UNITED STATES GOVERNMENT

Memorandum

TO :Distribution

DATE: 8-10-83

FROM :ASIA/PD/SA Howard Sharlach

SUBJECT: PRIVATE SECTOR HOUSING FINANCE PROGRAM
INDIA (SECOND PHASE)
386-HG-001

Attached for your information and file is a copy of subject project papers.

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: 1

DOCUMENT CODE: 3

COUNTRY/ENTITY: India/HDFC

3. PROJECT NUMBER: 386-HG-001

4. BUREAU/OFFICE: Asia

5. PROJECT TITLE (maximum 40 characters): Private Sector Low Income Shelter Program

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 11 DD 01 YY 84

7. ESTIMATED DATE OF OBLIGATION (Under "B:" below, enter 1, 2, 3, or 4)

A. Initial FY 81 B. Quarter 4 C. Final FY 84

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 81 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant) PRE/H	(100)	( )	(100)	( )	( )	(100)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1. HG Loan	20,000		20,000	30,000		30,000
Other U.S. 2.						
Host Country		50,000	50,000		110,000	110,000
Other Donor(s)						
TOTALS	20,100	50,000	70,100	30,000	110,000	140,100

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. ~~XXXX~~ HG	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. ~~Loan~~ HG	F. LIFE OF PROJECT 1. Grant	F. 2. ~~XXX~~ HG
(1)	720	850	866	100	20,000		10,000	100	30,000
(2)									
(3)									
(4)									
TOTALS				100	20,000		10,000	100	30,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 30

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BU	BIE	LAB				
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

Expand operations of HDFC and help establish it as the nucleus of a self sustaining private housing finance network serving all income strata with special emphasis on servicing low income families.

14. SCHEDULED EVALUATIONS

Interim MM 11 YY 82 MM YY Final MM 10 YY 84

15. SOURCE/ORIGIN OF GOODS AND SERVICES

☐ 000 ☐ 941 ☐ Local ☐ Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment)

This amendment is for authorization of the second Phase, $10 million HG, of the $30 million HG project as described in the original PP and as supplemented by the attached project memorandum.

17. APPROVED BY

Signature: Peter Kimm

Title: Director, PRE/H

Date Signed: MM 06 DD 14 YY 83

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

Private Sector Housing Finance Program

I. Summary and Recommendation

A. Introduction

In August 1981 $20 million, of a $30 million, Housing Guaranty (HG) project was authorized for the Housing Development Finance Corporation Ltd. (HDFC). HDFC is the first private sector housing finance institution in India and Housing Guaranty funds were authorized for the financing of commercial rate mortgage loans for housing for below median income households.

The Housing Guaranty loan agreement for the authorized $20 million was signed in January 1983. The loan was fully dispersed on February 1, 1983. Project progress with regard to stated project objectives and HDFC requirements for additional financing now support going ahead with Phase II.

This project memorandum provides support for the recommendation to authorized Phase II ($10 million) of the HG project which was presented in the 1981 Project Paper (PP) and approved in principal at that time.

Information in this memorandum is supplemental to the PP. The material herein is derived from: Regional Housing Officer's (RHUDO) visits to India to review project progress; consultant reports which provided technical reviews of HDFC's projects, operations and beneficiaries; and HDFC's Annual Reports and Financial Statements.

B. Program Background and Progress to Date

1. Housing Guaranty Program Development

The Housing Development Finance Corporation Ltd. (HDFC) is the first private sector housing finance institution in India. It incorporated in late 1977, with the stated objectives of:

- Providing long-term finance to middle and lower income individuals, associations of individuals, cooperative societies of individuals, other groups of individuals, and bodies corporate for housing in India, and to promote home ownership.

- Contributing to the mobilization of long-term savings, and transformation of short-term savings for long-term housing investment.

- Supporting the development of a national system of housing finance.

- Promoting the growth and development of the money and capital market.

- Supporting the growth of a diversified building industry, and the development of appropriate building technology.

