.
- Risk weight of 50% has also been assigned for investments in Mortgage Backed Securities (MBS), secured by mortgage of residential immovable property, originated by approved housing finance companies and scheduled commercial banks subject to fulfilment of specified conditions.

In addition to the above, the powers, functions and duties of audit committees of HFCs have been made similar to those laid down in section 292A of the Companies Act, 1956.

B. The ceiling on borrowing and deposits that can be accepted by HFCs has been increased from 10 times to 16 times of their net owned fund.

C. The ceiling on rate of interest payable by HFCs for public deposits has been reduced from 12.5% per annum to 11% per annum.

Ready Forward Transactions in Government Securities

In the 'Mid-term review of Monetary and Credit Policy for the year 2002-2003' the Reserve Bank of India had announced the proposal to extend eligibility for ready forward (Repo) contracts to select categories of gilt holders, with adequate safeguards to ensure Delivery Vs Payment (DVP) and transparency. This proposal included HFCs registered with NHB (RBI Notification, No. S. O. 131 (E) dated 22nd January 2003). NHB has permitted all HFCs registered with the Bank under section 29A of the National Housing Bank Act, 1987 to enter in to ready forward transactions in Government Securities and issued necessary circular specifying the terms and conditions to be complied by such HFCs.

Issues Related to Supervision

On-site Inspection

Twenty-nine HFCs were inspected during the year 2002-03 to assess their financial position and verify their compliance with the Directions issued by NHB. Further, inspection of another ten HFCs has been initiated during the year and the inspections are expected to be completed by the end of August, 2003.

Penal action on account of non-maintenance of liquid assets

In terms of Section 29B of the NHB Act, 1987, housing finance companies holding public deposits are required to maintain liquid assets equal to 12.5% of their public deposits in the manner prescribed under the Act. HFCs failing to maintain the prescribed level of liquid assets are liable for penal interest as per the Act. During the year 2002-03, penal interest amounting to Rs.77.15 lakhs was received from 14 HFCs. Cumulatively, till June 30, 2003, an amount of Rs.77.55 lakhs has been received as penal interest from 16 HFCs.

Registration of housing finance companies

In terms of Section 29A of the National Housing Bank Act, 1987 (as amended in 2000) HFCs are required to obtain a Certificate of Registration (COR) from the National Housing Bank so as to commence or carry on the business of a housing finance institution. HFCs in existence as on the date of coming into effect of these provisions (i.e. June 12, 2000) were required under the Act to apply for grant of a COR within a period of six month from that date. 161 companies have applied for grant of Certificate of Registration till June 30, 2003.

During the year under review, 17 HFCs were granted COR without permission to accept public deposits, of which COR issued to one HFC viz., DCM Housing Finance Ltd. has been cancelled. Further, applications for COR were rejected in 46 cases.

Out of the 161 applications received by the Bank for Certificate of Registration, 48 HFCs have been granted the COR, 51 companies' applications were rejected by NHB till June 30, 2003 and 30 applications are at various stages of processing. 31 Companies with NOF below the minimum threshold limit of Rs.25 lakhs had time till June 11, 2003 to fulfill the minimum NOF requirement and they have been given time till September 11, 2003 to report such compliance to NHB. As stated earlier, 1 COR granted was cancelled during the year.

HFCs which have not applied for registration have become ineligible to carry on the business of housing finance institutions. Accordingly, it has been decided to delete such companies from the regular supervision and take action against such companies, if they are found to be carrying on the business of an HFI or accepting deposits from public. A list of 181 such HFCs was advertised in English, Hindi and Vernacular dailies for the benefit of the public. Suitable public notice was also issued in March, 2003 highlighting the registration requirement under the Act and counseling the public to verify the financial soundness and credit worthiness of HFCs before having dealings with them.

Co-ordination with other Regulatory Authorities

A close and continuos coordination with the Reserve Bank of India and other regulatory authorities was maintained during the year. NHB actively participated in the Sate Level Coordination Committee meetings convened by RBI for effective supervision of HFCs. The Bank has also decided to appoint Company Secretaries at all centres where offices of the Registrar of Companies are located on retainer-ship basis for market intelligence on an on going manner.

