Report of the Comptroller and Auditor General of India

for the year ended March 2006

Union Government (Commercial)

Public Sector Undertakings

Review of Housing Finance Activities in Central Public Sector Housing Finance Companies

No. 22 of 2007

(Performance Audit)

CONTENTS

CONTENTS

PREFACE

A reference is invited to the prefatory remarks in Report No. 9 of 2007 – Union Government (Commercial) of the Comptroller and Auditor General of India where a mention has been made that reviews of the performance of Companies/Corporations by the Comptroller and Auditor General of India (CAG) are contained in separate audit reports including stand alone performance audit Reports.

The Audit Board mechanism was restructured during 2005-06 under the supervision and control of the CAG. The Board, which is permanent in nature, is chaired by the Deputy Comptroller and Auditor General (Commercial) and consists of senior officers of the CAG office. Two technical experts are inducted as special invitees, if necessary. The Board approves the topics recommended for performance audit. It also approves the guidelines, audit objectives, criteria and methodology for conducting major performance audits. The Board finalises the stand alone performance audit reports after discussions with the representatives of the Ministry and Management.

This stand alone Report reviewed the housing finance activities of Housing and Urban Development Corporation Limited, BOB Housing Finance Limited, Cent Bank Home Finance Limited, IDBI Home Finance Limited and PNB Housing Finance Limited. The Report was finalised by the Audit Board with the assistance of Shri Bhagwan Das Narang, former Chairman & Managing Director, Oriental Bank of Commerce and Shri P.K. Chattopadhyay, former General Manager, National Housing Bank, the two technical experts appointed by the Government of India (the Ministry of Housing and Urban Poverty Alleviation) as special invitees.

This Report as set out in the succeeding chapters is based on test check of records of the Corporate offices as well as 26 Regional Offices/Branches of the total 99 Regional offices/Branches of the five Housing Finance Companies and the discussions held with the Managements of these Companies and the administrative Ministries. The selection of Regional Offices/Branches was mainly on the basis of level of non-performing assets and default in the Regional Offices/Branches and/or level of sanctions to private parties.

The cases mentioned in the Report are among those which came to notice in the course of audit conducted during the year 2006-07.

OVERVIEW

The total housing shortage in the country in 1997 was estimated to be 13.66 million units. More than 90 *per cent* of this shortage was for the poor and low income category. With rising incomes, favorable demographic profiles, swelling middle class and rapid urbanisation, the demand is projected to rise to 73.96 million units during the 11th Plan period (2007-2012).

In 1998, the Government of India formulated the National Housing and Habitat Policy which stressed, *inter alia,* on removal of legal, financial and administrative barriers for facilitating access to loans, finance and technology. The draft National Urban Housing and Habitat Policy-2005 document, while narrowing its focus to urban shelters, also emphasised the need for the larger flow of funds for the housing sector.

After setting up of the National Housing Bank in 1988 to accelerate housing finance activity and to act as the regulator of the housing industry, the public insurance companies and the Scheduled Commercial Banks (SCBs) floated separate Housing Finance Companies (HFCs). As on 31 March 2006, 44 HFCs were registered with the National Housing Bank of which, seven were Central public sector companies under the audit jurisdiction of the Comptroller and Auditor General of India. Of late, the SCBs have themselves aggressively entered the housing loan market giving stiff competition to the HFCs, including their own subsidiaries.

Housing loan disbursements in the country have risen from Rs.23858 crore in 2001-02 to Rs.86034 crore in 2005-06, recording a growth of 261 *per cent* during the period. The Central public sector HFCs' share of the market has however, decreased from 10.19 *per cent* in 2001-02 to 2.63 *per cent* in 2005-06. Against this background, a performance audit of the following five Central public sector HFCs for the period from 2001-02 to 2005-06 was conducted:

Housing and Urban Development Corporation Limited (HUDCO)
BOB Housing Finance Limited (BOBHFL)
Cent Bank Home Finance Limited (CBHFL)
IDBI Home Finance Limited (IHFL)
PNB Housing Finance Limited (PNBHFL)

HUDCO is under the administrative control of the Ministry of Housing and Urban Poverty Alleviation; the other four HFCs, subsidiaries of the Nationalised banks, are under the administrative control of the Ministry of Finance, Government of India. These five HFCs operated through 99 Regional Offices or Branches across the country as on 31 March 2006.

The five HFCs, reviewed in the audit, largely failed to fulfil the objective of promoting growth of housing finance in rural areas, due to inadequate marketing network and absence of title deeds in rural areas.

The ability of the HFCs to raise resources at the lowest cost is constrained as compared to banks due to the absence of access to low-cost retail deposits. The five HFCs mainly raised funds through bonds, bank loans and commercial papers. The Public Deposits and the NHB refinance routes were not resorted to in a big way and the option of raising finance through securitisation of assets has not been resorted to by any of the HFCs reviewed in audit. Except for IHFL, the other four HFCs borrowed at comparatively higher cost.

Net Interest Margin achieved by PNBHFL and IHFL matched the trend prevailing in one of the leading HFCs in the private sector. In the other three HFCs, it was on the lower side, indicating that these HFCs were not competitive enough and therefore, vulnerable to elimination in the market.

During audit of the important performance indicators of the five HFCs, two discernible trends in decline in housing disbursements and rising level of non-performing assets were noticed in HUDCO, CBHFL and BOBHFL, while PNBHFL and IHFL performed well against these two benchmarks. The major factor leading to higher level of non-performing assets in HUDCO, CBHFL and BOBHFL was the inadequate functioning of various controls relating to appraisal, sanction, disbursement, monitoring and recovery.

The HFCs have not been able to retain their hold in the housing finance business mainly because they did not have a large network and there was inherent limitation of access to low-cost deposits. The country's fiscal laws are also disadvantageous to them. Nonetheless, the HFCs have the advantage of selling a single product with better customised service in comparison to the SCBs who offer a variety of products in retail sector. There was accordingly a space for dedicated institution in the form of HFC to achieve the Government's objectives in the housing sector.

Review of Housing Finance Activities in Housing and Urban Development Corporation Limited, BOB Housing Finance Limited, Cent Bank Home Finance Limited, IDBI Home Finance Limited and PNB Housing Finance Limited

HIGHLIGHTS

- The market share of the Central public sector Housing Finance Companies (HFCs) declined from 10.19 *per cent* to 2.63 *per cent* during the five years up to 2005-06. The HFCs under the private sector which had a market share of 51.06 *per cent* in 2001-02 decreased to 29.23 *per cent* in 2005-06. The Scheduled Commercial Banks (SCBs) in turn increased their market share from 35.90 *per cent* to 68.14 *per cent* during the same period. The growth of 584.37 *per cent* in disbursements of housing loans by the SCBs is slowly driving the small HFCs out of the market. The phenomenal growth recorded by the SCBs is attributable to their large network and access to low-cost deposits which has helped them to offer home loans at competitive rates. While the HFCs did not have these advantages, the country's fiscal laws were also, to some extent, disadvantageous to the HFCs.

  (Para 2.2)

- The broad objectives of the Government schemes *(viz.*, Golden Jubilee Rural Housing Finance Scheme and Two Million Housing Programme) to encourage financing of rural housing was not fulfilled by any of the HFCs due to very limited established rural area networks and due to absence of conveyance deeds of properties in rural areas.

  (Paras 3.3 and 3.4)

- HFCs mainly raised funds through bonds, bank loans and commercial papers. The Public Deposits and NHB refinance routes were not resorted to in a big way by these HFCs; and the option of raising finance through securitisation of assets has also not been resorted to by any of the HFCs reviewed. The average costs of borrowing of IHFL were comparable to those of the private sector HFC, whereas HUDCO, PNBHFL, CBHFL and BOBHFL were borrowing at higher cost in comparison.

  (Paras 4.2 and 4.4)

- Higher borrowing costs impacted the Net Interest Margins (NIM) of the HFCs reviewed. NIMs achieved by PNBHFL and IHFL matched the trend of one of the leading HFCs in the private sector. In the other three HFCs, NIMs were on the lower side, indicating that these HFCs were not competitive enough. The major factors attributable to higher cost of borrowing and lower NIM in these HFCs were:

  - ❖ unlike the SCBs, these HFCs had no access to low interest retail finance;

- the refinance support of the NHB did not work effectively as public sector HFCs like HUDCO were not able to meet the stipulated level of Non-Performing Assets (NPA);

- poor credit ratings of these HFCs reflected in higher cost of borrowing; and

- higher proportion of operational costs in relation to business volume.

(Para 4.5)

- An analysis of the percentage of employee cost to disbursements during a year revealed that when compared to one of the leading HFCs in the private sector, the ratio was higher in the HFCs under review.

(Para 4.9)

- HUDCO's disbursements of housing loans decreased from Rs.1825 crore in 2001-02 to Rs.1105 crore in 2005-06 which led to a fall in income from housing operations from Rs.1361.13 crore in 2001-02 to Rs.728.71 crore in 2005-06. One of the major reasons for this declining trend was decline in business from State Agencies and failure to diversify its housing portfolio by tapping retail home loan business.

(Para 5.2.1)

- In CBHFL, disbursements showed a rising trend up to 2003-04 but declined thereafter due to slowing down of business owing to an alarming increase in the NPA and the Company's focus on recovery of old loans rather than sanctioning fresh ones. BOBHFL's housing loans disbursements decreased from Rs.211.41 crore in 2002-03 to Rs.0.04 crore in 2005-06 and the main reason as noticed in audit was competition from its parent bank.

(Paras 5.2.4 and 5.2.2)

- The percentage of NPA to total loan assets was on the higher side in HUDCO, BOBHFL and CBHFL. In HUDCO, the level of NPA was very high and stood at 15.44 *per cent* when compared to that of PNBHFL which had its NPA at 3.53 *per cent* as on 31 March 2006. Further, in HUDCO the defaults of Rs.830.61 crore aging more than 30 months accounted for 81 *per cent* of the total defaults of Rs.1023.63 crore as on 31 March 2006, which indicated that there was higher risk of non-recovery of this amount. The major factor leading to higher NPAs in these HFCs was the inadequate functioning of various internal controls relating to appraisal, sanction, disbursement, monitoring and recovery.

(Para 5.3)

- In violation of its guidelines, HUDCO converted the existing scheme-based loans of Kerala State Housing Board totalling Rs.410.68 crore, at average rate of interest of 13.95 *per cent*, into bulk loan under 'HUDCO Niwas' scheme at 10 *per* *cent* rate of interest, which was further reduced to 8.25 *per cent*. The financial impact on the resetting of interest, as worked out in audit, was about Rs.144.89 crore for the period from April 2003 to March 2013. In spite of concessions, the agency again defaulted in repayment and the default amount stood at Rs.50.96 crore as on 31 March 2007.

[Para 5.5.1 (v)]

- In CBHFL, sanctions and disbursements were target oriented during the period 2002-03 to 2003-04. As it did not carry out the requisite pre-sanction and disbursement checks, 44.70 *per cent* of the loans accounts involving Rs.29.46 crore of this period became NPAs.

(Para 5.5.3)

- HUDCO violated the norms prescribed by the NHB by exceeding the total exposure limit in respect of advances to 13 Agencies.

[Para 5.6.1(ii)]

- HUDCO continued to disburse loans to Orissa Rural Housing and Development Corporation Limited though the implementation of the scheme was behind schedule and recoveries from the ultimate beneficiaries were not forthcoming. Due to improper monitoring of the implementation of the scheme by HUDCO, the loan of Rs.364 crore became a non-performing asset as on 31 March 2006, though the default was cleared by the agency in 2006-07.

[Para 5.7.1(ii)]

Recommendations

1. ***The HFCs business model focussing on a single product needs to be strengthened, so as to enable the HFCs to be more efficient in asset sourcing, servicing and collections. As fiscal laws of the country are somewhat disadvantageous to the HFCs vis-à-vis the SCBs, the Government of India may consider fiscal remedies so that the HFCs can compete with the SCBs on an even level.***

2. ***The HFCs should review their rural lending portfolios to establish effective strategies to increase their reach and coverage in the rural and semi-urban areas. The Government and the NHB may consider regulatory remedies and institutional incentives to mitigate the constraints in mortgaging rural assets.***

3. *The HFCs should strive for a proper mix of resources in order to minimise the cost of borrowings. The NHB refinancing mechanism should be revisited to facilitate the public sector HFCs in availing ready credit at competitive rates. The Government of India and the NHB may consider suitable measures to increase the depth of the market for mortgage backed securities and to encourage the HFCs to resort to securitisation of assets as a funding alternative.*

4. *HUDCO should put in place a system for periodic review of its non-performing Regional Offices.*

5. ***HUDCO should strengthen its housing finance portfolio through HUDCO Niwas scheme to ensure greater coverage of the low-income and poorer sections of the society.***

6. ***The HFCs should review and on the basis of the review redefine and implement operational strategies to arrest the declining trend in their business in a rapidly rising market driven by expanding levels of prosperity and growth in the demand for housing. The HFCs should consider establishing such innovative lending schemes that cover the various segments of the urban and rural population including the adoption of a more pragmatic approach in their credit appraisal norms.***

7. ***The HFCs should draw up time bound plans to take immediate legal steps (including recourse to the SARFAESI Act) for recovering the overdues. The HFCs should encourage disposal of their non-performing assets by evolving an objective system of determining the sale price of mortgaged assets.***

8. ***HUDCO and its administrative Ministry need to work in tandem to establish a suitable mechanism to monitor and ensure early recovery of the outstanding amounts guaranteed by State Governments. The GOI should consider establishing a suitable mechanism, as suggested by HUDCO, for recovery of the overdues backed by the Government guarantees and/or the commitment of budgetary support, by way of adjustment in the funds to be provided by the GOI to the State Governments.***

9. The HFCs should review and strengthen their internal control mechanisms to ensure accountability at all stages of the operations (receipt of applications and their appraisal, sanction, disbursal, recovery and follow up of a loan) and for improving the credit delivery mechanism.

CHAPTER I

Housing Finance in India

1.1 Housing Scenario

The total housing shortage in the country in 1997 was estimated to be 13.66 million units, of which 7.57 million units were in urban areas. More than 90 *per cent* of this shortage was for the poor and low income category. Against this background, the National Housing and Habitat Policy (NHHP) was formulated in 1998 and stressed on:

- removing legal, financial and administrative barriers for facilitating access to loans, finance and technology;
- ensuring that housing, along with supporting services, was treated as a priority and at par with the infrastructure sector;
- the creation of surpluses in housing stock; and
- providing quality and cost-effective shelters especially to the vulnerable groups and the poor.

The draft National Urban Housing and Habitat Policy, 2005, while focussing on urban shelters, emphasised on the promotion of larger flow of funds to meet the revenue requirements of urban housing and infrastructure using innovative tools. It recognised that based on historical growth patterns, the urban population of India was likely to grow to 360 million in the year 2010 and to 533 million by the year 2025. The document noted the Planning Commission's projection of total requirement of urban housing during the 10th Plan period (2002-2007) of 22.44 million dwelling units including the backlog of 8.89 million units at the beginning of this Plan. With rising incomes, favorable demographic profiles, swelling middle class and rapid urbanisation, the demand is projected to rise to 73.96 million units for rural and urban areas during the 11th Plan period (2007-2012).

1.2 Role of the National Housing Bank

The National Housing Bank (NHB), a fully-owned subsidiary of the Reserve Bank of India, was set up in 1988 to accelerate housing finance activity in India and to promote the Housing Finance Companies (HFCs) by providing financial support to them. It acts as the apex institution and regulator of the housing finance industry.

The NHB has issued guidelines to the HFCs on prudential norms for income recognition, asset classification, provisioning for bad and doubtful debts, capital adequacy and concentration of credit investment. The NHB also conducts inspection of the HFCs to ensure proper compliance with the prudential norms and prevent the affairs of any of them being conducted in a manner detrimental to the interests of the depositors or their own. Guidelines for asset liability management system for the HFCs have also been issued by the NHB.

