

Major role for India's Housing Development Finance Corporation

THE Housing Development Finance Corporation does not obtain its funds from the retail deposit market. The liabilities side of its balance sheet shows that 39% of liabilities were accounted for by the Certificate of Deposits Scheme. There is a modest home savings plan on the lines of the German Bausparkasse contract, and over 5,400 new account holders joined the plan during the period covered by the report. Efforts at marketing the plan to employees and the corporate sector have met with significant success.

The terms of the plan were changed during the year, such that the savings contribution required is 30% of the planned sum. The maximum repayment term of the loan (which carries a preferential rate of interest) was increased from 12 to 15

'HDFC lending increases'

years. Bank loans provide a significant proportion of HDFC's finance. It also obtains funding from insurance companies, in particular the giant Life Insurance Corporation of India.

A significant feature of HDFC's funding is the use made of World Bank and United States Agency for International Development loans. In the previous year the World Bank had approved a loan equivalent to US\$250 million to HDFC against a

THE Housing Development Finance Corporation (HDFC) is a private sector specialist housing finance institution. It was established in 1977 on the initiative of the Industrial Credit and Investment Corporation of India (ICCI). The International Finance Corporation, which provided 5% of the initial share capital, maintains an involvement in HDFC. HDFC's 12th annual report (which, because of a change of year end, covers only the nine months to 31 March, 1989) shows that the corporation has continued to make sound progress, and it now plays a major part in the development of an efficient housing finance system in India. This article briefly summarises the annual report.

Government of India guarantee. During the year there was a draw down of this of 1,250 million rupees (US\$84 million).

In the financial year HDFC raised US\$35 million in the United States capital markets under the USAID Housing Guaranty Program. The Bank of India takes the exchange risk. With this tranche HDFC has raised a total of US\$125 million under the USAID Housing Guaranty Program over the past five years, the funds being used to finance low income households.

Lending

HDFC's lending has continued to increase year-by-year as the table showing the progress of the institution illustrates. Some 71% of the

loans made during the year were for individual home ownership. Households with family incomes less than the urban median income accounted for 65% of the number of dwelling units financed. HDFC has introduced a number of new loan products — a step-up repayment facility, a telescopic loan plan, and a short-term bridging loan. These facilities have helped younger borrowers whose

'Helping the younger borrowers'

repayment capacity at the time of taking out a loan is not very high.

Financial performance

One of the problems with housing finance institutions in developing countries has been their viability. Many have been operated in a manner such as to cause significant losses and a number are technically insolvent. HDFC can boast an excellent record on profitability. Its post tax profit has increased year-by-year, and in the nine-month financial year 1988/89 was 145 million rupees, compared with 131 million rupees in the full year 1987/88. Shareholders' funds stood at a comfortable 6.1% of assets at 31 March, 1989.

Policy points

The chairman's statement at the beginning of the annual report usefully reviews major policy issues. It

INDIAN HOUSING FINANCE

refers to the three major policy initiatives —

- (a) The formal adoption of a national housing policy document.
- (b) The publication of the final report on the National Committee on Housing.
- (c) The creation of a National Housing Bank, a wholly-owned subsidiary of the Reserve Bank of India.

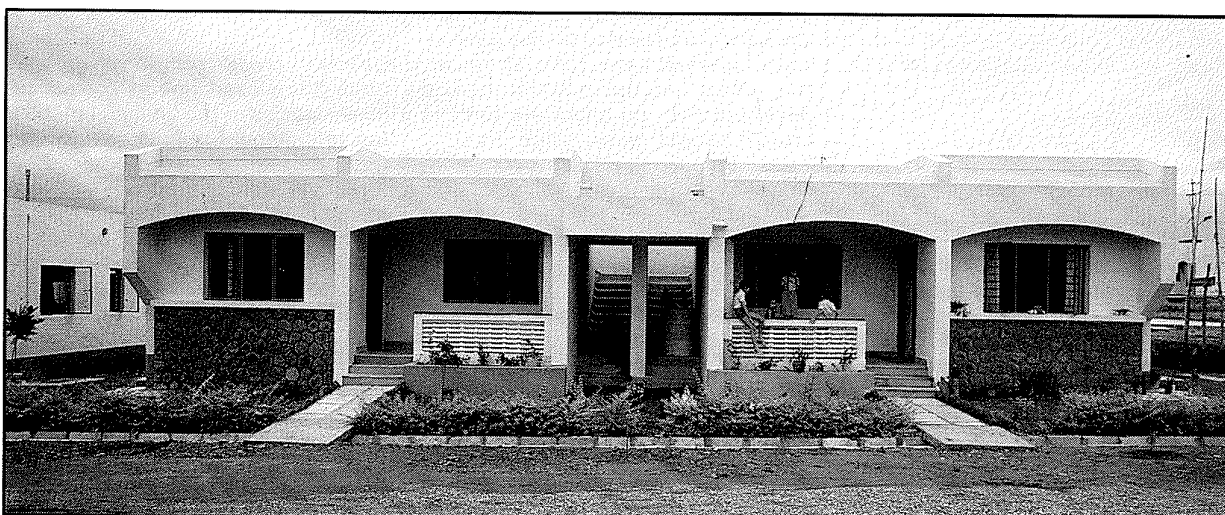
The chairman identifies a number of supply constraints —

- (a) How will housing supply responses cope with additional demand?
- (b) Land parcelling and servicing is a critical constraint on housing development, largely as a result of the Urban Land Ceiling Act (which limits permissible land holdings in urban areas, and freezes the remainder), as well as the inability of the judicial system to expedite cases involving land disputes.
- (c) The house price to household income ratio in India is on average 6.2, well above the average for developing countries of about 5.25, indicating that housing remains expensive.
- (d) The housing delivery system is characterised by relatively small builders. ■

HDFC Progress							
Year	Loan Approvals			Balance, End Period			
	Number	Amount Rupees m	£m	Deposits		Housing Loans	
				Rupees m	£m	Rupees m	£m
1984-85	27,645	1,345	52	1,776	68	2,347	90
1985-86	40,848	1,864	72	2,528	97	3,518	135
1986-87	46,023	2,375	91	3,422	132	4,842	186
1987-88	55,156	3,050	117	4,242	163	6,549	252
1988-89	66,200	4,440	171	4,832	186	8,449	325

Notes: 1. Until 1987-88, financial years ended on 30 June; from 1988-89 the financial year ended on 31 March. The 1988-89 figures for approvals are for nine months at an annual rate.
2. Sterling equivalent figures are calculated at 26 rupees to the pound.

HDFC Balance Sheet, 31 March, 1989					
Liabilities	Rupees m	%	Assets	Rupees m	%
Certificate of Deposit Scheme	4,143	39	Housing loans	-	-
Cumulative interest scheme	584	6	Individuals	6,242	59
Loan linked deposit	38	-	Corporate bodies	1,784	17
Home savings plan	66	1	Other	421	4
Bank loans	1,197	11	Investments	1,354	12
Insurance company loans	610	4	Net current assets	497	5
AID funds	1,020	10	Fixed assets	225	2
World Bank	1,250	12	Advances in respect of fixed assets	38	-
International Finance Corporation	10	-			
Bonds	997	9			
Share capital	200	2			
Reserves and surplus	446	4			
Total	10,562	100	Total	10,562	100



A development financed by HDFC.