AID's interest in HDFC is essentially threefold: 1) to support HDFC's efforts to provide housing finance to as many lower income families as possible; 2) to support the self-sustaining private nature of HDFC, and; 3) to support HDFC's efforts to promote a nationwide network of private housing finance institutions.

These purposes are described in detail in the 1981 Project Paper "Private Sector Housing Finance Program-India", which set forth the proposed $30 million two phased Housing Guaranty project to support HDFC. The PP was approved in principal with an authorization of Phase I ($20 million) in FY81 and a Phase II ($10 million) authorization projected for FY82.

In Phase I, HDFC was to demonstrate significant progress toward achieving its objectives with regard to the mobilization of resources and the effective origination and servicing of mortgage loans to its target group. Only families at or below the median income level (determined to be Rs. 1,200 in mid 1981) are eligible for financing under the HG program. The primary mechanism for reaching this target group, as indicated in the PP, was the financing of market-rate loans to companies which would provide housing for low income workers. This approach supported GOI's interest in getting the corporate sector more involved in the provision of housing for workers, and enabled HDFC to service the target group while establishing itself as a financially sound institution and developing a more comprehensive approach to progressively increase its impact on lower income households.

The Implementation Agreement for Phase I specifically called for HDFC, prior to AID's consideration of Phase II, to "adopt a policy statement outlining its intentions regarding the promotion and financing of progressively lower income housing in India". AID's Office of Housing has had continuous dialogue with HDFC on the development of such a policy initiative. On April 12, 1983 at their 38th Board Meeting, HDFC adopted a policy statement on low income housing finance (see Annex E). As a condition precedent to Phase II borrowing, HDFC is to develop an action plan for implementation of this policy.

As stated in the original PP AID's long term shelter sector goal is to contribute to the development of a fully functioning and viable private housing finance system in India. HDFC is the nucleus of such a system and its objectives are consistent with AID's long term goal. Development of a financially sound network of private housing finance institutions will entail incremental expansion of the embryonic system. A strategy of continued assistance in the form of phased infusions of capital over the short term will provide stability and liquidity for the system's long term growth.

2. HDFC Progress To Date

HDFC operations got underway in June 1978 with an initial capital base of Rs. 100 million (then about $12.3 million). Since then HDFC has experienced exceptional growth. This growth indicates the undeniable existence of a market for private housing finance in India.

For its 1982 fiscal year (July 1 - June 30), HDFC paid a 7-1/2% dividend to shareholders following an initial 5% dividend in fiscal year 1981. Profits after taxes for the first 8 months of fiscal year 1983 amounted to Rs. 17.3 million compared to Rs. 18.2 million for all of fiscal year 1982.

With regard to housing loans and resource mobilization actual 6/30/82 figures are very close to the 1977 International Finance Corporation (IFC) and 1981 AID projections for that date (See Annex A for detailed comparison).

By February 28, 1983 resources totalling Rs. 752.2 million1/, in addition to the initial equity capital of Rs. 100 million, had been mobilized. Term loans accounted for Rs. 276.4 million of the resources mobilized, and deposits for the remaining Rs. 475.8 million. Deposits came primarily through certificates of deposit with a small amount coming from a savings program linked to the granting of loans. Term loans were obtained primarily through several insurance company loans and Phase I of the HG. Term loans however are lagging somewhat behind projections and resource mobilization efforts in general are just able to keep up with the increasing demand. HDFC believes mobilization of local resources through deposits could be increased if it would be allowed advertise for deposits. HDFC has been working to get the existing restrictions altered and in April 1983 HDFC was given limited author[illegible]y to advertise

Housing loans outstanding as of February 28, 1983 totalled Rs. 834.1 million. By this same time, HDFC had approved 47,107 units for financing. This is almost double the 1981 figure. Of these these approvals 28,931 were to individuals and most of the remainder were made for corporate housing programs. Disbursements had actually been made against 31,137 units. (See Annex B HDFC Management Report February 1983).

As of 2/28/83, 13.5% of HDFC's total loan portfolio was directed to families below Rs.1,000/mo. and this accounted for 30% of the units financed.