1.3 Scope of Audit

As on 31 March 2006, there were seven HFCs under the audit jurisdiction of the Comptroller and Auditor General of India. The performance audit conducted between June 2006 and January 2007 has covered the working of the following five HFCs for the five years from 2001-02 to 2005-06:

(i) Housing and Urban Development Corporation Limited (HUDCO)

(ii) BOB Housing Finance Limited (BOBHFL)

(iii) Cent Bank Home Finance Limited (CBHFL)

(iv) IDBI Home Finance Limited (IHFL)

(v) PNB Housing Finance Limited (PNBHFL)

The two HFCs, *viz.*, Indbank Housing Limited and Corpbank Homes Limited, were not covered in this performance audit; the former has stopped its lending operations since 1998 while the latter was re-merged in October 2006 with Corporation Bank, its parent and promoter bank.

1.4 Audit objectives

The audit objectives were to assess:

- the trends in housing finance activity vis-à-vis those of the Central public sector HFCs during the period 2001-02 to 2005-06;
- the overall performance of the Central public sector HFCs against selected benchmarks;
- that controls relating to appraisal of applications, sanction and disbursement of loans were sound and effective, and covered the risk of lending; and
- that adequate monitoring mechanisms existed especially for timely recovery of dues and resorting to timely legal action in case of default.

1.5 Audit Criteria

Audit Criteria identified for the purpose of the performance audit for different critical activities of housing finance were:

- The cost of borrowings, net interest margin, and ratio of employee cost to the disbursements in one of the leading HFCs in the private sector, *viz.*, Housing Development and Finance Corporation Limited (HDFC) has been adopted for measuring the efficiency of the five HFCs covered under performance audit;
- System to verify credentials of borrowers and pre-disbursement conditions as laid down by the HFCs;
- Mechanism to monitor actual utilisation of funds;
- Level of Non Performing Assets; and
- Strategic guidance to deal with continuous defaults.

1.6 Audit methodology

This performance audit covered the assessment of requirement of resources, method of scrutiny of applications/ projects, procedure of scrutiny of applications including feasibility appraisal, disbursement procedures, recovery, follow-up and other legal formalities in accordance with the Issue Analysis and Study Design Matrix prepared for this purpose.

For selection of units, two risk parameters *viz*., level of NPAs /defaults in the unit and/or level of sanctions to private agencies were identified. Number of units selected is given in Table 1:

Table 1: Selection of Regional Offices/ Branches

HFCs	Total number of Regional Offices or Branches	Number of Regional Offices or Branches selected for audit
HUDCO	20	8
BOBHFL	23	3
CBHFL	12	5
IHFL	16	4
PNBHFL	28	6

Individual cases at unit level were selected on random sample basis with the risk parameter of level of default as the key parameter.

1.7 Acknowledgement

The performance audit started with an entry conference with the Managements of the HFCs in April 2006. The draft Audit Report was issued to the Managements in March/April 2007 and to their Administrative Ministries (Ministry of Finance and Ministry of Housing and Urban Poverty Alleviation) in April 2007. Replies from the Managements of all HFCs except BOBHFL have been received and suitably incorporated in the draft modified Audit Report, which was issued to the Administrative Ministries and Managements in September 2007. A presentation on the audit findings and recommendations was made during the meeting of the Audit Board with the representatives of the Administrative Ministries and Managements of HUDCO, CBHFL, IHFL and PNBHFL in October 2007. The replies from the Managements of all the HFCs, and from the Administrative Ministries have been received and suitably incorporated in the report. The Management of Bank of Baroda (representing erstwhile BOBHFL) replied that in view of merger of BOBHFL with it with effect from 1 April 2006, the submission of reply was not feasible. Audit acknowledges the cooperation and assistance afforded by the Managements and the Administrative Ministries at all levels at various stages of this audit.

CHAPTER II

Role of Housing Finance Companies

2.1 As per the NHHP-1998, the HFCs are expected to:

- redefine their role and move away from their traditional approach to housing finance;
- develop and expand their reach to meet the needs of people;
- devise schemes to lend at affordable rates to those who are in dire need of housing finance support;
- mobilise resources from provident funds, insurance funds, mutual funds, *etc.*, for house building activities; and
- develop innovative instruments to mobilise domestic savings.

2.2 Share of HFCs in the housing finance market

2.2.1 After the setting up of the NHB in 1988, public insurance companies and the Scheduled Commercial Banks (SCBs) floated separate HFCs to avail the NHB's refinance facilities and tax concessions. Forty-four HFCs had registered with the NHB till 31 March 2006 and seven of them were Central public sector companies.

2.2.2 Till late 1990s the fund requirement for purchase of houses was largely met by borrowings from the employer and from the unorganised sector consisting of friends and relatives. With falling interest rates and tax concessions extended by the Government, many potential borrowers turned to the housing loans extended by the organised finance sector. The SCBs also found retail housing loans attractive as there was limited exposure per borrower coupled with adequate collateral security. During the boom period 1998-2005, interest rates on housing finance were driven down by fierce competition from an average of about 11 *per cent* in 2002 to about 7.75 *per cent* in 2004, as a result of which, there was a rapid growth in disbursement of housing loans up to 2003-04. The trend has been reversed owing to the relative hardening of interest rates during the period 2004-05 and 2005-06.

2.2.3 The industry has grown with housing loan disbursements having risen from Rs.23858 crore in 2001-02 to Rs.86034 crore in 2005-06, thereby witnessing a growth of 261 *per cent* during this period. Table 2 and Chart 1 below show the disbursements* of housing loans and the share of the HFCs compared to the SCBs and the co-operative sector during the period 2001-02 to 2005-06:

* ***Source: the NHB's Report on trends and progress of housing in India 2005/ FICCI's website and annual accounts of the NHB for the year 2005-06.***

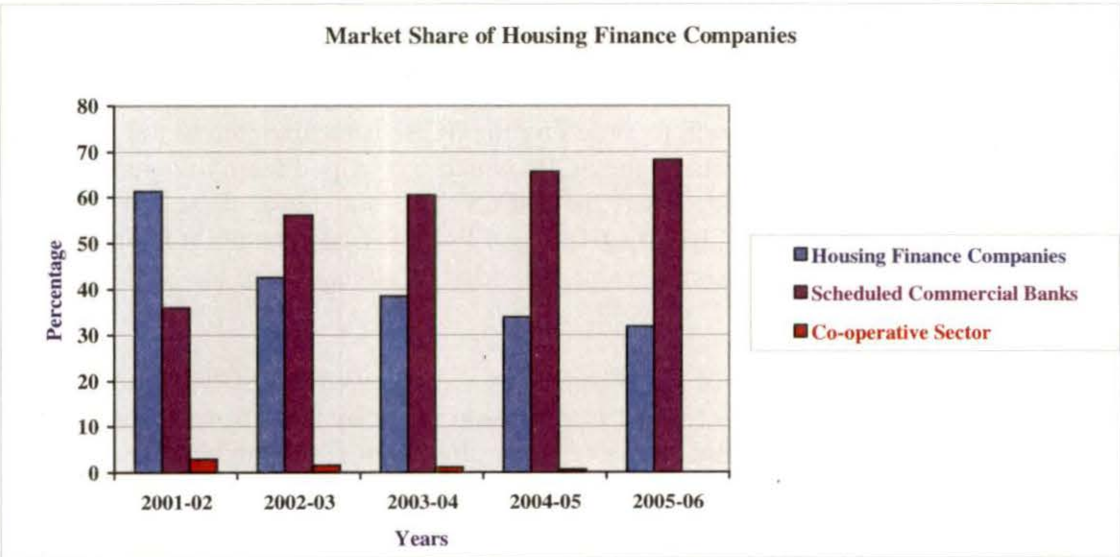
Table 2: Disbursements of housing loans by HFCs, SCBs and Co-operative sector

(Amount: Rs. in crore)

Institution	2001-02 Disbursements		2002-03 Disbursements		2003-04 Disbursements		2004-05 Disbursements		2005-06 Disbursements	
	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share	Amount	Market Share
Public Sector HFCs	2431.69	10.19	2991.32	7.12	1945.15	3.58	2033.07	2.64	2263.11	2.63
Private sector HFCs	12182.31	51.06	14840.68	35.31	18916.85	34.84	24008.93	31.24	25147.89	29.23
HFCs Total	**14614.00**	**61.25**	**17832.00**	**42.43**	**20862.00**	**38.42**	**26042.00**	**33.88**	**27411.00**	**31.86**
SCBs	8566.00	35.90	23553.00	56.04	32816.00	60.43	50398.00	65.57	58623.00	68.14
Co-operative sector	678.00	2.84	642.00	1.53	623.00	1.15	421.00	0.55	NA*	
Grand Total	**23858.00**	**100.00**	**42027.00**	**100.00**	**54301.00**	**100.00**	**76861.00**	**100.00**	**86034.00**	**100.00**

Figures for disbursements by the co-operative sector during the year 2005-06 were not available as of October 2007.

Chart 1



2.2.4 The HFCs had a market share of 61.25 *per cent* (Rs.14614 crore) in 2001-02 and this decreased to 31.86 *per cent* (Rs.27411 crore) in 2005-06. The SCBs in turn increased their market share from 35.90 *per cent* (Rs.8566 crore) to 68.14 *per cent* (Rs.58623 crore). The growth of 584.37 *per cent* in disbursements of housing loans by the SCBs is partly driving the small HFCs out of the market.

2.2.5 Table 3 shows the share of the Central public sector HFCs in the housing market between 2001-02 and 2005-06.

Table 3: Disbursements of housing loans by the Central public sector HFCs

(Amount: Rupees in crore)

Central public sector HFCs	2001-02		2002-03		2003-04		2004-05		2005-06	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
BOBHFL	170.54	7.01	211.41	7.07	60.00	3.08	1.00	0.05	0.04	-
CBHFL	71.43	2.94	85.95	2.87	98.69	5.07	60.30	2.97	12.71	0.56
Corp Bank HFL	97.10	3.99	127.31	4.26	102.51	5.27	63.07	3.10	17.83	0. 79
HUDCO	1825.00	75.05	2311.00	77.25	1287.00	66.17	1066.00	52.43	1105.00	48.83
IHFL	-	-	-	-	112.24	5.77	544.87	26.80	734.51	32.45
PNBHFL	267.62	11.01	255.65	8.55	284.71	14.64	297.83	14.65	393.02	17.37
Total	2431.69	100	2991.32	100	1945.15	100	2033.07	100	2263.11	100

Indbank Housing Limited, one of the seven central public sector HFCs, stopped its lending operations in 1998.

2.2.6 It is clear that the share of the public sector HFCs in the housing market continued to decline during the period 2001-02 to 2005-06 except for PNBHFL and IHFL who showed increase during this period. However, the total market share of PNBHFL and IHFL together was small and stood at 1.31 *per cent* as on 31 March 2006.

2.2.7 The phenomenal growth recorded by the SCBs is attributable to the large network and access to low-cost deposits by the SCBs which has helped them to extend home loans at competitive rates. Stating that the HFCs did not have these advantages, the Managements of HUDCO, CBHFL, IHFL and PNBHFL also stated (October 2007) that the country's fiscal laws, to some extent, provided an advantage to the SCBs vis-à-vis the HFCs such as:

(i) Section 36 (1) (viia) of the Income Tax Act allowed the SCBs some deduction in the taxable income in respect of provision made by them towards bad & doubtful debts. The HFCs were, however, not eligible for similar benefit on provisions made by them on non-performing assets.

(ii) While loans given by the SCBs to the HFCs qualified as priority sector lending if the individual loans onlent by the HFCs were up to Rs. five lakh, loans given by the SCBs to individuals for housing purposes up to an amount of Rs.20 lakh qualified as priority sector lending.

2.2.8 Notwithstanding the above, the HFCs have the advantage of selling a single product with better customised service in comparison to the SCBs who offered a variety of products in retail finance. There was accordingly a space for dedicated institution in the form of HFC to achieve the Government's objectives in the housing sector.

Recommendation No. 1

(i) ***The HFCs business model focussing on a single product needs to be strengthened so as to enable the HFCs to be more efficient in asset sourcing, servicing and collections.***

(ii) ***The Government of India may consider fiscal remedies so that the HFCs can compete with the SCBs on an even level.***

CHAPTER III

Role played by Central Public Sector HFCs

3.1 The Central public sector HFCs were established with the main objective of providing long-term loans for purchase or construction of houses. The brief details of the five HFCs reviewed are as under:

3.1.1 Housing and Urban Development Corporation Limited

Housing and Urban Development Corporation Limited (HUDCO) was incorporated (25 April 1970) as a fully owned Government Company under the Companies Act, 1956, with the main objective of providing long term finance for construction of houses for residential purposes and to finance/ undertake housing and urban development programmes like water supply and sewerage, roads, power, ports, social and commercial infrastructure in the country. In fulfilment of these objectives, HUDCO finances a variety of schemes formulated by State Housing Boards, Development Authorities, Improvement Trusts, Public Sector Undertakings, State Apex Housing Finance Societies, Cooperative House Building Societies and Private Builders and Developers. HUDCO has 20 Regional offices (***Annexure I***) across the country.

HUDCO manages its affairs through a Board of Directors consisting of six Directors appointed by its Administrative Ministry *viz.*, Ministry of Housing and Urban Poverty Alleviation (MoH&UPA). In discharge of day-to-day functions, Chairman-cum-Managing Director is assisted by Director (Finance) and Director (Corporate Planning). Regional Offices are headed by Regional Chiefs who report directly to respective Functional Heads at Head Office. Organisational Chart as at March 2006 is at ***Annexure II***.

This Report reviewed only the housing finance activities of HUDCO during the period of five years ending 31 March 2006.

3.1.2 BOB Housing Finance Limited

BOB Housing Finance Limited (BOBHFL), incorporated (28 December 1990) as a subsidiary of Bank of Baroda (BOB) in association with the NHB, operated through 23 Area Offices (***Annexure III***) spread over nine States. Due to highly competitive market and non-recovery of its outstanding dues, BOB took over BOBHFL with effect from 1 April 2006.

3.1.3 Cent Bank Home Finance Limited

Cent Bank Home Finance Limited (CBHFL), hitherto known as M/s Apna Ghar Vitta Nigam Limited, was incorporated in June 1992 under the Companies Act, 1956. CBHFL has 12 branches (***Annexure IV***).

3.1.4 IDBI Home Finance Limited

Originally promoted as Tata Home Finance Limited, IDBI Home Finance Limited (IHFL) started functioning with a fresh Certificate of Incorporation (under section 23(I) of the Companies Act, 1956) from December 2003. IHFL has 16 branches (***Annexure V***). This Report reviewed the performance of IHFL from December 2003 to March 2006.

3.1.5 PNB Housing Finance Limited

PNB Housing Finance Limited (PNBHFL) was incorporated in November 1988 as a wholly owned subsidiary of Punjab National Bank and has 28 branches (***Annexure VI***).

3.2 Financial Position and Working Results of HFCs

The financial position and the working results in respect of the five HFCs for the period of five years ending 31 March 2006 are given in ***Annexures VII, VIII, IX, X and XI.***

3.3 Implementation of Government schemes by HFCs

3.3.1 Golden Jubilee Rural Housing Finance Scheme

To address the problem of rural housing, the NHB launched the Golden Jubilee Rural Housing Finance Scheme (GJRHFS) in 1997-98. This scheme envisaged the disbursement of housing loan for areas with a population not exceeding 50,000 as per the Census of India, 1991. The NHB fixed targets under the scheme for the HFCs with the approval of the Ministry of Finance. ***Annexure XII*** shows the targets set, number of dwelling units constructed and total disbursements of housing loans made for the rural areas by the HFCs under this scheme.

Audit analysis of implementation of the scheme indicated that:

PNBHFL over achieved the physical targets set for it up to 2002-03 and thereafter its achievements dropped and ranged between 51.30 and 62.20 *per cent* till the end of March 2006. The Company disbursed a total amount of Rs.183.47 crore under the GJRHFS during the period under review. The Management stated (April 2007) that the non-achievement of the targets was due to (a) absence of rural branches, (b) non-availability of approval of map/plan in the rural areas, (c) absence of conveyance deeds of the properties, and (d) the properties mostly being ancestral were without proper documents.