Golden Jubilee Rural Housing Finance Scheme

The Government of India had enhanced the targets under the Golden Jubilee Rural Housing Finance Scheme for the year 2002-2003, to 2.25 lakh dwelling units. Accordingly, the target was distributed amongst the various participating institutions.

The details of the targets and the achievements under the scheme for various categories of institutions are as under:

(number of dwelling units)

Category of Institutions	Target 2002-03	Achievement 2002-03
Banks	1,06,300	97,295
Housing Finance Companies	1,02,400	78,807
Others including Co-operative sector institutions	16,300	2,098
TOTAL	2,25,000	1,78,200

The target for the year 2003-04 has been enhanced to 2,50,000 dwelling units and individual targets have been allocated to HFCs and banks.

Training

Among the multi-dimensional 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 issues related to general awareness on housing finance as well as certain specialised topics such as regulatory framework for housing, securitisation, project finance etc. In one programme, officials from leading housing finance institutions in Bangladesh also participated.

Training Session in Progress

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)

During the year NHB completed two MBS issues, the details of which are given below:

i) NHB supports 1st MBS Issue of BOB Housing Finance Limited

NHB successfully completed the first mortgage backed securitization of housing loans originated by BOB Housing Finance Limited. The MBS issue involved 3548 loans amounting to Rs. 77.16 crores. The issue size was Rs.59.65 crores of a tenor of 108 months with a coupon of 6.89% p.a. payable monthly. The issue, which was launched on 22nd April, 2003, was fully subscribed by institutional investors within four days of its launch in the market. The issue was rated "LAAA (SO)" by ICRA.

ii) NHB supports 3rd MBS Issue of Can Fin Homes

NHB successfully completed the third MBS issue of Can Fin Homes Ltd. (CFHL) in the month of June, 2003. The issue comprising of a pool of 2007 mortgages involving Rs.64.13 crores originated by CFHL was launched on June 23, 2003 and closed on July 2, 2003. The issue with door-to-door maturity of 105 months and average maturity of 53 months, was fully subscribed by a wide range of institutional investors at a coupon of 6.25% p.a. The issue was rated "LAAA(SO)" by ICRA. As a measure to boost the confidence of the investors in the Residential Mortgage Backed Securities

(RMBS) papers, NHB has, for the first time, subscribed to the issue, picking up a stake of 5.45% in the deal. This was in line with NHB's mandate to develop and facilitate the market for MBS transactions.

With these two issues NHB has so far completed securitization of 7 pools involving housing loan assets aggregating Rs.500.12 crores.

During the year under review, Reserve Bank of India issued notification assigning a risk weight of 50% for investments by Banks and Financial Institutions in Mortgage Backed Securities originated by HFCs recognized and supervised by NHB, subject to fulfillment of specified conditions.

Recognizing the potential of RMBS as a financial instrument and its role in linking the housing sector with the Capital Market, NHB has been organizing training programmes to acquaint personnel from HFCs, Banks and Financial Institutions about the benefits of securitization of mortgage loans. With the growth which is being witnessed in the housing sector, it is expected that RMBS will assume greater significance and NHB's endeavours have also been to establish systems and procedures for standardization of primary housing finance activities and documents in order enable a sophisticated secondary MBS market.

The market has also witnessed a gradual expansion in the investor base of the MBS paper with Mutual Funds and Primary Dealers (besides banks and insurance companies) having evinced interest in investing in RMBS. NHB is exploring the possibility of issuing RMBS paper with banks both in the public and private sectors as Originators. The Pass Through Certificates (PTCs) which represent the undivided interests of the pool assets are now being issued in the dematerialized form. NHB has also been continuing its efforts to sensitize the various State Governments for rationalization of structure of Stamp Duties and Registration Charges. While five states have reduced the stamp duty structure to 0.1% so far, during the year the Government of Gujarat revised its Stamp Duty Structure in respect of MBS Instruments in terms of which the maximum stamp duty is Rs. 1.00 lakh.