1/ Rate of exchange used in the 1981 PP was US$1.00 = Rupees (Rs.) 8.00. The rate of exchange in March 1983 is approximately US$1.00 = Rs. 10.

HDFC has been able to reach a larger proportion of lower income groups through its corporate program than through individual loans because of assistance provided by the corporations. On a cumulative basis, 81% of families whose homes were financed by HDFC under its corporate program had incomes at or below Rs. 1,000 per month[1]. For individual loans, the figure is 15%, although some 58% were below Rs. 2,000 per month. Because of rising incomes and increasing construction costs, the average income level of families receiving HDFC financing has shown a slow but steady trend upward and this is a trend HDFC must watch closely. AID's Office of Housing (PRE/H) will continue to provide assistance to HDFC in the development of mechanisms to reach, attract and service lower income groups.

In addition to its loan operations, HDFC has a small but fully owned subsidiary, HDFC Developers Ltd., which was established to in an effort to broaden its role in the housing delivery system. Recently HDFC has also started to provide consulting services to various developing country housing finance institutions.

To serve its expanding operations HDFC staff grew from a total of 175 in March 1981 to 262 by the end of February 1983. HDFC's head office in Bombay is now supported by a network of 9 offices in 7 states which have reached clients in some 250 locations (cities and towns). The rapid expansion of operations and resulting build up of staff has put a strain on HDFC's management. Stabilization of existing operations including the development of a systematic staff training program to accommodate future expansion has become HDFC's top management priority. PRE/H through available grant funds, is already providing assistance to HDFC in the development of an ongoing staff training program.

HDFC's success has spurred the interest of the GOI in the field of private housing finance as well as other private entrepreneurs. HDFC's expansion and its potential for institutional replicability demonstrates movement toward AID's overall sector goal of contributing to the development of a fully functioning and viable private housing finance system in India.

C. Conclusion and Recommendation

As called for in Phase I of the Private Sector Housing Finance Program, HDFC has demonstrated significant progress toward achieving the objectives of resource mobilization and origination and servicing mortgage loans to its target group (middle and low income). As anticipated

1/ HDFC Reports breakdown income of beneficiaries by: below Rs. 1,000; Rs. 1,000 - 2,000; Rs. 2,001 - 3,000; and Rs. 3,001 and above. Therefore the percentage of below median income beneficiaries (below Rs. 1,200) is higher than noted here.

in the PP HDFC has been better able to address the housing needs of below median income families through its institutional lending programs than through its individual loan program.

HDFC's institutional progress to date and compliance with the terms of the Implementation Agreement calling for adoption of a policy statement outlining HDFC intentions for the promotion and financing of progressively lower income housing lead to the recommendation that the $10 million Housing Guaranty funds described as Phase II in the PP be approved and authorized.

It is also recommended that as a condition precedent to Phase II loan borrowing HDFC submit, and AID approve, an action plan for implementation of its low income policy statement.

PRE/H plans to continue to provide TA to HDFC in the form of: development of an in-house staff training program which will include sensitization of HDFC staff to lower income client needs; HDFC staff training in U.S. and abroad in the policy, technical and financial aspects of low income housing; and assistance the development of loan marketing and savings awareness programs geared toward lower income groups.

II. Detailed Program Review

A. Relationship to Government of India Policies and AID Objectives.

As described in the original PP for this program, India's Sixth Five Year Plan (1976-83) set forth a total investment for the shelter sector of some Rs. 129 billion. Of this amount GOI only allocated about Rs. 15 billion to public sector expenditures, i.e. central or state government programs concentrating on the lowest income families in urban areas. A total of almost 90% of India shelter investment was to be accounted for by private sector efforts. Although self-help rural housing undoubtedly is a large part of the private sector effort, a substantial share is assumed to occur in urban areas. The Plan recognized that efforts would have to be made to mobilize and channel savings into housing, but articulated no specific government steps to achieve this.