CBHFL did not achieve the physical targets set and its achievements ranged between 4 to 86.2 *per cent* during the period 2001-02 to 2005-06 with a total disbursement of Rs.66.45 crore; the number of dwelling units constructed in rural area fell significantly from 531 in 2004-05 to 28 in 2005-06. CBHFL attributed (May 2007) the lower disbursements in rural areas to the fact that all its branches were located in urban areas only, and ascribed the sudden drop in 2005-06 to restriction placed by it on fresh sanctions so as to focus on recoveries of the NPAs.

BOBHFL did not furnish the relevant information and thus audit could not ascertain its performance in rural housing.

IHFL had not been given any targets by the NHB for rural housing. Its rural housing financing was 10.38 *per cent* and 6.76 *per cent* during the years 2004-05 and 2005-06 respectively of its total housing finance. IHFL stated (March 2007) that the main objective of the Company was to provide long term loans for constructing/purchasing a house and no specific priority sector lending had been mandated. It added (October 2007) that the Company was committed to increase its share of rural financing in a phased manner by maintaining commercial viability of operations.

HUDCO did not create any dwelling unit under the GJRHFS as it was implementing all its rural housing schemes under the Two Million Housing Programme.

3.3.2 Two Million Housing Programme

3.3.2.1 In accordance with the NHHP, the Two Million Housing Programme (TMHP) was launched during 1998-99 and an annual target of 10 lakh dwelling units (four lakh dwelling units in urban areas and six lakh in rural areas) was fixed for HUDCO. It was seen that the Company had achieved the target for urban areas up to the year 2003-04 and shortfalls resulted thereafter till 2005-06. In the rural areas except in the year 2004-05, the targets were never met, with the lowest being an achievement of 1.27 *per cent* in 2005-06. The high achievement of rural targets in 2004-05 was due to the financing of housing in the tsunami-affected areas. The decrease in achievement of rural targets during 2005-06 was stated to be due to launching of other schemes by the GOI in this year like the Bharat Nirman Programme. Table 4 indicates the target and achievement under each category.

Table 4: Achievements of HUDCO under Two Million Housing Programme

	Urban			Rural		
Year	**Target**	**Achievement**		**Target**	**Achievement**	
	Dwelling units	**Dwelling units**	**Percentage**	**Dwelling units**	**Dwelling units**	**Percentage**
2001-02	400000	401078	100.27	600000	333113	55.52
2002-03	400000	459969	114.99	600000	413078	68.85
2003-04	400000	427455	106.86	600000	542428	90.40
2004-05	400000	254885	63.72	600000	864857	144.14
2005-06	400000	184597	46.15	600000	7600	1.27

3.3.2.2 The shortfall in the achievement was attributed by HUDCO to withdrawal of the TMHP by the State Government Agencies on account of (i) non-availability of Government guarantee and budgetary support for repayment of HUDCO loans; and (ii) availability of cheaper finance to State Agencies from sources like National Bank for Agriculture and Rural Development, Life Insurance Corporation and Small Savings Schemes. On the issue of low disbursements and low achievement of targets in the rural areas, HUDCO stated (October 2007) that the State Government Agencies were generally not keen on rural housing schemes due to poor recovery and difficulties in implementation. Moreover, absence of nodal agencies, like Rural Housing Boards in most States restricted the expansion of business in rural areas. HUDCO however, had not taken any affirmative steps or devised new strategies to ensure that it could achieve the TMHP targets set for it.

3.3.2.3 There was also a declining trend in HUDCO Niwas (a retail loan scheme) which indicated that HUDCO failed to appropriately divert its business capacity from bulk housing schemes to retail lending. In fact, HUDCO increasingly shifted its focus on funding of urban infrastructure projects. Its lending towards the urban infrastructure projects increased from 60.85 *per cent* to 70.65 *per cent* during the years 2001-02 to

2005-06 while funding for the housing sector decreased from 39.15 *per cent* (2001-02) to 29.35 *per cent* (2005-06).

HUDCO stated (May 2007) that it carried out business on a demand-driven approach and schemes received by it. It further stated that many new HFCs had entered the market who were more liberal in sanctioning and disbursing housing loans, whereas it functioned strictly as per rules ultimately resulting in a decline in its housing business. It is clear from the reply that no innovative steps had been taken by HUDCO to adjust its lending policies/procedures to avail the growing opportunities of the housing sector.

3.4 From the foregoing, it may be seen that the broad objective of the Government schemes to encourage financing of rural housing was not fulfilled by any of the HFCs in the absence of an established rural network by way of branches/counters; due to lack of proper conveyance deeds for land; and lack of innovative and proactive strategies to advance their presence in housing finance and retail lending.

Recommendation No.2

(i) ***The HFCs should review their rural lending portfolios to establish effective strategies to increase their reach and coverage in the rural and semi-urban areas.***

(ii) ***The Government of India and the NHB may consider regulatory remedies and institutional incentives to mitigate the constraints in mortgaging rural assets.***

CHAPTER IV

Cost of Operations

4.1 Resource mobilisation

As the cost of funds is crucial to a finance company, its ability to generate them is essential for its operations. It is noted that the ability of the HFCs to raise resources at the lowest cost is constrained compared to banks due to the absence of access to low-cost retail deposits. Also, the HFCs do not have an extensive branch network and ability to provide cheque issuing facilities.

Audit analysis of the HFC's resource profile incorporates the cost of resources and appropriateness of the funding strategy under following sub-heads:

4.2 Asset Liability Management

4.2.1 The HFCs are exposed to credit, interest rate, liquidity, equity/commodity price and operational risks and therefore have to put in place systems and internal controls to manage these risks especially those relating to interest rates and liquidity. The Asset Liability Management (ALM) provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate risks of a HFC.

4.2.2 The ALM is the practice of managing risks that arise due to mismatches between assets and liabilities and assumes special importance in the housing sector as practically all the housing loans (assets) are long term while the corresponding financing resources (liabilities) of the HFCs are short to medium term borrowings. The ALM is the ongoing process for formulating, implementing, monitoring and revising strategies in relation to these assets and liabilities towards achieving financial objectives for a given set of risk tolerance and constraints.

4.2.3 The interest rate volatility in an increasingly de-regulated environment brings in higher risks. The mismatch could adversely affect the business as the interest rates on current borrowings are variable, and the future borrowings' terms and conditions are uncertain.

4.2.4 The NHB as a regulator, had issued (June 2002) detailed guidelines for monitoring the ALM in all HFCs. As per the guidelines, mismatches (negative gap) representing the difference between cash inflows (liabilities) and cash outflows (assets) were not to exceed 15 *per cent* of the cash outflows. The HFCs could, however, operate on higher levels of mismatch if approved by their Board of Directors, up to 30 September 2002.

4.2.5 Securitisation of assets is a funding alternative by which financial assets are pooled together and repackaged into marketable instruments. Securitisation is possible if there is a predictable income stream which converts the incomes/cash flows into capital for reinvestment and allows businesses, which do not have traditional assets upon which banks are prepared to lend, to raise capital from the market. The funding through securitisation of assets can be cheaper than bank loans as the investment is against an identifiable set of assets the credit risk of which is perceived to be lower. During 2005-

06, Housing Development Finance Corporation Limited (a private sector HFC), mobilised funds of Rs.1016 crore through three issues of mortgage backed securities. This route of raising finance has however, not been resorted to by any of the public sector HFCs reviewed in audit during the period of five years ending 31 March 2006. In the case of PNBHFL, its Board of Directors had only recently approved securitisation of assets worth Rs.500 crore (October 2007).

4.3 Cost of borrowings

Traditional sources of financing for the HFCs are through debentures, bank loans, priority sector funds, loans from multilateral agencies, NHB refinance, retail funding, fixed deposits, *etc.* A recent trend of securitisation of assets is also gaining popularity as a funding alternative.

A financing business requires careful planning and systematic assessment of requirement of funds to keep the cost of borrowings at the very minimum. Weaknesses in this could lead to unnecessary borrowing or idling of funds resulting in avoidable interest expenditure; or non-availability of funds for its disbursement programme leading to loss of business. These aspects were evaluated for the five HFCs and the results are as under:

4.4 Higher cost of borrowing

4.4.1 All HFCs prepare resource mobilisation plans on the basis of their annual targets for disbursement of loans. For mobilisation of funds, avenues are explored depending on the market conditions and while deciding the resource mix, economy in operations is considered as the most critical factor. The housing finance business is market-driven and the rates of interest for loans disbursed are fixed by the HFCs based on the market trends. Therefore, the HFCs have to take adequate measures to keep its cost of borrowing at minimum to have a higher interest margin for maximising their profit.

4.4.2 The cost of borrowing of each of the five HFCs compared to a private sector HFC for the period 2001-02 to 2005-06 is shown in Table 5 below:

Table 5: Average cost of borrowing of HFCs

(Figures in percentage)

HFCs reviewed	2001-02	2002-03	2003-04	2004-05	2005-06
HUDCO	11.21	9.87	9.11	7.71	7.69
BOBHFL	10.71	10.39	8.42	7.90	7.08
CBHFL	11.72	10.43	9.68	8.91	8.83
IHFL	-	-	7.70	5.71	5.94
PNBHFL	12.07	10.30	9.09	7.42	6.95
HFC in Private Sector					
HDFC	10.93	9.38	7.21	6.00	5.98

4.4.3 From the Table 5 it can be seen that while the average cost of borrowing of IHFL was comparable to one of the leading HFCs in the private sector, HUDCO, PNBHFL, CBHFL and BOBHFL were borrowing at higher cost in comparison. HUDCO stated (October 2007) that its average cost of borrowings was not comparable either with HDFC which enjoyed higher credit rating, or with PNBHFL and IHFL whose size of operations was smaller than HUDCO. In view of the reply, HUDCO needed to make efforts to maintain appropriate mix of resources to keep the cost of borrowing to minimum. IHFL accepted that the cost of borrowing was higher for the HFCs compared to the SCBs, as the latter had access to current and savings accounts and dealt with a host of products. The higher cost of borrowings of the HFCs could be offset by lower non-interest costs to maintain their profitability.

4.4.4 The sources of funds of the HFCs as on 31 March 2006 is shown in Table 6:

Table 6: Mix of borrowings of public sector HFCs as on 31 March 2006

(Amount: Rupees in crore)

Sl. No.	Instrument	HUDCO	BOBHFL	CBHFL	IHFL	PNBHFL	Total of Instruments
1	Bonds, Debentures and Retail funding	10149.56 (47.29)	20.00 (9.13)	-	60.00 (3.84)	125.00 (11.96)	**10354.56 (42.18)**
2	Bank Loans, Commercial Paper	7380.10 (34.39)	185.45 (84.69)	83.06 (31.91)	1340.37 (85.88)	459.93 (43.99)	**9448.91 (38.49)**
3	Public Deposits	1905.33 (8.88)	-	46.75 (17.95)	-	134.28 (12.84)	**2086.36 (8.50)**
4	Loans from GOI and FIs	1204.73 (5.61)	-	-	-	88.26 (8.44)	**1292.99 (5.27)**
5	Loans from multilateral agencies	821.68 (3.83)	-	-	-	-	**821.68 (3.35)**
6	NHB refinance	-	13.52 (6.18)	130.52 (50.14)	160.45 (10.28)	238.08 (22.77)	**542.57 (2.21)**
	Total	**21461.40**	**218.97**	**260.33**	**1560.82**	**1045.55**	**24547.07**

Note: Figures in bracket indicate the percentage to the total borrowings of the HFC.

4.4.5 As can be seen from Table 6, these HFCs mainly raised funds through bonds, bank loans and commercial papers. The Public Deposits and NHB refinance routes were not resorted to in a big way by these HFCs.

4.5 Net Interest Margin

4.5.1 Earnings are a key input to augment capital required for supporting growth and absorbing losses, as well as to attract equity and debt. Earnings for the HFCs are driven mainly by their Net Interest Margin (NIM), being the difference between the average yield of the loan assets and average cost of funds deployed. The audit evaluated the stability and sustainability of the profitability as reflected in the funding structure, operational efficiencies and portfolio quality.

4.5.2 A thin NIM indicates low profitability which limits the Company's capability to generate resources and to meet the challenge of business risks arising out of the NPAs and fluctuations in interest rates. Table 7 indicates the comparative data of the NIMs of the HFCs benchmarked against those of HDFC during the period of review:

Table 7: Net Interest Margin of HFCs

(Figures in percentage)

HFCs reviewed	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**
HUDCO	0.41	1.91	2.16	1.89	1.66
BOBHFL	2.24	1.62	1.49	1.52	2.25
CBHFL	1.49	1.74	0.48	(-) 0.45	0.02
IHFL	-	-	1.92	2.09	2.29
PNBHFL	2.36	2.07	2.11	1.94	2.45
HFC in Private Sector					
HDFC	2.11	2.17	2.46	2.38	2.57

Source: Annual accounts of the HFCs

4.5.3 It is evident from the above table that the NIMs achieved by PNBHFL and IHFL matched the trend prevailing in HDFC. In all other HFCs, the NIMs were on the lower side thus indicating that these HFCs were not competitive enough. Some of the major factors attributable to lower NIM in these HFCs were:

(i) unlike the SCBs, these HFCs had no access to low interest retail finance such as current accounts and savings accounts.

(ii) the refinance support of the NHB did not work effectively as public sector HFCs like HUDCO were not able to meet requirements of low level of the NPA.

(iii) poor credit ratings of these HFCs reflected in higher cost of borrowing.

(iv) higher proportion of operational costs in relation to business volume.

4.6 Declining trend in mobilisation of funds through Public Deposit Scheme

Mobilising funds through Public Deposits (PDs) has certain inherent advantages over other sources of financing *viz.*, non-requirement of securities, medium to long span of holding without much change in interest costs, and regular flow of funds from regular depositors. As per the NHB (Directives) 2001, an HFC could raise PDs up to five times of its Net Owned Funds*. Funds mobilised through PDs by the HFCs are given in ***Annexure XIII***. It was observed that despite the stated advantages, the HFCs did not resort to this route to mobilise funds.

BOBHFL and IHFL did not mobilise funds through PDs. Based on the year end balances in the case of PNBHFL and CBHFL, it was seen that their funding through PDs reduced from 28.97 *per cent* (2001-02) to 12.84 *per cent* (2005-06) and 39.18 *per cent* (2001-02) to 17.96 *per cent* (2005-06), respectively. For HUDCO, there was a declining trend in mobilisation of funds through PDs; mobilisation through this source reduced from Rs.247 crore during 2004-05 to Rs.82.37 crore during 2005-06 though this source was cheaper in 2005-06. HUDCO stated (May 2007) that it had increased the mobilisation of PDs to Rs.350 crore during 2006-07 and was targeting to raise Rs.2000 crore during 2007-08 through PDs. However, the Company did not elaborate the strategy by which it planned to raise these huge resources.

4.7 Mid-way reduction in cost of borrowings

In order to get the cheapest funds from the markets, the HFCs depending upon the market conditions were expected to carry out dynamic treasury operations. In one case, the audit noticed that CBHFL in 2004 decided to retire its high cost debts of the NHB and to reduce interest burden on outstanding dues as there was a decline in interest rates in the market. The NHB accepted CBHFL's request to allow prepayment of loans amounting to Rs.98.61 crore. Accordingly, CBHFL approached its parent bank for sanctioning a term loan of Rs.98.00 crore. CBHFL could neither get the term loan from its parent bank nor did it resort to any other alternative source of borrowing.

CBHFL stated (May/October 2007) that the Company could not pre-pay the high cost funds of the NHB as the parent bank could not provide the required funds at cheaper rates because of the arm's length policy of the Reserve Bank of India and the borrowings from other sources were available at a rate of 8.50 *per cent*. However, in view of the fact that the weighted average cost of the NHB funds was in the range of 9.25 *per cent,* CBHFL could have approached other sources to save the interest cost.

4.8 Refinance from NHB

With the objective of providing long term funds to the HFCs, the NHB offers refinance on certain terms and conditions in respect of the loans extended by them. The refinance scheme was not availed by the HFCs in a big way because to qualify for the same, the NHB required prepayment charges and had stipulated that NPAs of the HFCs should not be more than five *per cent*. The internal credit rating system of the NHB also did not allow these HFCs, having comparatively poor credit rating, to resort to refinance from the former.