Board of Directors

Change in incumbency

Section 6(1)(b)

Shri N.C. Sharma, Chairman, Life Insurance Corporation of India w. e. from August 1, 2002 in place of Shri A. Ramamurthy, 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 N.C. Sharma, Chairman, Life Insurance Corporation of India.

Section 6(1)(c)

Shri D.K. Biswas, Chairman & Managing Director, Housing & Urban Development Corporation Ltd. w. e. from November 8, 2002 in place of Shri Pankaj Jain, Chairman & Managing Director, Housing & Urban Development Corporation Ltd.

Shri P.K. Pradhan, Chairman & Managing Director, Housing & Urban Development Corporation Ltd. w. e. from April 1,2003 in place of Shri D.K. Biswas, Chairman & Managing Director, Housing & Urban Development Corporation Ltd.

Shri L.M. Mehta, Chairman & Managing Director, Housing & Urban Development Corporation Ltd. w. e. from June 2, 2003 in place of Shri P.K. Pradhan, Chairman & Managing Director, Housing & Urban Development Corporation Ltd.

Meeting of Board of Directors

During the year 2002-03 (July to June), the Board of Directors met 7 times.

Meeting of Executive Committee of Directors

During the year 2002-03 (July to June), the Executive Committee of Directors met 4 times.

Audit Committee of the Board

Pursuant to the directives of the Reserve Bank of India, Audit Committee of the Board of Directors of the Bank (ACB) was constituted in June, 2000 comprising of four non-executive Directors, one of whom is a Chartered Accountant. One of the non-official Director chairs the meeting of the ACB. The Committee met four times during the year.

The ACB provides directions and oversees the operations of the total audit functions of the Bank which include the effectiveness of the systems of internal control, review of the accuracy and fairness of the financial statements and compliance with the regulatory guidelines. The ACB reviews the reports of the Internal and Statutory Auditors and action taken by the management on various observations and queries of the Auditors. It also reviews the follow up of the annual financial inspection by the Reserve Bank of India. Inspection Reports of HFCs are reviewed by the ACB as and when directed by the Board.

It is the prerogative of the ACB to invite senior executives whom it considers appropriate to be present at the meetings. Senior Management, Internal and Statutory Auditors are also invited to participate in the meetings of the ACB, whenever necessary.

Human Resources

The total strength of the officers in the Bank as on June 30, 2003 stood at 74 as against 79 at the close of the previous year. With a view to continuously upgrade the efficiency of its human capital, the Bank is making every endeavour to upkeep the proficiency of its people through various training and management development programmes, both in-house as well as external.

Compliance with Reservation Policy

The policy of the Government of India regarding compliance of matters relating to Reservation Policy is being 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.

Reorganization & Restructuring

Keeping in tune with the changing economic scenario that redefines the role and relevance of regulatory regime and financial institutions thereby necessitating continuous innovation, NHB

NHB Officers attending the workshop on "Aspiration Driven Transformation" conducted by BCG, March, 2003

organized a two-day workshop on "Aspiration Driven Transformation" for its officers in March 2003. The workshop was conducted by the Boston Consulting Group (BCG). During the course of the workshop certain issues related to new product and service development, changing facet of regulatory practices, importance of creation of a brand for NHB, foray into advisory services and significance of congenial work environment and motivating human resource policies for the overall success of an organization were discussed. Different workgroups were formed to develop future policies pertaining to each of the above aspects and all these groups have already submitted their preliminary recommendations. A vision statement for the Bank has been evolved and subsequently approved by the Board.

The Administrative Staff College of India (ASCI), Hyderabad has been assigned the work of undertaking a study on the reorganization of NHB.

Rajbhasha

National Housing Bank is fully committed for the successful implementation of Official Language and its effective compliance and has initiated measures for the progress of Hindi in the Bank. It has always been a policy of the Bank that through inspiration and incentive, the use of Hindi should constantly be increased and the Bank has succeeded in this regard beyond expectation. Various statutory provisions stipulated by the government regarding Official Language are strictly adhered to.