It was in this context that HDFC, India's first private sector housing finance institution, emerged. HDFC started operations in mid 1978. AID's policy of encouraging maximum participation of the private sector in development formed the basis for AID's assistance to HDFC. Though the Housing Guaranty (HG) Program, AID seeks to support HDFC expand its operations while at the same time helping lower income families obtain housing. As mentioned in the Summary Section and demonstrated more conclusively in the following section, HDFC's success to date has been phenomenal.

Although HDFC's program is an excellent start on providing the basis for an effective private sector housing finance network, its efforts remain a relative "drop in the bucket" in the totality of India's housing needs. HDFC, in its 1981-82 Annual Report for the fiscal year ending June 1982 states that "the shortage of housing units throughout the country is around 30 million units, 23 million units in the rural areas and 7 million units in urban areas".

This is the magnitude of the shelter problem which faces Government of India planners as they prepare the Seventh Five Year Plan (1985-90). Once again it is expected that the private sector will be assigned the major role as India struggles to make inroads into its housing shortage[1/]. Key to successful interventions will be provision of long term housing finance.

About a year ago the Planning Commission of the GOI initiated discussions on housing and urban policy for the new plan by setting up working groups. In this connection the Ministry of Works and Housing has

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1/ Since the first five year plan between 73% and 89% of shelter investment has been projected to come from the private sector. Although there appears to be thrust to increase public expeditures in the housing sector in the next five year plan, private investment will still predominate.

requested the National Institute of Public Finance and Policy to undertake a comprehensive study of housing finance requirements in the country. This study which will be completed by March 1984, is to form the basis for determining the financial resources to be allocated to the housing sector over the Plan period as well as to provide inputs for policy development. AID is providing the Institute with pertinent information on U.S. shelter sector activities with particular emphasis on mobilization of resources and housing finance activities as well as studies on AID's experience in other developing countries.

HDFC, as the only private housing finance institution in India, is at the center of GOI thinking with regard to the expansion of private sector housing efforts. HDFC is important not only absolutely in its own sense as a provider of financing to individuals but as a model to stimulate other similar initiatives and as a provider of financing to the corporate sector which the GOI believes should assume a greater role in the provision of worker housing. The government has recognized HDFC's importance by, for instance, designating HDFC bonds, when issued, as trustee securities under the India Trust Act. This will assist HDFC raise long term funds. Steps are also now being taken which may allow HDFC to advertise for deposits which will assist HDFC's efforts to mobilize increasing amounts of local resources.

Authorization of the $10 million Phase II HG: supports HDFC's continuing expansion and the objective of further reaching the low income target group; is consistent with GOI's plans and policies for the housing sector, and; responds to AID private sector, institution building and shelter sector policy goals.

B. Institutional Evaluation

The theme of the approved HG Project is the institutional development of HDFC. Its purposes include: to enhance HDFC's ability to raise more capital internally; to encourage HDFC to make more long term finance available to a wider range of income groups, and; to enhance HDFC's ability to expand its operations in terms of both office locations and range of beneficiaries. Therefore an institutional evaluation is basic to a review of project progress and justification for authorization of the second phase of the HG.

1. General Assessment

To set the framework for an evaluation of HDFC's performance to date it is useful to look at the past projections for HDFC's growth. In the enthusiasm surrounding the creation of many new institutions in developing countries, over-optimistic projections can be made based on unrealistic assumptions related to start up time and initial market response. HDFC does not fall into this category. In fact, HDFC's operations to date have been remarkable for meeting or exceeding projections.

The following paragraphs highlight the findings presented in Annex A which consists of two tables comparing the HDFC's actual FY 1981-82 balance sheet figures (June 30, 1982) with projections for that date contained the HG Project Paper (PP) of July 1981 and the International Finance Corporation (IFC) Appraisal Report of March 1978.

By June 30, 1982 total housing loans outstanding amounted to Rs. 563.9 million compared the PP projection of Rs. 592.4 million and the IFC projection of Rs. 543 million. Considering such unknowns as inflation, the AID and IFC projection proved quite accurate. On the liability side, actual total liabilities equalled Rs. 567 million; Rs. 398.7 million in deposits and Rs. 168.3 million in term loans. The 1981 PP projected Rs. 585 million in total liabilities; Rs. 380 million in deposits and Rs. 205 million in terms loans. Again, the actual vs projected figures are close. However actual deposits are greater and long term debt less than AID originally projected.