****Net Owned Funds represent the aggregate of paid up capital and free reserves reduced by accumulated losses, deferred revenue expenditure and other intangible assets.***

Three HFCs (HUDCO, PNBHFL and IHFL) availed refinance facility up to 32.33 *per cent* of the total borrowings during the last five years ending 31 March 2006. In PNBHFL, refinance facility had come down from 32.33 *per cent* (2001-02) to 22.77 *per cent* (2005-06). The refinance from the NHB was not availed by HUDCO during 2004-05 and 2005-06 as the interest rates of the NHB were comparatively higher than the rates prevailing in the market. HUDCO stated (March 2007) that its housing loans disbursed to Housing Boards, State Government and its Agencies were not eligible for refinance from the NHB. HUDCO stated that it did not prefer the NHB refinance due to stringent conditions coupled with higher rate of interest.

The innate objective of the NHB to provide refinance facility to the HFCs, thus, remained largely unfulfilled.

4.9 Employee cost

4.9.1 A factor that affects maximising profitability of the HFCs is employee cost. As such a lower percentage of employee cost to the amount disbursed during the year is indicative of higher efficiency. An analysis of the percentage of employee cost to disbursements revealed that when compared to the private sector HFC, *viz.*, HDFC, the cost was higher in the HFCs under review, as shown in the Table 8 below:

Table 8: Percentage of employee cost to disbursements

(Figures in percentage)

HFCs reviewed	2001-02	2002-03	2003-04	2004-05	2005-06
BOBHFL	0.53	0.34	1.10	*	*
CBHFL	0.75	0.66	0.80	1.72	9.68
IHFL	-	-	1.33	0.53	0.48
PNBHFL	0.68	0.89	0.98	1.02	0.93
HFC in Private Sector					
HDFC	0.42	0.39	0.36	0.32	0.32

** Due to merger decision, BOBHFL had stopped fresh disbursements during these years.*

In case of HUDCO the ratio could not be worked out as data regarding number of staff for housing and urban infrastructure projects were not separately available.

4.9.2 The above data indicates that the ratio of employee cost to disbursements in HDFC ranged between 0.32 to 0.42 *per cent* and showed a declining trend over the period of review. While except for IHFL in the public sector the other HFCs had very high ratios indicating low efficiency of operations. In case of CBHFL, the marked jump in the ratio in 2005-06 was attributed to the fall in the disbursement of loans by 78.92 *per cent* in 2005-06 as compared to the previous year, as discussed in para 5.2.4 *infra.*

4.10 From the foregoing study of the HFCs' resources profile, it emerged that:

- The ability of the HFCs to raise resources at the lowest cost is constrained compared to the SCBs due to the absence of access to low-cost retail deposits. Further, the innate objective of the NHB to provide refinance facility to the HFCs remained largely unfulfilled, as the HFCs like HUDCO were not able to meet requirement of low level of NPA.
- The five HFCs mainly raised funds through bonds, bank loans and commercial papers. The Public Deposits and the NHB refinance routes were not resorted to in a big way and the option of raising finance through securitisation of assets had not been resorted to by any of the HFCs reviewed during the five years ending 31 March 2006. Except for IHFL, the other four HFCs comparatively borrowed at higher cost.
- Net Interest Margin achieved by PNBHFL and IHFL matched the trend prevailing in one of the leading HFCs in the private sector. In the other three HFCs, it was on the lower side, indicating that these HFCs were not competitive enough and therefore, vulnerable to elimination from the housing finance market.

Recommendation No.3

(i) ***The HFCs should strive for a proper mix of resources in order to minimise the cost of borrowings.***

(ii) ***In order to promote the easy availability of low-cost resources for housing finance, the Government of India and the NHB may consider suitable measures to increase the depth of the market for mortgage backed securities and to encourage the HFCs to resort to securitisation of assets as a funding alternative.***

(iii) ***The NHB re-financing mechanism needs to be revisited to facilitate the public sector HFCs in availing ready credit at competitive rates.***

CHAPTER V

Operational Performance and Control Issues

5.1 Operational Performance

5.1.1 Table 9 below shows the important performance indicators of the five HFCs:

Table 9: Important Performance Indicators of the HFCs

(Amount: Rupees in crore)

Financial Indicators	2001-02	2002-03	2003-04	2004-05	2005-06
HUDCO					
Housing Loan disbursements during the year	1825.00	2311.00	1287.00	1066.00	1105.00
Growth rate of disbursements over previous year (in percentage)	-	26.63	(-) 44.31	(-) 17.17	3.66
Housing Loans outstanding at the end of the year	10442.43	10418.50	9693.57	8301.53	8148.61
NPA at the end of the year	1233.46	886.66	762.08	1119.52	1258.05
NPA to total loan assets (in percentage)	11.81	8.51	7.86	13.48	15.44
Income from Housing Operations	1361.13	1354.36	1194.56	1036.42	728.71
BOBHFL					
Housing Loan disbursements during the year	170.54	211.41	60.00	1.00	0.04
Growth rate of disbursements over previous year (in percentage)	-	23.97	(-) 71.62	(-) 98.33	(-) 96.00
Housing Loans outstanding at the end of the year	464.24	601.74	484.90	366.83	283.13
NPA at the end of the year	12.12	22.38	42.11	70.30	55.55
NPA to total loan assets (in percentage)	2.61	3.72	8.68	19.16	19.62
Income from Housing Operations	52.71	64.01	53.83	40.11	30.31
CBHFL					
Housing Loan disbursements during the year	71.43	85.95	98.69	60.30	12.71
Growth rate of disbursements over previous year (in percentage)	-	20.33	14.82	(-) 38.90	(-) 78.92
Housing Loans outstanding at the end of the year	270.13	312.64	357.32	365.77	322.19
NPA at the end of the year	19.60	19.78	46.72	84.63	63.66
NPA to total loan assets (in percentage)	7.26	6.33	13.07	23.14	19.75
Income from Housing Operations	32.92	35.46	34.04	30.58	30.43

IHFL					
Housing Loan disbursements during the year	-	-	112.24*	544.87	734.51
Growth rate of disbursements over previous year (in percentage)	-	-	-	-	34.80
Housing Loans outstanding at the end of the year	-	-	485.20	922.58	1516.93
NPA at the end of the year	-	-	9.91	14.34	19.50
NPA to total loan assets (in percentage)	-	-	2.04	1.55	1.29
Income from Housing Operations	-	-	44.62	54.90	100.40
PNBHFL					
Housing Loan disbursements during the year	267.62	255.65	284.71	297.83	393.02
Growth rate of disbursements over previous year (in percentage)	-	(-) 4.47	11.37	4.61	31.96
Housing Loans outstanding at the end of the year	521.30	643.59	776.22	898.67	1099.69
NPA at the end of the year	20.97	23.61	32.18	69.24	38.79
NPA to total loan assets (in percentage)	4.02	3.67	4.15	7.70	3.53
Income from Housing Operations	66.89	80.23	89.83	86.41	102.05

from October 2003 onwards

5.1.2 Two discernible trends noted from the above data are negative growth in housing disbursements and poor quality of assets *i.e.*, rising level of the NPA in HUDCO, CBHFL and BOBHFL, while PNBHFL and IHFL performed well on these two performance benchmarks. Audit reviewed these aspects and observed the following:

5.2 Decline in disbursement of housing loans

5.2.1 HUDCO's disbursements of housing loans decreased from Rs.1825 crore in 2001-02 to Rs.1105 crore in 2005-06 which led to a fall in income from housing operations from Rs.1361.13 crore in 2001-02 to Rs.728.71 crore in 2005-06. One of the major reasons for declining trend was decline in business from State Agencies and HUDCO's failure to diversify its housing portfolio by tapping retail home loan business. A detailed analysis of its housing portfolio revealed the following:

(i) Seven of HUDCO's Regional Offices showed severe decline in disbursements of loans over the five years ending 31 March 2006 with meagre housing loan disbursements of less than Rs.10 crore (***Annexure XIV***) ranging from nil (Jammu and Kashmir) to Rs.8.12 crore (Manipur). There was nothing on record to indicate any remedial steps taken by the Management based on a periodical review of its non-performing Regional Offices.

HUDCO stated (May 2007) that the State Agencies in these regions did not come forward to take loans from the Company due to non-availability of State Government guarantees. However, action to increase its retail business in these regions by HUDCO to make them profit centres was not on record.

Recommendation No.4
HUDCO should put in place a system for periodical review of its non-performing Regional Offices.

(ii) HUDCO launched (1998) a retail finance scheme under the name of 'HUDCO Niwas' (HN) to sanction housing loans to individuals and bulk loan to State Governments, para-statal bodies of the State Governments and PSUs for granting house building advances to their employees. A table indicating the sanctions, disbursements, default position and NPA during 2001-02 to 2005-06 under the HN scheme is shown in ***Annexure XV.*** Sanctions and disbursements under this scheme started declining from the year 2003-04 onwards and disbursements during the year 2005-06 were very low at Rs.52.23 crore as compared to disbursements of Rs.973.89 crore during 2002-03.

HUDCO attributed (May 2007) the declining trend to competitive interest rates and aggressive marketing by other players in the industry. The reply is not tenable as the interest rates of the Company were comparable with other players in the market. The inadequate marketing efforts coupled with a weak support structure to meet the challenges posed by a competitive market led to this negative trend. HUDCO further stated (October 2007) that in view of the competition in the market, the norms were gradually being made flexible and customer friendly, the impact of which would be seen in future.

Recommendation No.5
HUDCO should strengthen its housing finance portfolio through HUDCO Niwas scheme to ensure greater coverage of the low-income and the poorer sections of the society.

(iii) HUDCO did not fix separate targets for the HN business and as a consequence, requisite focus was not provided by the Regional Offices on developing the retail business. Moreover, HUDCO did not resort to wide publicity to promote the HN scheme.

HUDCO stated (May 2007) that the Regional Offices could not make the publicity expenditure for want of budgetary approval from the Board. The reply clearly showed that no marketing strategy existed in the Company to enhance its reach to prospective borrowers in a highly competitive market. Further, it was noted in audit that HUDCO was over dependent on State Government Agencies and the retail finance to individual borrowers was not given priority. Consequently, as soon as the State Government Agencies stopped availing housing loans the business under the HN scheme fell drastically from the year 2003-04 onwards.

(iv) Higher penal interest rate clauses led HUDCO to lose business to its competitors. On a test check of the records of 2355 loan accounts under its Thiruvananthapuram Regional Office, it was noticed that 507 loan accounts involving a portfolio of Rs.13.24 crore were taken over by other HFCs from HUDCO during the period from 2001-02 to 2005-06 which accounted for 21.53

per cent of the total loan disbursements during this period in the region. HUDCO stated (May/October 2007) that take over of loans is a common phenomenon in the dynamic market and added that it has now rationalised its penal interest rate.

5.2.2 **BOBHFL** showed continuous decline in disbursements from Rs.211.41 crore in 2002-03 to Rs.0.04 crore in 2005-06 and the main reasons as noticed in audit were competition from its parent bank which was operating its branches from the same premises of the Company, high cost of borrowings; inadequate staff strength; and the decision to merge the Company with the parent bank.

5.2.3 **PNBHFL** showed a rising trend in disbursements from Rs.267.62 crore in 2001-02 to Rs.393.02 crore in 2005-06 but its achievements were far below the targeted level of business except in the year 2005-06. Its achievement of targets ranged between 50.11 and 63.27 *per cent* during the years 2001-02 to 2004-05. However, during the year 2005-06 the target was revised downward and fixed at Rs.390 crore which was achieved.

5.2.4 In **CBHFL**, disbursements showed a rising trend up to 2003-04 but declined thereafter. Reason for decline in business from 2004-05 was stated to be slowing down of business due to an alarming increase in NPA and the Company's focus on recovery of old loans rather than sanctioning fresh ones. CBHFL stated (May 2007) that for the year 2007-08, the Company has already fixed targets for its branches under different parameters and would concentrate on fresh sanctions and disbursal of loans. It added (October 2007) that new loan and recovery policies have been formulated and approved by the Board in June 2006.

5.2.5 Disbursements by **IHFL** in the first year (2003-04) of its operations, after take-over from Tata Home Finance Limited (private HFC), declined by 32 *per cent* but grew in the subsequent years. Management attributed (December 2006) this growth to virtual rebirth of the Company.

Recommendation No.6

(i) ***The HFCs should review and on the basis of the review redefine and implement operational strategies to arrest the declining trend in their business in a rapidly rising market driven by expanding levels of prosperity and growth in the demand for housing.***

(ii) ***The HFCs should consider establishing such innovative lending schemes that cover the various segments of the urban and rural population including the adoption of a more pragmatic approach in their credit appraisal norms.***

5.3 Quality of Assets

The level of the NPA indicates the quality of assets. The quality of assets is a primary consideration while assessing credit risk in a finance company. Audit evaluated the HFC's approval procedures, collection procedures, management information systems that allowed monitoring to address potential credit problems and loss mitigation strategies, asset diversity in terms of assets classes, geographical distribution, delinquency level, write offs and recovery levels to assess the quality of assets.

As per the Housing Finance Companies (NHB) Directions, 2001, a loan asset in respect of which interest or instalment remained overdue for 90 days with effect from 31 March 2005 (180 days as on 31 March 2004) was to be classified as the NPA. Since interest accrued on the NPAs could not be recoginsed as income in the accounts, higher level of the NPA would amount to low revenue. The level of the NPA as a percentage to the loan assets of the HFCs is discussed in the following paragraphs:

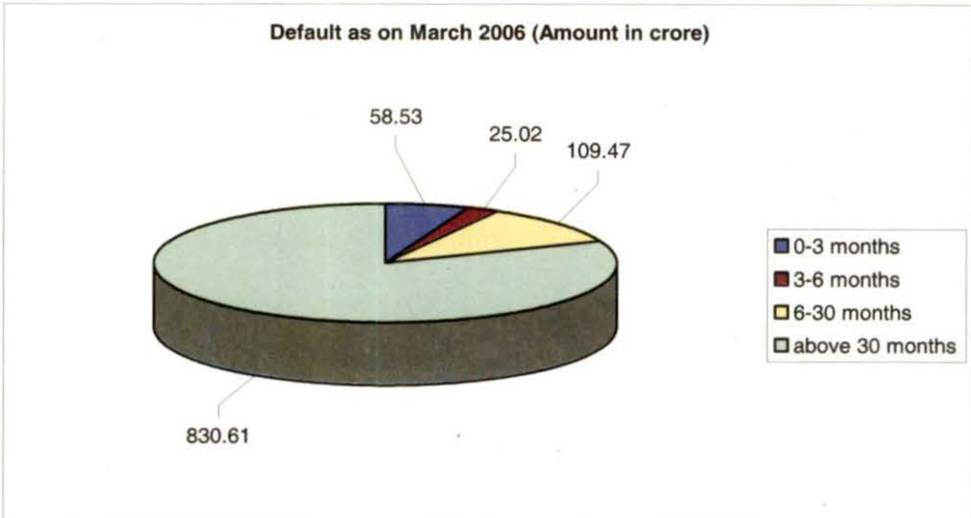
5.3.1 HUDCO

5.3.1.1 The percentage of the NPA to total loan assets in HUDCO was very high and stood at 15.44 *per cent* as on 31 March 2006 when compared to that of PNBHFL which was 3.53 *per cent*. HUDCO had not effectively controlled its NPA resulting in higher provisioning with lower profits. It is pertinent to note that though loans outstanding had decreased by 21.97 *per cent i.e.*, from Rs.10442.43 crore (2001-02) to Rs.8148.61 crore (2005-06), HUDCO's NPA increased from Rs.1233.46 crore (2001-02) to Rs.1258.05 crore (2005-06), showing that the quality of a portion of its loan portfolio was becoming bad. HUDCO stated (October 2007) that its NPA was high as its housing loans included the loans to State Governments and other agencies which had much higher individual exposure than individual borrowers; as such, its NPA level should not be compared with other HFCs which were lending to individual borrowers only. The NHB's norms however, do not differentiate NPA between the business segments.