In order to inspire Bank's officers to use Hindi in their day to day official work, some incentive schemes have been introduced in the Bank. A large number of Hindi books are being purchased in library of the Bank and the officers of the Bank read Hindi books with great interest.

To develop the creative capacity of the Bank's officers, 'Awas Bharati', a Hindi News Letter, is being

Hindi Chetna Mass Samaroh, 2002

published regularly and the 'Awas Bharati' has been placed on second position in the competition for Raj Bhasha Patrika of Delhi based Banking & Financial Institutions by Delhi Nagar Raj Bhasha Implementation Committee.

Bank's regional office in Mumbai also gives due importance to the use of official language. The Bank Nagar Raj Bhasha Implementation Committee of Mumbai awarded 1st prize to National Housing Bank, Mumbai in the category of Financial Institutions for doing best work in Hindi.

Miscellaneous

During the year 2002-03, a long-standing dispute between NHB and State Bank of India (SBI) was resolved in accordance with a package worked out by the Ministry of Finance, Government of India. On October 30, 2002, both the parties entered into a settlement in terms of which NHB was required to pay 50% of Rs.707.56 crores. However, the said sum was to be reduced by the amount deposited by NHB in the Special Court pursuant to orders passed by the Special Court in Suit No. 79 of 1994 (State Bank of Saurashtra Vs. NHB & Others) with interest accrued thereon. After taking this into account, NHB paid a sum of Rs.150.45 crores to SBI on 17.12.2002 and accordingly, the said dispute stands resolved.

In terms of the above settlement, NHB and SBI jointly proceeded against legal heirs of Harshad S. Mehta. SBI obtained a Decree in its favour for a sum of Rs. 707.56 crores with interest @ 15% p.a. from 13.6.1992 till payment. Recoveries/realizations against the said decree are to be shared between SBI and NHB in such proportion as may be determined by RBI.

During the year, Parliament enacted a law to regulate securitization and reconstruction of financial assets and enforcement of security interest of the banks and financial institutions known as "the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002)". As the procedure envisaged under the said Act for securitization of loans and for enforcement of security interest was cost effective and less cumbersome, NHB requested the Central Government to consider notifying housing finance companies registered with NHB as financial institutions for the purposes of the said Act, pending implementation of the provisions of

NHB Act in the matter of enforcement of security through Recovery Officers. The matter is under the active consideration of the Central Government.

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

Mortgage Credit Guarantee Company

The National Housing Bank has taken a lead role in promoting and introducing the concept of mortgage default guarantee in the country. Pursuant to the announcement in the Union Budget of 2001-02, NHB undertook the venture and is collaborating with Canada Mortgage and Housing Corporation (CMHC), United Guarantee (UG), a wholly-owned subsidiary of American International Group, Inc. (AIG), International Finance Corporation (IFC) and Asian Development Bank (ADB) in pursuing the implementation of the project.

Mortgage Credit Guarantee will allow lenders to penetrate broader market segments by expanding their reach by offering easier and standard mortgage terms and conditions. The guarantee support will protect lenders against risk of default by the borrowers. This will enhance confidence and help the lending institutions in reaching out to all segments of population and improving home ownership in the country. The guarantee support will improve credit flow into housing and will also result in lower interest rates due to risk cover. The mechanism will also provide a new impetus to mortgage backed securitisation and will bring about improvement in lending practices in the industry. NHB has been coordinating the efforts of all the partnering institutions for investment in the project and setting up of the Company.