These figures on resource mobilization indicate that HDFC needs to increase its long term funding. HG financing will continue to strengthen HDFC considerably in this regard.

On the income statement, actual figures were also generally very close to or more favorable than projected. Actual bottom line profits before taxes amounted to Rs. 27.2 million as compared to projections of Rs. 22.2 million.

HDFC's performance has been achieved with a much more rapid expansion of the organization and its staff than originally envisioned. This expansion was well underway by the time the HG was authorized in 1981 but the 1978 IFC appraisal report projected a total staff of only 41 by June 30, 1982 with three branch offices plus the headquarter. In actuality HDFC had 250 total staff by the end of FY81-82 and nine offices plus the head office. This expansion has not occurred without some organizational strains which are discussed in sections II.B.3 and II.B.7.c. of this memorandum.

In the final analysis HDFC's overall institutional performance has been excellent. It demonstrates that a private institution, with modest and appropriate government support, can provide long term housing finance in India.

HDFC's private sector initiative and performance to date has also attracted international attention. Several countries e.g. Kenya, Ghana, Indonesia, and Sri Lanka have sent staff and officials to Bombay to learn from HDFC's operations. In conjunction with its HG program, the Government of Sri Lanka has contracted with HDFC to study its State Mortgage and Investment Bank, with the anticipation of replicating HDFC's approaches. PRE/H has also used HDFC staff on studies in Thailand. Additionally, IBRD has had exploratory discussions with HDFC with regard to servicing loans under its projects in Calcutta and Bombay. These are all earmarks of a dynamic institution off to a successful start.

2. Review of Ownership, Policies and Objectives

HDFC's ownership and financial structure is set forth in detail in the PP. At the time of its organization HDFC issued Rs. 100 million in share capital, all of which was subscribed, out of an authorized share capital of Rs. 250 million. HDFC has not found it necessary to issue additional share capital since that time.

It should be noted that the International Finance Corporation (IFC) subscribed to 5% of the initial capital and has a seat on the board of directors. It, along with AID, maintains a close relationship with HDFC and conducts periodic supervisory visits.

HDFC's major objectives are to (1) provide long term finance to middle and low income families through individual loans or as members or employees of cooperatives and corporations respectively; and (2) mobilize long term resources in the form of deposits, term loans and bonds and transform short term savings into long term housing investment. A longer term objective is to support the development of a national system of housing finance.

These corporate objectives, to greater or lesser degreees, are being met. Clearly the provision of long term finance to middle income families is being achieved. Finance of housing for lower income families is also being provided however the overall share of these activities is decreasing slightly. This issue is covered in more detail in other Section II.C. of this memorandum. Resource mobilization, while subject to improvement is proceeding satisfactorily. Meanwhile the demand for HDFC long term housing finance is increasing rapidly and resource mobilization efforts have to be increased according. With HDFC offices in seven states and outreach to over 250 towns, the beginnings of a nationwide network of private housing finance take shape.

3. Organization, Administration and Staffing

HDFC is a rapidly growing organization. This growth entails careful management and the ability to assess the effectiveness of its organizational structure and adapt accordingly. As a result of an ongoing effort to improve operations and management systems, the company's organizational structure was recently revised. Alterations were made at the divisional level where authority has been delegated in four distinct areas, e.g. Operations, Finance and Planning, Resources and Legal/Secretarial. Each division has a head who reports to the General Manager/Deputy General Manager who in turn reports to the Chairman.

The officers and staff of HDFC, now totalling 262 persons, have been formed into an enthusiastic, cooperative, and highly motivated team which is an obvious strength of the organization. It is projected that over the next 5 years an additional 75 to 100 people will have to employed and trained. Management recognizes that current training and employment procedures are no longer adequate (see section II.B.7), therefore a specialist in the field of training and personnel is now being sought. This action should eventually lead to the formation of a fifth division, for Personnel and Training, in the Head Office.