5.3.1.2 Forty-three borrowing agencies accounted for Rs.906.52 crore (***Annexure XVI***) of the total NPA of Rs.1258.05 crore as on 31 March 2006. A review in audit revealed that these accounts turned NPA mainly on account of deficiencies during appraisal and sanction. HUDCO stated (October 2007) that defaults in 29 cases were either resolved or close to resolution and in the remaining cases the process of resolution was in progress.

5.3.1.3 The age-wise details of defaults in HUDCO during the years 2001-02 to 2005-06 are given in ***Annexure XVII***. The age-wise defaults as on 31 March 2006 is given in Chart 2.

Chart 2



It would be seen that defaults which were more than 30 months old (Rs.830.61 crore) accounted for 81 *per cent* of the total amount of defaults (Rs.1023.63 crore) as on 31 March 2006; indicating that there was higher risk of non-recovery of this amount. Scrutiny further revealed that an amount of Rs.288.40 crore pertaining to 38 agencies was lying in default for more than 10 years of which Rs.133.68 crore was the default of 17 agencies in the Gujarat region alone relating to cooperative societies.

HUDCO had initiated legal action and the cases were under finalisation at various stages in the Debt Recovery Tribunal. HUDCO stated (May/October 2007) that recovery efforts were being made. However, HUDCO would not have faced such huge NPAs had due care been taken at all stages when the loans were appraised, sanctioned and disbursed.

5.3.2 The NPA in **CBHFL** increased from Rs.19.60 crore (2001-02) to Rs.63.66 crore (2005-06). The over-dues exceeding 12 months had increased from 64.93 *per cent* (2001-02) to 88.16 *per cent* (2005-06). The Company slowed down disbursements of housing loans in 2005-06 and 2006-07 and concentrated on recovery of outstandings. CBHFL stated (October 2007) that it was in the process of liquidating the NPA by resorting to action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002 and it had taken over the assets in 529 cases involving NPAs of Rs.17.71 crore and disposed off assets in 215 cases realising an amount of Rs.5.95 crore during the period 2004-05 to 2006-07.

5.3.3 **BOBHFL**'s NPA increased from 2.61 *per cent* to 19.62 *per cent* during the five years ending 31 March 2006. The increase in NPA was mainly on account of control failures in sanction and monitoring of loans. The Company had written off Rs.4.65 crore during 2005-06 to improve its quality of assets before takeover by its parent bank.

5.3.4 **PNBHFL**'s NPA level was low and stood at 3.53 *per cent* during 2005-06.The sudden growth to 7.7 *per cent* during 2004-05 was on account of change in the NPA provisioning norms. PNBHFL effectively controlled its NPA by taking over the mortgaged assets of the defaulters under SARFAESI Act. During the period 2004-05 to 2005-06 it had taken over the assets in 494 cases involving NPA of Rs.26.43 crore and disposed off assets in 221 cases realising an amount of Rs.12.39 crore.

5.3.5 **IHFL**'s NPA position at 1.29 *per cent* as on 31 March 2006 was comparable to the levels of private sector HFCs.

Recommendation No.7

(i) The HFCs should draw up time bound plans to take immediate legal steps (including recourse to the SARFAESI Act) for recovering the overdues.

(ii) The HFCs should encourage disposal of their non-performing assets by evolving an objective system of determining the sale price of mortgaged assets.

5.4 Control failures causing higher level of NPA

The NPAs referred to in this report mainly arose out of the loans sanctioned in the earlier years. The main reasons for these loans becoming NPAs were attributable to control failures at various stages of appraisal, sanction, disbursement, monitoring and recovery. Audit analysed these controls in the five HFCs and the findings are discussed in the following paragraphs:

5.5 Appraisal and Sanction Level Controls

Each HFC had laid down guidelines to be observed while appraising the loan applications for sanctioning the loans. Audit reviewed the implementation of the control system in this regard and major audit findings are discussed below:

5.5.1 HUDCO

(i) The Company did not maintain any database at corporate level regarding the number of applications received, processed, sanctioned and rejected by Regional Offices in respect of HUDCO Niwas scheme. In the absence of such a database, the Corporate Office was not in a position to effectively monitor the main functions at the level of the Corporate management.

(ii) Credit worthiness and track record of a private party (M/s C.R. Patil, Surat) was not verified independently by HUDCO before sanction (March 2002) of loan amounting to Rs.17.25 crore. An amount of Rs.6.80 crore was disbursed though the fact of the party being a defaulter was in the knowledge of HUDCO. The party defaulted and the loan amounting to Rs.3.48 crore was outstanding (March 2007). HUDCO stated (May 2007) that the loan was sanctioned and released based on the security of the registered mortgage of the property and the Board of Directors was informed about default of the party. It added (October 2007) that HUDCO had filed (June 2006) a joint recovery application in the Debt Recovery Tribunal, Ahmedabad. The outcome of the same was awaited (October 2007).

(iii) A loan amounting to Rs.59.41 crore was sanctioned and disbursed (March 1999 to May 2001) to Jalgaon Municipal Corporation without the project site having been identified and assessing the financial viability of the project. Subsequently the project site was disputed by the public and the project was not completed. The total loan became a NPA and as on 31 March 2006, it stood at Rs.63.96 crore (including interest and other charges of Rs.4.15 crore). Though the loan has been in default since September 2005, HUDCO was yet to initiate legal action (September 2007). HUDCO stated (May 2007) that the sanction and disbursement were made based on the certificate given by the Principal Officer under the Maharastra Municipality Act; and added (October 2007) that it was pursuing with the Government of Maharastra for settlement of default and that legal option would be exercised as the last resort. The actual recovery however, was awaited (September 2007).

(iv) HUDCO sanctioned a loan of Rs.100 crore to a private party for a housing project without ensuring 'No Objection Certificate' from the Ministry of Environment & Forest and approval from the local authorities regarding land use.

HUDCO stated (May/October 2007) that the scheme has since been closed. However, though the amount was not disbursed ultimately, the scheme involving a major financial commitment was sanctioned without the Company having actually verified that clearances had been obtained and that the party had a clear title to the land.

(v) Under Thiruvananthapuram Region, HUDCO converted (March 2003) the existing scheme-based loans of Kerala State Housing Board (KSHB) totalling Rs.410.68 crore (including interest), at average rate of interest of 13.95 *per cent*, into bulk loan under the HN scheme at 10 *per cent* rate of interest, which in February 2005 was further reduced to 8.25 *per cent*. The conversion was not covered by the HN guidelines which permitted loans to State Government/PSUs for onward disbursement of house building advances to their employees. Further, the conversion to bulk loan and reset of interest was subject to submission of utilisation certificates and fresh Government guarantee, which had not been fulfilled by KSHB. Hence, resetting of interest rates in contravention of its guidelines was an undue benefit to KSHB and the financial impact on the resetting of interest, as worked out in audit, was about Rs.144.89 crore for the period of ten years from April 2003 to March 2013. In spite of these concessions, KSHB again defaulted in repayment and the default amount stood at Rs.50.96 crore as on 31 March 2007.

HUDCO stated (May/October 2007) that the conversion of scheme based loans to the HN scheme was made in the interest of the Company otherwise it would have lost this portfolio to other Financial Institutions/ Banks.

5.5.2 BOBHFL

(i) Under Baroda Area Office, loans amounting to Rs.71.75 lakh were sanctioned to eight borrowers (October-November 2002) for purchase of shops *i.e.*, for non-housing purposes, at Timba, Gujarat which ultimately turned bad. In respect of these loans, the following lapses were noticed:

- The loan amount was disbursed directly to the builder without any authority letter or written requests from the borrowers.
- The market value of the land at the time of sanction or disbursement of loan was not assessed.
- There was no business activity in the so-called shops.
- Genuineness of income tax returns and credit worthiness of the borrowers was not verified.

BOBHFL could not recover the loan amount and ultimately wrote off the loan (March 2006) resulting in a loss of Rs.71.75 lakh

(ii) The original registered sale agreements in 11 loan accounts, share certificates in 12 loan accounts and lien-noting confirmations from the Co-operative Housing Society in 12 loan accounts were not obtained before sanction and disbursement of loans by Mumbai Area Office during the period March 1995 to October 2002. These loans amounting to Rs.95.05 lakh have ultimately become NPAs.

(iii) Baroda Area Office did not conduct site verification of the building and the building completion certificate furnished by the borrower was subsequently found to be false. In this case an amount of Rs.56.89 lakh was disbursed (August 2002 to January 2003) to the Builder & Secretary of Sobha Park Housing Co-operative Society and this account became NPA.

(iv) Instances of incomplete applications were also noticed in audit. In Pune Area Office in 40 cases test checked it was found that in six cases, the basic information in the loan application *i.e.*, name of employer, designation of employee, father's name and date of birth were not filled up properly. Further the genuineness of the salary certificates and identity proofs were not verified before disbursement of loan amounts. These cases involving Rs.17.13 lakh became NPAs.

5.5.3 CBHFL

(i) During the period 2002-03 to 2003-04, sanctions and disbursements were target oriented only and CBHFL did not carry out the requisite pre-sanction and disbursement checks. This was proved by the fact that 44.70 *per cent* of the loan accounts involving Rs.29.46 crore of this period became NPAs.

(ii) In Bilaspur, Bhopal and Jabalpur branches of this HFC, proof of residence of the borrowers was not obtained in 65 cases and the total amount of Rs.1.60 crore disbursed became NPA.

(iii) Essential documents like the salary or income certificates were not properly analysed by four branches of CBHFL while sanctioning loans amounting to Rs.1.47 crore to 49 borrowers. In these cases, a sum of Rs.1.40 crore has become NPA.

(iv) In Jabalpur branch, Rs.6.90 lakh were shown outstanding against two borrowers who disclaimed receipt of loan. In Bilaspur branch, one borrower denied taking a loan of Rs.1.60 lakh and had not paid any installment. In these cases the loan amounts were disbursed directly to builders without the consent of the borrowers.

CBHFL (October 2007) accepted that the loans were sanctioned in these cases without proper verification. Stating that checks and control system had since been introduced to enhance the quality of assets, it added that legal action had been initiated against the defaulters, besides disciplinary action against 16 officers.

5.5.4 PNBHFL

Total NPA at Hyderabad branch was Rs.18.21 crore consisting of 402 cases as on 31 March 2006. In 187 cases, the Company invoked the provisions of SARFAESI Act, 2002, took over the assets, disposed them off and realised Rs.8.74 crore against the outstanding amount of Rs.11.77 crore thus incurring a loss of Rs.3.03 crore. The reason for this loss, as examined in audit, was found to be overvaluation of assets in 175 cases. The recovery proceedings in respect of the remaining 215 cases were in progress (March 2007).

PNBHFL assured (April 2007) that such incidents would not happen in future and added that fresh instructions were issued to all the branches for meticulous appraisal, pre-sanction appraisal, legal scrutiny, valuation, post-disbursement and follow-up.

5.5.5 IHFL

Sixty-nine borrowers were sanctioned housing loans amounting to Rs.4.78 crore, though as per the eligibility limit, they were entitled for Rs.4.41 crore only, thus resulting in excess sanction of Rs.0.37 crore.

5.6 Disbursement System Controls

5.6.1 Each HFC had issued guideline for disbursing loans. Audit reviewed the control system in this regard and observed the following deficiencies:

(i) As per the guidelines laid down in Financing Patterns (internal orders indicating, *inter-alia*, the rate of interest and terms and conditions for disbursement) of HUDCO, no fresh releases should be made to defaulting agencies unless default amount was recovered. An analysis of records relating to 760 releases made to 56 agencies during the five years ending 31 March 2006 revealed that HUDCO made 73 releases to 14 defaulting agencies amounting to Rs.323.98 crore in violation of its own guideline (***Annexure XVIII***). HUDCO stated (May 2007) that the condition of default for release of loans to Government agencies was waived in November 2002 and added (October 2007) that in some cases releases were made pending realisation of past repayment or on merits. The fact is, however, that such concession was withdrawn in May 2003 and the amount of Rs.323.98 crore was released to the defaulting agencies during the period when condition of default was in force.

(ii) As per the para No. 28 of Chapter III of the NHB Directives 2001, no HFC shall lend to (a) any single borrower exceeding 15 *per cent* of Net Owned Funds (NoF) and (b) any single group of borrowers exceeding 25 *per cent* of their NoF. An audit analysis revealed that in respect of advances to 13 agencies (***Annexure XIX***), HUDCO violated the norms prescribed by the NHB by exceeding the total exposure limit. The exposure to these agencies was allowed year after year with the actual exposure as on 31 March 2006 being in the range of 16.67 to 42.52 *per cent* of NoF. HUDCO, through its administrative Ministry, approached (February 2005) the NHB for exemption from this exposure limit which was not agreed to by the latter. However, HUDCO was yet to take corrective action to limit the exposure within the prescribed norms (September 2007).

HUDCO stated (May/October 2007) that if this exposure limit was strictly adhered to, there would be major constraints on the business of the Company. The reply is not tenable as the NHB had prescribed the exposure norms for all HFCs to avoid any major liquidity problems on account of default by agencies.

5.7 Monitoring Controls

An effective monitoring mechanism requires a well established communication and information system to collect and analyse data of the loans sanctioned and/or disbursed. The loans are required to be regularly monitored to ensure that they are actually utilised for the purpose they were sanctioned. During the currency of the loan, requests for re-scheduling of the loan, reset of interest rate due to change in the market condition, *etc.*, received from the borrowers, need to be attended to timely to ensure continued business and to ensure regular repayment. Weaknesses and failure in monitoring the loan accounts could lead to pre-closure of loans or the loan turning to NPA. All the HFCs prescribed broad guidelines for resetting of interest and reschedulement of loan. Audit reviewed the implementation of the control system in this regard and observed following deficiencies:

5.7.1 HUDCO

(i) HUDCO's guidelines provided for resetting of interest on scheme-based loans only and not for loans disbursed under the HN scheme till January 2005, though resetting of interest rates was a common phenomena in the financial market. In the absence of such a policy for the HN loans till January 2005, the Company could not retain the eight loan portfolios amounting to Rs.1146 crore.

HUDCO stated (May/October 2007) that it did not have the reset policy at the time (till January 2005) of prepayment of these loans and did not consider resetting interest rate below the base cost. The reply is not tenable when viewed in the situation that HUDCO has been operating in the market for a very long time and should have put in place a proper reset policy duly accounting for movements of interest rates so as to ensure timely intervention to avoid loss of its portfolio to other FIs/ HFCs.

(ii) HUDCO sanctioned (November 1999 – October 2000) eight loans amounting to Rs.481.25 crore to Orissa Rural Housing and Development Corporation Limited (ORHDCL) for onward disbursement of loan to various beneficiaries for reconstruction of houses in the cyclone-affected districts of Orissa. A sum of Rs.364 crore was disbursed between March 2000 and March 2003. ORHDCL defaulted in repayment of loan and the default amount stood at Rs.421.76 crore (including interest) as on 31 March 2006. An audit analysis revealed that HUDCO continued to disburse loans, though the implementation of the scheme was behind schedule and recoveries from the ultimate beneficiaries were not forthcoming to ORHDCL. Due to improper monitoring of the implementation of the scheme by HUDCO, the loan became a non-performing asset. HUDCO stated that the entire default was cleared by ORHDCL as on 31 March 2007.

HUDCO admitted (May 2007) lack of monitoring and stated that the Company could not conduct the site inspection of housing units before release of funds due to shortage of staff and subsequently added (October 2007) that best possible efforts were being made to ensure monitoring of schemes.

(iii) HUDCO had not integrated its Financial Accounting and Loan Accounting System at Regional Offices, though a proposal for the integration was made as early as in October 2001. In the absence of this online integration, it mainly depended on banks to ascertain its fund position on daily basis. The Management stated (October 2007) that efforts were being made to integrate Loan Accounts with Financial Accounts to effectively monitor the disbursements and the repayments.

5.7.2 BOBHFL

During the period 2001-02 to 2005-06, out of 13217 loan accounts sanctioned for Rs.449.45 crore, 12760 loan accounts of Rs.255.91 crore representing 56.94 *per cent* of the total sanctioned amount, were pre-closed by borrowers. While market interest rates were coming down, the Company could not reset its high interest rates forcing the loanees to migrate to other HFCs.