Future Outlook

The continued thrust given by the Government to the housing sector during the year once again helped the housing finance industry to sustain the growth momentum witnessed during the earlier years. As a result, the housing finance system has reached a matured stage in its growth. The year 2002-03 also witnessed a significant increase in the role of the commercial banks in providing financial assistance for housing. The total contribution of the commercial banking sector increased significantly and it far exceeded the target of 3% of the incremental deposits. The absence of demand for funds from other sectors of the economy and the continued accretion of resources saw the commercial banks having an excess liquidity. In order to deploy the surplus resources in a profitable way, the banks looked for alternate sectors for lending and they found lending to the housing sector in the retail market to the individuals as a viable one. Due to social and psychological factors, the recovery of loans in the housing finance sector has been excellent as compared to the lending to any other sector and at the same time the profitability of the banking sector is also maintained as they lend to this sector at market rates. The commercial banks are having a vast network of branches in the rural areas, and this is expected to benefit the rural masses with easy accessibility and availability of institutional finance. This would also result in significant improvement in the housing conditions in the rural areas and could, to some extent, arrest the rural-urban migration. Availability of institutional finance in rural areas together with improvement in employment opportunities could alter the face of the rural economy and help the banks in achieving a better credit-deposit ratio in the rural areas. But, at the same time, the penetration of formal financial sector in rural housing could be limited by the non-availability of security for the housing loan and other legal hindrances. Thus, the state governments still have a much larger role to play in creating an enabling environment.

The limited involvement of formal financial sector in catering to the housing needs of individuals belonging to the rural and unorganized sector and economically weaker section in urban centres is, among other things, attributable to the absence of any mechanism/model for assessing the repayment capacity. In the absence of any such deterministic model, it becomes uncertain for the lending institutions to extend credit facilities for this segment. This is an area where NHB intends to play an active role in future.

Owing to the growing incidence of rural-urban migration, affordable urban housing for people belonging to the EWS/LIG category has become a source of serious concern in recent times. With a highly inelastic supply of useable land for building purposes in most of the major urban centres, the rising demand tends to increase the land price. Subsequently, the supply side mechanism fails to deliver effectively as the ultimate cost of a dwelling unit remains outside the reach of an individual belonging to the EWS/LIG category. Thus, there is a strong case in favour of proactive government intervention in the urban areas so as to enhance the supply of build-able land at affordable prices. The role of local governments can assume significance in the context of facilitating the organic growth of the cities as is evident from the recent experiences of some of the major Indian cities. At the same time, provision of adequate infrastructure is another key area with ample scope for pro-active government intervention with public-private participation. Besides, as the housing market for the high income category is getting saturated day by day, the opportunities available in the form of low-cost housing needs to be exploited.

While the competition among financial institutions is good for the borrowers, the factor that causes worries today is the dilution in sanctioning / disbursement norms by the institutions to increase their business. Added to this, the HFIs and banks shall also have to take into account the interest rate risk in case the present downward interest rate movement in the economy takes a reverse turn. Housing finance being long term in nature, might be a possible source of asset-liability mismatch in such a scenario unless appropriate caution is exercised by these lending institutions today in ensuring a proper balance between their fixed and flexible rate exposures.

So far, the housing finance sector has been maintaining a very high recovery rate and it is feared that the dilution in appraisal standards would lead to a fall in the recovery rate leading to higher non performing assets which would contaminate the system. This in the absence of a speedier foreclosure mechanism may erode the image of the housing finance sector as the only sector with negligible NPAs. In case the HFCs are brought under the purview of the “Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002”, this problem can be resolved to a great extent. NHB has already requested the Central Government to consider notifying housing finance companies registered with NHB as financial institutions for the purposes of the said Act and a decision in this regard is awaited.

After long years of research in introducing mortgage backed securities in India, NHB has been coming out with issues of MBS at regular intervals. It is hoped that the experiences learnt from these issues will be of great help in standardizing this instrument. NHB is also contemplating measures for standardization of home loan appraisal and documentation so as to usher in a robust securitization market in the country.

The setting up of the proposed India Mortgage Guarantee Corporation has now entered an advanced stage which will protect leaders against risk of borrower default. This will enhance confidence and help the lending institutions in reaching out to all segments of population and improving home ownership in the country. The mechanism is also expected to provide a new impetus to mortgage backed securitization and will bring about improvement in lending practices in the industry. With all these developments it is likely that the housing finance sector will continue to witness the growth rate of the previous year, if not exceed it.