Aside from the Head Office in Bombay, HDFC has eight full branch offices: Ahmedabad, Bangalore, Calcutta, Dadar (Bombay), Madras, New Delhi, Pune and Hyderabad. In 1982, HDFC also opened a small office in Cochin as a sub-branch to the Bangalor Office. An extensive branch reporting system is in place which results in excellent management data. Monthly reports are compiled on a branch-by-branch basis and abnormalities are easily observed. A typical branch is staffed by fifteen to twenty people which includes a branch manager, a legal officer, a technical officer and credit officer. Support staff for these executive positions comprise the balance of the office force.

To date HDFC has grown as a organization with a strong centralized authority structure. It has been recognized that this system will become untenable as operations expand, therefore at the April 12, 1983 Board meeting a decision was made to start to decentralize loan approval authority. Decentralization is to proceed in a phased manner and will be initiated by the branch offices themselves. That is, branch managers will indicate to the Head Office when they feel they have the sufficient internal capability to take on increased responsibility. The current management objective is for decentralization to be completed by June 1984.

A HDFC long term corporate objective is to provide services in all parts of India. Towards this end it intends to open at least one branch in every state. Originally HDFC had planned to open two new branches a year which would have led to a nationwide network in the first six or seven years of operation. This time frame is now being reassessed due to the high resource and man power costs entailed in opening new offices and due to the need to stabilize existing branch operations.

The focus of FY83-84 activities will be to strengthen the existing branches and to develop their capacity to penetrate the region in which they are located. Therefore short term emphasis will be on sub branching, based on the Cochin model in Bangalore, and on servicing a larger number of towns within the region through branch based outreach activities.

In the decision to concentrate short-term efforts on depth of service within a region as opposed to country-wide breath (which essentially entailed servicing higher income primate city populations), HDFC is making a conscious effort to increase its access to lower income households. The long term corporate objective of expanding operations to every state in India remains in tact, however the time frame has been revised. Management now sees a more realistic target as being one new state branch per year.

4. Mobilization of Resources and Lending Activities

As noted in the General Assessment section of this paper, 1978 and 1981 projections for HDFC's growth by June 1982, with regard to resource mobilization and lending, were more or less on target. Since June 1982 demand for loans and the subsequent need to mobilize additional resources has accelerated as indicated in HDFC's Management Report for February 28, 1983 which is attached as Annex B.

On the lending side HDFC mortgage loans are essentially of three types: loans to individuals, loans to cooperative societies and apartment owner associations, and; loans to corporations for housing projects. At present, about 80% of the loan portfolio is in loans to individuals with institutional loans covering most of the remainder. Lending rates to individuals now vary between 12.5% and 14.5% depending on the amount of the loan and individual loans have an average maturity of 13.24 years. Corporate loan rates range between 15-17% and have an average maturity of 6.76 years.

Total loan approvals during the eight month period June 30, 1982 - February 28, 1983 amounted to Rs. 452 million against Rs. 440 million for all of FY81-82. Disbursements during this eight month period totalled Rs. 286 million compared to Rs. 300 million in FY81-82. Cumulative loan approvals as of 2/28/83 amounted to Rs. 1,502 million for financing of 47,107 units against which disbursement of Rs. 898 million for 31,137 units had been made.

HDFC's primary means of mobilizing resources has been through deposits which stood at Rs. 475.8 million on 2/28/83, up significantly from Rs. 398.7 million on 6/30/82. Of this, almost the entire amount is in Certificates of Deposit ranging from 6 months to 5 years mostly from institutions and companies and some from individuals. A small amount is in "loan-linked" deposits where an individual saves up a specific amount before obtaining a loan. This program has developed very slowly and HDFC is now considering a new effort for a similar scheme with TA from the German foreign aid development bank.