5.7.3 CBHFL

CBHFL decided to automate the process of loan accounting and recovery, maintenance of books of accounts, and generation of MIS reports at a cost of Rs.63 lakh with completion date fixed for May 2001. Though it incurred an expenditure of Rs.88 lakh up to May 2006, the computerisation project was yet to be completed (September 2007). CBHFL informed (October 2007) that legal action against the vendor was being initiated. The outcome of the same was awaited.

5.8 Recovery Controls

For a company engaged in financing, recycling of funds is of utmost importance; therefore, it needs to regularly monitor the timely receipt of amounts due. In view of increase in the NPAs with consequential loss incurred by the financial institutions, the GOI enacted the SARFAESI Act, 2002, empowering commercial banks, financial institutions, *etc.*, to take over assets financed by them to recover their dues. The HFCs were included in the list of eligible institutions in November 2003. The effectiveness of the recovery mechanism and application of this Act was reviewed in audit and following weaknesses were noticed:

5.8.1 **HUDCO** did not have any system to analyse the actual amount recovered against the amounts due for recovery and analysis of old and current dues. The Loan Accounting software did not generate the requisite data on these aspects, in the absence of which, the Management was not in a position to assess the recovery performance as evidenced from the fact that over-aged dues were accumulated abnormally. During the period from 2003-04 to 2005-06, the over-aged dues increased from Rs.932.53 crore to Rs.1023.63 crore. Despite the SARFAESI Act having come in to force for HFCs in 2003, it was only in December 2005 that HUDCO decided to take recourse to the Act but no constructive action had been taken by it (September 2007) to liquidate its NPAs. HUDCO while admitting the delay in recoveries stated (October 2007) that more than 80 *per cent* of its NPAs were due to Government sector lending and most of these loans had Government guarantees. It attributed the slow recovery of the NPA to the long time taken by various courts, as almost 76 *per cent* of the default amount involved in various law suits was aged more than one year.

Recommendation No.8

(i) ***HUDCO and its administrative Ministry need to work in tandem to establish a suitable mechanism to monitor and ensure early recovery of the outstanding amounts guaranteed by State Governments.***

(ii) ***The GOI should consider establishing a suitable mechanism, as suggested by HUDCO, for recovery of the overdues backed by the Government guarantees and/or the commitment of budgetary support by way of adjustment in the funds to be provided by the GOI to the State Governments.***

5.8.2 **CBHFL** did not recover even the first Equated Monthly Instalment from 200 borrowers in respect of loans disbursed during June 2000 to February 2005 against which the amount outstanding, as on 31 March 2007, stood at Rs.4.57 crore indicating poor recovery monitoring mechanism. CBHFL stated (May/October 2007) that it had since initiated action under the Negotiable Instruments Act, 1881 and the SARFAESI Act, 2002 to recover the overdues.

5.8.3 In respect of following cases in **BOBHFL**, the action to recover the overdues was pending:

(i) Under the SARFAESI Act, 2002, Pune Area Office issued notices for possession to 124 borrowers out of 188 NPA accounts and Nasik Area Office issued notices to 39 borrowers out of 242 NPAs. However, no further action was taken.

(ii) Mumbai Area office had taken possession of the mortgaged assets in 29 cases up to 31 March 2006, but action to dispose of the properties to realise the dues was pending (September 2007).

(iii) Baroda Area Office sanctioned loans of Rs.46.40 lakh to six borrowers (March 2000 to March 2002), which became NPA (December 2002). Through the Hon'ble Gujarat High Court's order of December 2003, BOBHFL had taken the possession of these six flats; it was yet to sell them to realise its dues (September 2007).

5.9 Fraudulent transactions

Cases of fraudulent advances made by Noida branch of PNBHFL have been reported vide Para No. 2.1.1 of the Report of the Comptroller and Auditor General of India (Commercial) No. 12 of 2006. Further, at Hyderabad branch, 23 fraudulent transactions involving Rs.1.45 crore, as on 31 March 2006, were noticed relating to (i) loan from multiple institutions (nine cases), (ii) forgery or fake documentation (three cases), and (iii) impersonation of vendors (11 cases).

Recommendation No.9
The HFCs should further review and strengthen their internal control mechanisms to ensure accountability at all stages of the operations (receipt of applications and their appraisal, sanction, disbursal, recovery, follow up of a loan including immediate legal recourse under the SARFAESI Act, 2002) and for improving the credit delivery mechanism (i.e., reducing the time lag between loan sanction and disbursement).

5.10 Internal Audit

Internal audit involves a systematic examination of the organisation's business processes with a view to provide assurance regarding the adequacy and effectiveness of internal controls. It was seen in audit that while in IHFL and PNBHFL the internal audit system was generally functioning well, in respect of other HFCs the following weaknesses were observed:

(i) The internal audit wing in HUDCO, headed by an Executive Director, covered examination of sanctions, disbursements and final closure of accounts and internal audit of loan accounts was outsourced to a firm of Chartered Accountants. However, the Asset Liability Management Reports were not audited by the internal audit though HUDCO's policy stipulated it. HUDCO stated (October 2007) that a representative of the internal audit is a member of the Asset Liability Management Committee and the strengthening of the internal audit wing was under consideration (October 2007). The reply is however silent as to why the Asset Liability Management Reports were not audited by the internal audit.

(ii) CBHFL had neither set up an internal audit wing nor prepared an internal audit manual (August 2007). Internal audit was carried out by firms of Chartered Accountants but the specific checks to be exercised by them were not prescribed. A review of several reports of the internal audit disclosed that these reports were silent on important issues like verification or availability of legal documents, loan appraisal and disbursement procedures, verification of opening balances of all accounts and overdues, NPA and interest calculations. In the absence of a focused internal audit, the possibility of errors and omissions in transactions could not be ruled out. CBHFL stated (May/October 2007) that it had appointed (December 2006) one internal auditor to look after the audit of all branches and has framed an internal audit manual which has been put up to the Audit Committee in September 2007.

(iii) **BOBHFL** had neither set up an internal audit wing nor prepared any internal audit manual. Internal audit of the various area offices and the Corporate Office was conducted annually by the Zonal Inspection Centres of the parent bank. Due to absence of any independent auditor and the internal audit manual, the internal audit was ineffective as is evident from the deficiencies noticed in appraisals, sanctions and disbursements as discussed in this Report.

5.11 Audit Committee

(i) In HUDCO, an Audit Committee was constituted in accordance with the provisions of Section 292A of the Companies (Amendment) Act, 2000. The Audit Committee consisted of three directors – a whole time director, a part-time official director and a part-time non-official director. The Audit Committee did not have sufficient number of independent directors. The matter had been taken up by HUDCO with the GOI for reconstitution of the Committee in line with the requirements of Clause 49 of the Listing Agreement, but orders of the GOI were awaited (September 2007). Major findings of the internal audit were reported to the Audit Committee, whose recommendations were implemented. The matter regarding strengthening of the internal audit was yet to be considered by the Board of Directors. HUDCO stated (October 2007) that one more part-time official director has been included and that it was regularly pursuing with the administrative Ministry for induction of sufficient number of independent directors on the Board for re-constitution of the Audit Committee.

(ii) In other four HFCs, the Audit Committees were meeting at regular intervals. In their meetings, the internal audit reports were reviewed and requisite recommendations to strengthen internal audit were issued from time to time.

CHAPTER VI

Conclusions

The HFCs largely failed to fulfil the objective of promoting growth of housing finance especially in rural areas, due to inadequate marketing network and absence of conveyance deeds in rural areas.

Except for IHFL and PNBHFL, there was a decline in housing loan disbursements by the other public sector HFCs.

The five HFCs mainly raised funds through bonds, bank loans and commercial papers. The Public Deposits and the NHB refinance routes were not resorted to in a big way and the option of raising finance through securitisation of assets has not been explored by any of the HFCs reviewed. Except for IHFL, the other four HFCs were borrowing at comparatively higher cost.

Net Interest Margin achieved by PNBHFL and IHFL matched the trend prevailing in one of the leading HFCs in the private sector. In the other three HFCs, it was on the lower side, indicating that these HFCs were not competitive enough and therefore, vulnerable to elimination from the housing finance market.

NPA levels in HUDCO, BOBHFL and CBHFL was on higher side. The major factor leading to higher NPAs in these HFCs was the inadequate functioning of various controls relating to appraisal, sanction, disbursement, monitoring and recovery.

The HFCs have not been able to retain their hold in the housing finance business mainly because they did not have a large network and there was inherent limitation of access to low-cost deposits. The country's fiscal laws are also disadvantageous to them. Nonetheless, the HFCs have the advantage of selling a single product with better customised service in comparison to the SCBs who offer a variety of products in retail sector. There was accordingly a space for dedicated institution in the form of HFC to achieve the Government's objectives in the housing sector.

The Ministry of Housing and Urban Poverty Alleviation, while reiterating the views of HUDCO, stated (November 2007) that HUDCO had played a significant role in providing housing finance through State Agencies and was continuously evolving strategies to expand its level of operations and to reduce the cost of funds.

The Ministry of Finance, while agreeing in principle to the conclusions and recommendations made in the Report, stated (October 2007) that the banks concerned (whose subsidiaries were reviewed in this Report) would be advised suitably for remedial measures. Regarding recommendations on regulatory incentive and restructuring the NHB refinance mechanism, the Ministry stated that any dilution in regulatory framework may not be desirable.

The Report, however, recommends fiscal relief to the HFCs so as to provide level-playing field vis-à-vis the SCBs and regulatory remedies in mitigating the constraints in mortgaging assets in rural areas to cover the larger population. Further, in view of the fact that the innate objective of the NHB to provide refinance facility to the HFCs remained largely unfulfilled, the NHB refinance mechanism needs to be revisited.

Bharti Prasad

(BHARTI PRASAD)
Deputy Comptroller and Auditor General
cum Chairperson, Audit Board

New Delhi
Dated: 28 NOV 2007

Countersigned

(VIJAYENDRA N. KAUL)
Comptroller and Auditor General of India

New Delhi
Dated: 28 NOV 2007

ANNEXURES

Annexure-I

(Referred to in Para No. 3.1.1)

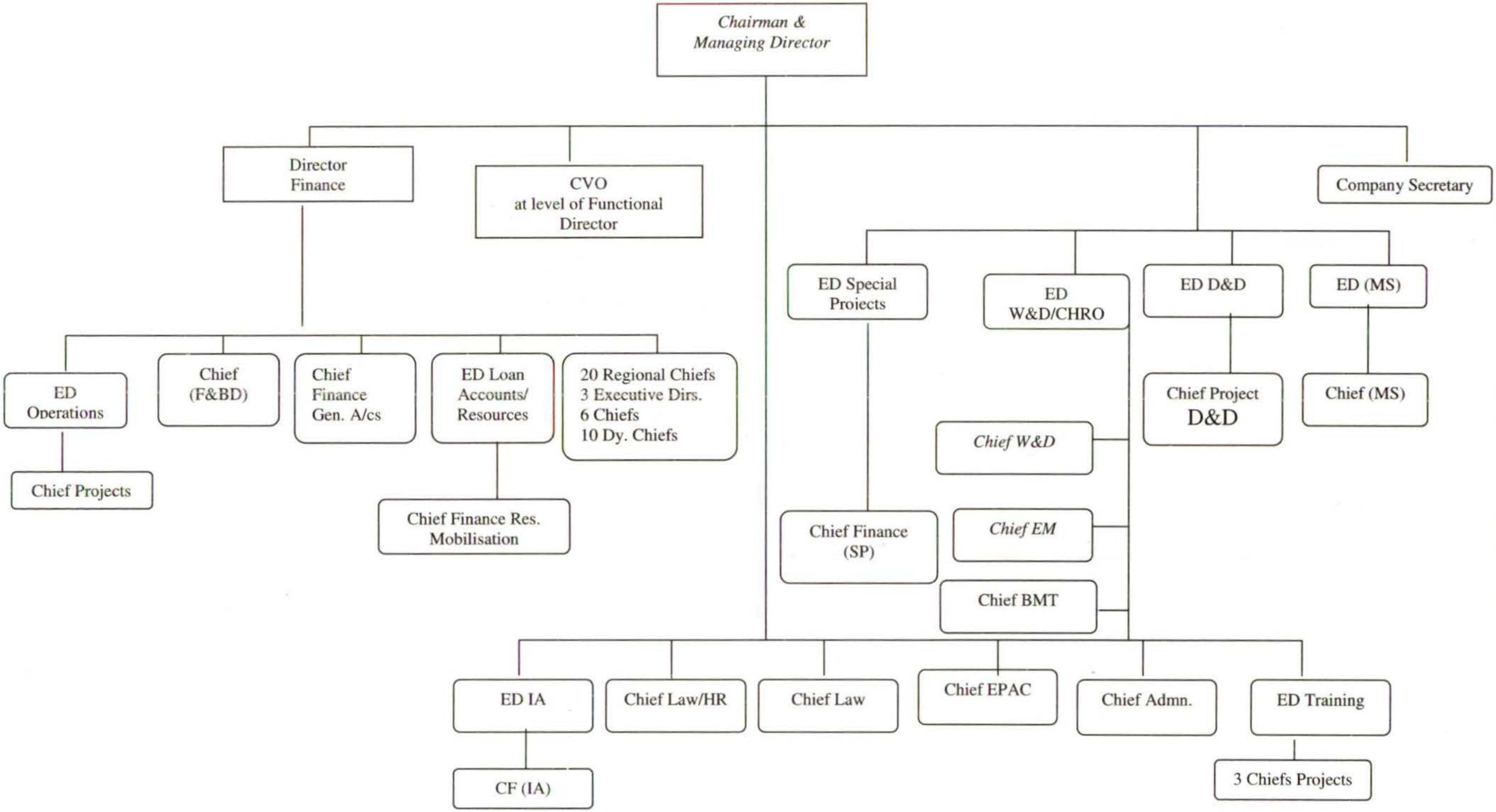
List of Regional Offices of HUDCO

SL. No.	Name of Regional Office
1.	Ahmedabad
2.	Bangalore
3.	Bhopal
4.	Bhubaneswar
5.	Chandigarh
6.	Chennai
7.	Dehradun
8.	Guwahati
9.	Hyderabad
10.	Jaipur
11.	Jammu
12.	Kohima
13.	Kolkata
14.	Lucknow
15.	Mumbai
16.	New Delhi
17.	Patna
18.	Raipur
19.	Ranchi
20.	Thiruvananthapuram

Annexure-II

(Referred to in Para No. 3.1.1)

Organisational Chart of HUDCO as on 31 March 2006



Annexure III

(Referred to in Para No. 3.1.2)

List of Area Offices of BOBHFL

Sl. No.	Name of Area Office
1.	Ahmedabad
2.	Ajmer
3.	Bangalore
4.	Baroda
5.	Bharuch
6.	Bhilwara
7.	Mumbai
8.	Coimbatore
9.	Indore
10.	Jaipur
11.	Jodhpur
12.	Kota
13.	Lucknow
14.	Chennai
15.	Meerut
16.	Mehsana
17.	Nasik
18.	Pune
19.	Rajkot
20.	Surat
21.	Thiruvananthapuram
22.	Udaipur
23.	Vishakhapatnam

Annexure-IV

(Referred to in Para No.3.1.3)

List of Branch Offices of CBHFL

Sl. No.	Name of Branch Office
1.	Bhopal
2.	Raipur
3.	Jabalpur
4.	Gwalior
5.	Indore
6.	New Delhi
7.	Mumbai (including Chiplun)
8.	Jaipur
9.	Pune
10.	Bangalore
11.	Lucknow
12.	Bilaspur

Annexure-V

(Referred to in Para No. 3.1.4)

List of Branches Offices of IHFL

Sl. No	Name of Branch Office
1.	Ahmedabad
2.	Banglore
3.	Chandigarh
4.	Chennai
5.	Delhi
6.	Hyderabad
7.	Jaipur
8.	Kolkatta
9.	Mumbai (Borivili)
10.	Mumbai (Dadar)
11.	Mumbai (Thane)
12.	Mumbai (Vashi)
13.	Nashik
14.	Pimpri
15.	Pune
16.	Vadodara

Annexure -VI

(Referred to in Para No. 3.1.5)

Statement showing list of Branch Offices of PNBHFL

Sl. No.	Name of Branch Office
1.	Agra
2.	Bhopal
3.	Bangalore
4.	Chandigarh
5.	Chennai
6.	Cochin
7.	Dehradun
8.	Gurgaon
9.	Hyderabad
10.	Indore
11.	Jaipur
12.	Jalandhar
13.	Jodhpur
14.	Karnal
15.	Lucknow
16.	Ludhiana
17.	Meerut
18.	Mumbai
19.	Navi Mumbai
20.	New Delhi
21.	Noida
22.	Pune
23.	Raipur
24.	Trivandrum
25.	Varanasi
26.	Bikaner
27.	Kolkata
28.	Nagpur

Annexure -VII

(Referred to in Para No.3.2)

Statement showing Financial Position and Working Results of HUDCO

Financial Position of HUDCO

(Amount: Rupees in crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Liabilities:					
Paid up capital	1408.00	1663.00	1898.60	2001.90	2001.90
Reserves & Surplus	889.97	1104.32	1366.95	1407.87	1625.63
Borrowings	16637.87	20067.46	22349.03	21217.25	21461.41
(i) Current Liabilities and Provisions	1132.24	1297.72	1293.72	1367.37	1235.36
(ii) Deferred Tax Liabilities	0.00	0.00	0.00	192.47	171.63
Total	**20068.08**	**24132.50**	**26908.30**	**26186.86**	**26495.93**
Assets:					
Gross Block	108.80	114.54	114.64	118.30	119.86
Less: Depreciation	39.13	45.60	50.75	54.80	58.83
Net Block	69.67	68.94	63.89	63.50	61.03
Capital Work in Progress	1.34	0.92	1.10	1.10	1.01
Investments	209.86	1300.01	1373.70	2101.90	2485.73
Current assets					
(i) Current Assets, Advances	1591.85	1299.72	2872.95	3172.68	2675.32
(ii) Loans (Long Term)	18098.73	21260.10	22349.83	20808.43	21235.14
Miscellaneous expenditure not written off	42.70	43.27	47.84	39.25	37.70
Deferred Tax Assets	53.93	159.54	198.99	0.00	0.00
Total	**20068.08**	**24132.50**	**26908.30**	**26186.86**	**26495.93**
Net worth	2199.99	2689.78	3179.76	3322.09	3507.51
Net worth per Rupee of paid up Capital (In Rs.)	1.56	1.62	1.67	1.66	1.75

Working Results of HUDCO

(Amount: Rupees in crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Income					
(i) Urban infrastructure	617.27	998.58	1282.24	1221.46	1224.59
(ii) Housing	1361.13	1354.36	1194.56	1036.42	728.71
(iii) Other income	194.81	290.22	349.91	519.31	345.47
Sub-Total	2173.21	2643.16	2826.71	2777.19	2298.77
Total Expenditure	2039.33	2355.44	2432.21	2066.07	1918.54
Profit before tax	133.88	287.72	394.5	711.12	380.23
Less: Provision for Income tax	40.90	126.30	108.25	187.60	126.12
Other debit/credit (including deferred tax items)	(+)21.08	(+)105.12	(+)46.19	(-)123.93	(+)21.87
Profit after tax	114.06	266.54	332.44	399.59	275.98

Annexure-VIII

(Referred to in Para No. 3.2)

Statement showing Financial Position and Working Results of BOBHFL

Financial Position of BOBHFL

(Amount: Rupees in crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Liabilities:					
a. Paid up Capital	15.00	15.00	15.00	15.00	15.00
b. Reserves and Surplus					
(i) Free reserves & Surplus	11.23	13.73	15.99	12.64	14.59
(ii) Committed Reserves	22.53	27.38	31.05	40.55	43.90
(iii) Deferred Tax Liabilities	0.03	-	-	-	-
c. Borrowings from:					
(i) National Housing Bank	227.61	290.64	244.10	42.63	13.52
(ii) Bank of Baroda	205.63	249.16	113.58	179.55	142.85
(iii) Other Banks	-	0.50	54.64	58.21	42.60
(iv) Borrowing through Debentures	-	20.00	20.00	20.00	20.00
Total	**482.03**	**616.41**	**494.36**	**368.58**	**292.46**
Assets:					
d. Gross Block of Fixed Assets	1.41	1.58	1.63	1.64	1.65
e. Less: Cumulative Depreciation	0.83	0.97	1.11	1.20	1.28
f. Net Block	0.58	0.61	0.52	0.44	0.37
g. Investment	1.00	1.00	1.00	14.06	12.84
h. Loans	455.63	589.92	471.91	340.98	256.68
i. Current Assets, Loans & Advances (Net)	24.79	24.71	20.79	12.99	22.48
j. Misc. Expenditure (to the extent not written off or adjusted)	0.03	0.14	0.11	0.09	0.07
k. Deferred Tax Assets	-	0.03	0.03	0.02	0.02
Total	**482.03**	**616.41**	**494.36**	**368.58**	**292.46**

Working Results of BOBHFL

(Amount: Rupees in crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Operating Income	52.71	64.01	53.83	40.11	30.31
Profit after tax	11.01	9.39	7.36	8.61	5.31
EPS (In Rupees)	7.34	6.26	4.90	5.74	3.54

Annexure-IX

(Referred to in Para No. 3.2)

Statement showing Financial Position and Working Results of CBHFL
Financial Position of CBHFL

(Amount: Rupees in crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Liabilities:					
Paid up capital	18.40	18.40	20.00	20.00	20.00
Reserves & Surplus	18.61	21.68	22.92	8.62	14.85
Secured Loan	147.92	190.44	235.47	228.26	213.59
Unsecured Loan	95.28	90.84	78.60	64.80	46.74
Current Liabilities & Provisions	7.80	10.89	16.62	58.99	41.45
Deferred Tax Liabilities			0.02	0.15	0.20
Total	**288.01**	**332.25**	**373.63**	**380.82**	**336.83**
Assets:					
Gross Block	0.98	1.23	1.32	1.35	1.38
Less: Depreciation	0.28	0.41	0.52	0.64	0.75
Net Block	0.70	0.82	0.80	0.71	0.63
Investments	5.20	4.90	4.21	3.63	2.53
Current Assets Loan and Advances (excluding Housing Loan)	11.98	13.73	11.31	10.72	11.48
Housing Loan	270.13	312.63	357.31	365.76	322.19
Miscellaneous expenditure not written off		0.17			
Total	**288.01**	**332.25**	**373.63**	**380.82**	**336.83**
Net worth	37.01	40.08	42.92	28.62	34.85

Working Results of CBHFL

(Amount: Rupees in crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Income:					
(i) Housing	32.92	35.46	34.04	30.58	30.43
(ii) Other income	3.43	4.39	4.62	2.87	2.71
Sub-Total	**36.35**	**39.85**	**38.66**	**33.45**	**33.14**
Total Expenditure	31.23	33.44	34.64	47.47	31.27
Profit before tax	5.12	6.41	4.02	(-)14.02	1.87
Less: Provision for Income Tax	1.15	1.40	0.75		0.51
Other debit/credit (including deferred tax items)			(-) 0.02		(-) 0.04
Prior period adjustment	(+) 0.01	(+) 0.13	(-) 0.45		(-) 0.04
Reversal of Provision for NPA					4.95
Profit after tax	3.98	5.14	2.80	(-)14.02	6.23

Annexure-X

(Referred to in Para No. 3.2)

Statement showing Financial Position and Working Results of IHFL

Financial Position of IHFL

(Amount: Rupees in crore)

Particulars	2003-04*	2004-05	2005-06
Liabilities:			
Equity share capital	49.98	79.98	109.98
Reserves & Surplus	4.18	9.12	16.97
Loan Funds	446.00	847.66	1560.82
Net Deferred Tax Liability	0.20	--	--
Total	**500.36**	**936.76**	**1687.77**
Assets:			
Housing loan	485.20	922.58	1516.93
Net Fixed Assets	5.30	4.64	5.60
Net Deferred Tax Assets	--	0.22	0.88
Net Current Assets, Loans and Advances	9.40	9.24	164.31
Miscellaneous Expenditure	0.46	0.08	0.05
Total	**500.36**	**936.76**	**1687.77**

Working Results of IHFL

(Amount: Rupees in crore)

Net Income	16.70	26.50	38.30
Employee expenses	(3.30)	(3.80)	(4.60)
Operating expenses	(8.10)	(11.40)	(13.60)
Operating profit	5.30	11.30	20.10
Provisions	(0.90)	(1.00)	(1.60)
Profit before tax	4.40	10.30	18.50
Profit after tax	3.35	7.88	14.42

***** *Annualised including the transactions of erstwhile Tata Home Finance Limited.*

Annexure-XI

(Referred to in Para No. 3.2)

Statement showing Financial Position and Working Results of PNBHFL

Financial Position of PNBHFL

(Amount: Rupees in crore)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
Liabilities:					
Equity share capital	30.00	30.00	30.00	30.00	30.00
Reserves & Surplus	37.61	45.80	57.58	65.04	80.46
Loan Funds	481.92	596.65	710.26	807.23	1045.55
Total	**549.53**	**672.45**	**797.84**	**902.27**	**1156.01**
Assets:					
Net Fixed Assets	3.03	2.94	3.19	2.90	2.80
Loans	491.89	626.19	754.55	876.68	1083.71
Investments	43.13	43.13	54.64	42.37	86.59
Net Current Assets	10.34	(-) 1.44	(-) 16.74	(-) 22.28	(-) 17.92
Deferred Tax Assets	1.09	1.63	2.20	2.60	0.83
Miscellaneous Expenditure	0.05	--	--	--	--
Total	**549.53**	**672.45**	**797.84**	**902.27**	**1156.01**

Working Results

(Amount: Rupees in crore)

Total Income	66.92	80.37	90.44	86.59	102.41
Total Expenditure	54.61	64.00	69.24	70.14	77.35
Profit before Tax	12.31	16.37	21.20	16.45	25.06
Profit After Tax	9.17	11.92	15.50	11.22	17.82
Percentage of profit after tax to total income	13.70	14.83	17.14	12.96	17.40

Annexure XII

(Referred to in Para No.3.3.1)

Statement showing the targets set, number of dwelling units constructed and total disbursements of housing loans made for the rural areas by the HFCs under the Golden Jubilee Rural Housing Finance Scheme

PNBHFL

Particulars	2001-02		2002-03		2003-04		2004-05		2005-06	
	No. of dwelling units	Amount Rs in crore	No. of dwelling units	Amount Rs in crore	No. of dwelling units	Amount Rs in crore	No. of dwelling units	Amount Rs in crore	No. of dwellin g units	Amount Rs in crore
Targetted disbursements in Rural Areas	750	-	1000	-	2000	-	2000	-	1500	-
Actual disbursements in Rural Areas	768	25.62	1172	34.12	1026	34.09	1070	41.91	933	47.73
Percentage of achievement	102.4		117.2		51.3		53.5		62.2	

CBHFL

Particulars	2001-02		2002-03		2003-04		2004-05		2005-06	
	No. of dwelling units	Amount Rs in crore	No. of dwelling units	Amount Rs in crore	No. of dwelling units	Amount Rs in crore	No. of dwelling units	Amount Rs in crore	No. of dwellin g units	Amount Rs in crore
Targetted disbursements in Rural Areas	1000	-	1000	-	1000	-	1000	-	700	-
Actual disbursements in Rural Areas	321	6.52	719	14.24	862	26.13	531	17.04	28	2.52
Percentage of achievement	32.1		71.9		86.2		53.1		4	

IHFL

Particulars	2003-04		2004-05		2005-06	
	No. of dwelling units	Amount Rs in crore	No. of dwelling units	Amount Rs in crore	No. of dwellin g units	Amount Rs in crore
Targetted disbursements in Rural Areas	No targets were given by NHB					
Actual disbursements in Rural Areas	135	4.44	1145	53.05	782	38.57

Annexure-XIII

(Referred to in Para 4.6)

Year end position of funds mobilised through Public Deposits by the HFCs

(Amount: Rupees in crore)

HFC	Particulars	31.3.2002	31.3.2003	31.3.2004	31.3.2005	31.3.2006
HUDCO	Public Deposits	1229.97	1771.22	2508.40	2273.16	1905.33
	Total Funds	16637.87	20067.46	22349.03	21217.25	21461.41
	Percentage of PD to total funds	7.39	8.83	11.22	10.71	8.88
PNBHFL	Public Deposits	139.61	153.56	155.03	133.62	134.28
	Total Funds	481.92	596.64	710.26	807.23	1045.55
	Percentage of PD to total funds	28.97	25.74	21.83	16.55	12.84
CBHFL	Public Deposits	95.28	90.84	78.60	64.80	46.75
	Total Funds	243.21	281.28	314.07	293.07	260.33
	Percentage of PD to total funds	39.18	32.30	25.03	22.11	17.96
BOBHFL	Public Deposits	Nil	Nil	Nil	Nil	Nil
	Total Funds	433.24	560.30	432.33	300.40	218.97
	Percentage of PD to total funds	Nil	Nil	Nil	Nil	Nil
IHFL	Public Deposits			Nil	Nil	Nil
	Total Funds			445.99	847.66	1560.82
	Percentage of PD to total funds			Nil	Nil	Nil

Annexure-XIV

(Referred to in Para 5.2.1 i.)

Statement showing Regional Offices of HUDCO having total business less than Rs.10 crore during the five years ending 31 March 2006

Sl. No.	Name of State	Amount (Rs. in crore)
1.	Jammu and Kashmir	0.00
2.	Pondichery	1.35
3.	Tripura	1.54
4.	Goa	2.00
5.	Arunachal Pradesh	3.40
6.	Bihar	5.30
7.	Manipur	8.12

Annexure-XV
(Referred to in Para 5.2.1 ii.)

Statement showing Sanctions, Disbursements, Default and NPA under HUDCO Niwas scheme

(Amount: Rupees in crore)

Sl. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
1.	Sanction	439.23	1294.35	130.53	77.27	58.45
2.	Disbursemets					
	(i) Non-Government	134.76	130.21	105.77	71.26	52.23
	(ii) Government	872.00	843.68	51.00	0	0
	Sub-total	1006.76	973.89	156.77	71.26	52.23
3.	Loan outstanding					
	(i) Government	2093.00	2890.32	2643.71	1667.39	1542.98
	(ii) Non-Government	291.65	320.13	349.33	357.53	346.54
	Sub-total	**2384.65**	**3210.45**	**2993.04**	**2024.92**	**1889.52**
4.	Default	0.81	3.03	14.02	32.95	49.1
5.	Percentage of default to the loan outstanding	0.03	0.09	0.47	1.63	2.60
6.	Principal outstanding on Default accounts	2.83	9.89	23.22	242.96	61.21
7.	Per centage of NPA to the Loan outstanding	0.12	0.31	0.78	12.00	3.24

Annexure-XVI
(Referred to in Para 5.3.1.2)

Statement showing the deficiencies in Sanctions and Disbursements noticed in NPA cases in HUDCO

(Amount: Rupees in crore)

Sl.No.	Name of Agency	Regional Office	Default since	Major deficiency	Default Status as on 31 March 2006		Status of the case
					Default	Total outstanding	
1.	Central Govt. Employees Welfare Housing Organisation	NCR	Dec-02	Non-reconciliation of the dispute on interest tax	0.28	0.28	Matter under DRT
2.	Co-operative Housing Society, Natraj Vihar	NCR	Sep-95	Non recovery due to improper pursuance and lacunae of sanctions	4.44	4.44	- do -
3.	Swayam Siddha Co-operative Group Housing Society Ltd.	NCR	Jun-93	Repaying capacity of the members are not verified	2.52	2.52	- do -
4.	Co-operative Housing Society, Samuelpuram	Chennai	Sep-97	- do -	0.43	0.43	- do -
5.	Tamil Nadu Housing Board	Chennai	Sep-02	Non reconciliation of the account	4.02	5.02	Reconciliation was yet to be started
6.	Community Development	- do -	Sep-02	Failure to ensure the recovery mechanism from original beneficiary	0.16	0.31	Legal action yet to be taken

7.	Ramani Realtors	- do -	Dec-05	Failure to assess viability of the project	0.61	0.88	Action under SARFAESI Act was in progress.
8.	A 2 Z Builders P. Ltd.	Trivandrum	Mar-98	Failure to assess the real time value of the project cost and marketability of housing units	28.53	28.53	Matter under DRT
9.	Ajit Associates Pvt. Ltd.	- do -	Jun-97	- do -	10.94	10.94	- do -
10.	Hicon Builders Pvt. Ltd.	- do -	Dec-97	- do -	24.16	24.16	- do -
11.	Abm Builders	- do -	Jun-99	- do -	1.75	1.75	- do -
12.	Aswarthy Hsg. (P) Ltd.	- do -	Jun-96	- do -	6.78	6.78	- do -
13.	St. Mary's Projects Ltd.	- do -	Sep-98	- do -	4.25	4.25	- do -
14.	Southern Investment	- do -	Mar-00	- do -	15.74	15.74	- do -
15.	Mysore Sugar Co. Ltd.	Bangalore	Dec-04		0.46	0.58	BIFR case
16.	City & Industrial Dev. Corpn. Maharashtra	- do -	Sep-03	Non reconciliation of accounts and interest rate	0.97	3.49	Negotiation with the agency was in progress for settling dispute
17.	Daxta Co-op Hsg. Society	- do -	Jun-98	Repaying capacity of the member not verified	12.89	13.70	DRT case
18.	Municipal Council. Jalgaon	- do -	Sep-05	Land was not identified and financial viability was not analysed	4.16	63.96	Legal action yet to be initiated

19.	Co-operative Hsg. Society, Dipen Nagar	Ahmedabad	Jun-92	Repaying capacity of the members of the society, credential of the main promoter of the society and builder were not critically analysed	2.62	2.62	Decree was to be implemented
20.	Harsh Co-op Hsg. Society	- do -	Jun-95	- do -	10.45	10.68	- do -
21.	Co-op Hsg. Society Ltd. karnavathi	- do -	Dec-93	- do -	3.12	3.17	- do -
22.	Co-op Hsg. Society Ltd. Kamelesh Park	- do -	Mar-94	- do -	10.79	10.89	- do -
23.	Co-op Hsg. Society Ltd. Meghana Nagar	- do -	Jun-92	- do -	2.87	2.87	- do -
24.	Co-op Hsg. Society Ltd. Narmada	- do -	Sep-93	- do -	2.33	2.33	- do -
25.	Co-op Hsg. Society Ltd. Nidhara	- do -	Dec-97	- do -	0.71	0.71	- do -
26.	Co-op Hsg. Society Ltd. Prahalad Park	- do -	Jun-92	- do -	2.02	2.02	- do -
27.	Co-op Hsg. Society Ltd. Rajiv Nagar	- do -	Jun-94	- do -	8.26	8.44	- do -
28.	Co-op Hsg. Society Ltd. Sagar	- do -	Mar-93	- do -	16.88	16.88	- do -
29.	Co-op Hsg. Society Ltd. Sulfam	- do -	Mar-96	- do -	8.98	9.21	- do -

30.	Co-op Hsg. Society Ltd. Sameer Nagar	- do -	Dec-94	- do -	11.63	12.08	- do -
31.	Co-op Hsg. Society Ltd. Sonam	- do -	Jun-94	- do -	2.80	2.80	- do -
32.	Co-oprative Hsg. Society Suramya	- do -	Dec-93	- do -	2.65	2.65	- do -
33.	Co-oprative Hsg. Society Trupti	- do -	Mar-93	- do -	1.88	1.89	Pending with DRT
34.	Co-oprative Hsg. Society Viratnagar	- do -	Jun-94	- do -	7.55	7.60	- do -
35.	Co-oprative Hsg. Society Vasupriya Smruti	- do -	Dec-97	- do -	3.13	3.13	- do -
36.	Co-oprative Hsg. Finance Society Gujarat State	- do -	Mar-96	- do -	38.15	38.15	- do -
37.	M/s C.R. Patil, Sankul	- do -	Mar-04	Financial relations of the agency with other Banks were not verified	3.42	3.42	- do -
38.	M/s C.R. Patil, Estate	- do -	Dec-04	Financial relations of the agency with other Banks were not verified	0.05	0.05	- do -
39.	M/s Shiv Ganga Builders Pvt. Ltd.	- do -	Sep-01	lacunae relating to sanction, releases, recovery, monitoring	5.22	5.22	

40.	Orissa Rural Hsg. & Dev. Coop.	Bhubaneswar	Sep-05	Financial feasibility was not properly analysed	6.82	397.02	Negotiation with agency was in progress
41.	Orissan State Housing Board	- do -	Mar-01	Late recall of loan, delay in filing of suit	100.48	135.59	
42.	Rourkela Development Authority	- do -	Jun-97		23.57	23.92	
43.	Bhubaneswar Development Authority	- do -	Mar-02	lacunae relating to sanction, releases, recovery, monitoring	15.42	15.42	
Total					**414.89**	**906.52**	

Annexure-XVII
(Referred to in Para No.5.3.1.3)

Statement showing Age-wise Default Position in HUDCO during the years 2001-02 to 2005-06

(Amount: Rupees in crore)

Age of default	2001-02		2002-03		2003-04		2004-05		2005-06	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Above 30 months	118 (31)	1142.31 (87)	110 (38)	656.72 (74)	115 (43)	848.84 (91)	122 (48)	819.64 (86)	107 (51)	830.61 (81)
6-30 months	114 (31)	113.62 (8)	84 (29)	179.03 (20)	63 (24)	53.60 (6)	45 (18)	62.79 (7)	40 (19)	109.47 (11)
3-6 months	68 (18)	51.98 (4)	34 (12)	42.52 (5)	19 (7)	1.89 (0.2)	16 (6)	8.12 (1)	21 (10)	25.02 (2)
0-3 months	75 (20)	5.66 (1)	65 (21)	13.48 (1)	69 (26)	28.20 (2.8)	71 (28)	62.90 (6)	42 (20)	58.53 (6)
Total	**375**	1313.57	**293**	891.75	**266**	932.53	**254**	953.45	**210**	1023.63

Note: Figures in brackets indicate percentage to the total cases.

Annexure-XVIII

(Referred to in Para No. 5.6.1 i)

Statement showing fresh releases made by HUDCO even though the Agency was in default at the time of release

				(Rs. in lakh)			(Rs. in lakh)			(Rs. in lakh)			(Rs. in lakh)			(Rs. in lakhs)			(Amount in Rupees)		
				2001-02			2002-03			2003-04			2004-05			2005-06					
Sl. No.	Sl. No.	State	Agency Code	Actual releases			Actual releases			Actual releases			Actual releases			Actual releases			Loan No. and amount of default on the date of release		
				Loan No.	Date	Amount	Loan No.	Date	Amount	Loan No.	Date	Amount	Loan No.	Date	Amount	Loan No.	Date	Amount	Loan No.	Principal	Interest
1.	1	Nagaland	HODP													18821FLGF001	1.3.2006	427	70095RESCON	47182	
2.	2	Nagaland	PWD	17260RECRC01	11.3.2002	335.1													17260RECR01		296
3.							17260RECRC01	4.10.2002	513.4										17288RECRC01		233645
																			17260RECRC01		7998
4.							17709RECRC01	8.11.2002	80										17260RECRC01		7998
5.										17966FLGF002	17.7.2003	111.2							17288RECRC01	289892	
6.																18575FLGF001	1.3.2006	50	18783FLGF001		133767
7.																18701FLGF001	1.3.2006	50			
8.	3	Nagaland	CAWD				16294RECRC01	19.07.2002	79.46										17399COMC003		31500
9.							16295RECRC01	19.07.2002	79.46												
10.							17399COMC003	31.07.2002	29.75												
11.							17399RECRC01	31.7.2002	70.25												
12.	4	Mizoram	CHAK	17226EWUHU01	27.3.2002	30													15669LIGL004		4096
13.				17226LIGL004	27.3.2002	20															
14.							17226EWUHU01	26.7.2002	25										15669EWUHU01	31000	337
15.							17226LIGL004	26.7.2002	25										15669EWUHU01	31000	337
16.							17554EWRHL01	25.7.2002	28										15669LIGL004	117000	296

17.							17554HIGH002	25.7.2002	4										17226EWUHU01		121
18.							17554LIGL003	25.7.2002	44												
19.							17554MIGM010	25.7.2002	24												
20.										17977FLPF001	14.7.2003	51							15669EWUHU01	176000	110564
																			15669LIGL004	117000	95626
																			17226EWUHU01	161000	132451
																			17226LIGL004	132000	134274
																			17554EWRHL01	111000	97816
																			17554HIGH002	55000	52836
																			17554LIGL003	183000	202169
																			17554MIGM010	129536	75472
21.	5	Mizoram	MARA	17227EWUHU01	27.3.2002	12.5													16477LIGL004	287000	
22.				17227LIGL007	27.3.2002	20													16477LIGL004	287000	
23.				17227MIGM010	27.3.2002	18													16477LIGL004	287000	
24.	6	Mizoram	LADC				17210EWUHU01	26.7.2002	9.5										15640LIGL005		32216
25.							17210LIGL004	26.7.2002	7										17210EWUHU01		62500
26.							17210MIGM002	26.7.2002	11										17210LIGL004		58500
27.							17577EWRHL01	25.7.2002	30.45										17210MIGM002		62438
28.							17577LIGL003	25.7.2002	106.05										17210MIGM010		37125
29.							17577MIGM010	25.7.2002	38.5												
30.	7	Karnataka	KLAC				17281LG2LG01	25.7.2002	5000										17281LG2LG01	9553	28572000
31.										17281LG2LG01	31.3.2004	500							17281LG2LG01	31372000	46232953
32.	8	Karnataka	KFDC	16532ER2ER01	21.1.2002	198													16532ER2ER01	2145000	1982415
33.							16532ER2ER01	27.6.2002	125										16532ER2ER01		76074
34.	9.	Karnataka	KPHC	14131RECRC05	4.2.2002	372.81													14131RCERC05		1015691
35.				17018RECRC07	13.2.2002	425															
36.							17018RECRC07	27.6.2002	550										14131RCERC05	5883000	1365881
37.							17018RECRC07	17.7.2002	286										14131RCERC05	5883000	1998327
38.							17018RECRC07	16.8.2002	500												

39.							17018RECRC07	16.10.2002	467										14131RCERC05	5883000	2648834
40.							17018RECRC07	31.10.2002	420												
41.										17018RECRC07	4.6.2003	200									
42.										17018RECRC07	16.6.2003	200									
43.	10	Karnataka	RRGR	17082ER2ER01	22.1.2002	364.9													17082ER2ER01	5000	
44.				17379EU2EU01	28.3.2002	661.5															
45.				17380EU2EU01	28.3.2002	378.75															
46.				17381EU2EU01	28.3.2002	505.25															
47.				17382EU2EU01	28.3.2002	537.5															
48.				17384ER2ER01	28.3.2002	590.3															
49.				17385ER2ER01	28.3.2002	580.9															
50.				17386ER2ER01	28.3.2002	426.6															
51.				17387EWRHL01	28.3.2002	635.4															
52.							17182EU2EU01	24.6.2002	730.15										17082ER2ER01	6000	
53.							17379EU2EU01	24.6.2002	661.5										17082ER2ER01	6000	
54.							17382EU2EU01	24.6.2002	537.5										17082ER2ER01	6000	
55.							17384ER2ER01	27.6.2002	590.3												
56.							17385ER2ER01	27.6.2002	580.9										17082ER2ER01	6000	
57.							17386ER2ER01	24.6.2002	426.6												
58.							17387EWRHL01	24.6.2002	635.4												
59.													17713FLEF003	3.8.2004	308.12				70053FBFFIXD	7457833	
60.													70053FBEFIXD	3.8.2004	742						
61.													18587FBSFLOA	31.3.2005	938.6				17521FLEF003	2075000	977274
62.													18588FBEFLOA	31.3.2005	4268.96				70053FBEFIXD	10384	17347200
63.													18589FBEFLOA	31.3.2005	4268.96						
64.	11	Karnataka	KSEP	17435LAALA09	21.8.2002	70													16949LAALA08	34000	
																			16949LAALA08	2185587	
65.							17435LAALA09	29.10.2002	75										16949LAALA08	228000	
66.							17435LAALA09	28.11.2002	55										16949LAALA08	2250000	425836

67.							17766CMPCP02	5.12.2002	500												
68.							17766CMPCP02	29.3.2003	250										17766CMPCP02		425342
69.										17766CMPCP02	1.7.2003	325							17435LAALA09	2813000	948578
																			17435LAALA09		398125
																			17766CMPCP02		1466882
																			17766CMPCP02		743176
																			16949LAALA08	22550000	743063
70.	12	Karnataka	MSCL	16989COMC001	15.11.2001	67.54													16989COMC001		10297
71.	13	Madhya Pradesh	MPSC	16375NSHNS08	31.7.2003	5													16375NSHNS08	47720	3194
72.				16384NSHNS08	31.7.2003	6													16384NSHNS08	39000	4298
73.	14	Madhya Pradesh	NLIU	17058RECRC01	7.1.2002	101.02													17058RECRC01		1717050
						6362.07			**13595.17**			**1387.2**			**10526.64**			**527**			
																		32398.08			

Annexure-XIX

(Referred to in Para No. 5.6.1 ii)

Statement showing the exposure in excess of limits prescribed by NHB in HUDCO

(Amount: Rupees in crore)

Sl. No.	Name of the Agency	Total exposure to the Agency	Percentage to Net Owned Funds
1.	Government of MP - Finance Department	865.63	24.12
2.	Kerala State Housing Board	961.52	26.79
3.	West Bengal Infrastructure Development finance Corporation Limited	1526.01	42.52
4.	Government of Orissa – Finance Department	757.72	21.11
5.	Maharastra Jeevan Pradhikaran	804.15	22.41
6.	Government of Maharastra-PWD	819.50	22.84
7.	Government of Maharastra-Irrigation Department	794.87	22.15
8.	Government of Maharastra-Water Resource Department	935.33	26.06
9.	AP State Housing Corporation Limited	856.00	23.85
10.	AP Urban Finance Corporation Limited	746.28	20.80
11.	Government of Tamil Nadu	598.72	16.68
12.	Karnataka Road Development Corporation Limited	1063.67	29.64
13.	Rajiv Gandhi Rural Housing Corporation Limited	598.04	16.67

GLOSSARY OF ABBREVIATIONS

Sl. No.	Abbreviation	FULL FORM
1.	ALM	Asset Liability Management
2.	BOB	Bank of Baroda
3.	BOBHFL	BOB Housing Finance Limited
4.	CBHFL	Cent Bank Home Finance Limited
5.	FI	Financial Institution
6.	GJRHFS	Golden Jubilee Rural Housing Finance Scheme
7.	GOI	Government of India
8.	HDFC	Housing Development Finance Corporation Limited
9.	HFC	Housing Finance Company
10.	HN	HUDCO Niwas
11.	HUDCO	Housing and Urban Development Corporation Limited
12.	IHFL	IDBI Home Finance Limited
13.	KSHB	Kerala State Housing Board
14.	MIS	Management Information System
15.	MoH&UPA	Ministry of Housing and Urban Poverty Alleviation
16.	NHB	National Housing Bank
17.	NHHP	National Housing and Habitat Policy
18.	NIM	Net Interest Margin
19.	NoF	Net Owned Funds
20.	NPA	Non Performing Assets
21.	ORHDCL	Orissa Rural Housing and Development Corporation Limited
22.	PD	Public Deposit
23.	PNBHFL	PNB Housing Finance Limited
24.	PSU	Public Sector Undertakings
25.	SARFAESI Act	Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act, 2002
26.	SCB	Scheduled Commercial Bank
27.	TMHP	Two Million Housing Programme