To date HDFC has been hampered in its efforts to further increase resources through deposits because of regulations which have not permitted them to advertise for deposits. HDFC has lobbied to try to get these regulations altered and these efforts seem to be succeeding. In April 1983 HDFC received preliminary approval for monitored advertising. A change in these regulations will greatly enhance HDFC's ability to expand its local resource base.

HDFC central management is also launching a strong effort to transfer more of the deposit related resource mobilization responsibility to the branch offices. Until now branches have focused their efforts on lending activities with little regard to overall mobilization requirements which were seen as primarily a head office responsibility. Therefore at the Branch Manager's meeting in April the need for Branches to increase their resource mobilization efforts and to balance their internal lending and deposit portfolios was strongly emphasized.

Mobilization of resources in the form of long term capital is crucial to an institution which itself makes long term mortgage loans. As of 12/31/82 HDFC's term loans outstanding stood at Rs. 271.4 million, a substantial jump from the Rs. 168.3 on 6/30/82. In general, however, HDFC's mobilization of resources from long term loans has lagged behind expectations.

In HDFC FY83 a total of US$30 million in long term funds will be secured: US$20 million from Phase I HG, US$3 million from the General Insurance Corporation and US$7 million which the Reserve Bank of India has directed the Indian banking system place with HDFC.

Additional long term funds are being sought for the coming year. The Phase II HG will provide $10 million and a loan of $10 million from the Life Insurance Corporation is planned. Capturing these long term funds, of which the HG funds are crucial, establishes a maturity level to balance against HDFC's long term mortgage loans.

As of 2/28/83 funds borrowed from institutional sources cost 12.3% and the average cost of deposits was 10.57%. This results in an average weighted cost of funds of 11.17%. The weighted average earnings from loans was 13.17% which results in 2% spread.

Most of HDFC's operational expenses are covered from the income derived from the fees it charges for loan applications forms, loan processing and technical and legal services.

During 1983 and beyond, HDFC will direct considerable effort toward the mobilization of funds from religious and charitable trusts as well as towards raising consumer savings deposits. By recent amendment to the Income Tax Act the income earned on funds placed with HDFC by religious and charitable trusts will be exempt from tax. Household savings are also an important source of potential funds and HDFC is now confident of mobilizing larger amounts from individual depositors in view of the enhanced benefit available to depositors of HDFC i.e. interest on deposits with HDFC will now qualify for deduction up to Rs. 7,000 (hither-to Rs. 4,000). Since rates offered by HDFC on its deposit schemes are better than the rates offered by commercial banks and compare favourably with other investment avenues on an after tax basis, advertising should help attact additional savers.

5. Financial Projections (in U.S. dollars)

In FY81-82 (July 1 - June 30) HDFC loan approvals totalled US$44 million. HDFC projections for FY82-83 are for approvals totalling $64 million which represents growth of approximately 45% in one year. The projected growth rate for the following two out years is for just over 25% (see table on following page).

To finance this anticipated level of business, HDFC will have to raise US$41 million, $57 million and $73 million of additional funds in FY82-83, FY83-84 and FY84-85 respectively. The anticipated sources of funds include borrowings under HG program, loans from commercial banks and insurance companies and funds raised under HDFC's deposit schemes. As can be noted in Table 1, HDFC projects a substantial portion of the increase in resources to come from deposits which are to account for approximately 27% of the additional resources required in FY82-83 to over 45% in FY84-85.

HG financing is presently an important source of funds for HDFC not only in an absolute sense but also as a source of long term capital. In FY82-83 the $20 Phase I HG loan which HDFC drew down in February 1983 accounts for almost 50% of the year's requirement for additional resources and represents two thirds of HDFC's long term capital. In the out years as HDFC increases its capital base from other sources, HG financing will become an increasingly smaller portion of HDFC's overall portfolio.

TABLE I

Financial Projections for HDFC

(in U.S.$ millions)

(FY = July 1 - June 30)

	FY82-83	FY83-84	FY84-85
Loan Approvals	64	82	105
Loan Disbursements	46	63	82
Additional Resources Required	41	57	73
Sources			
Commercial	7	10	15
Insurance Companies	3	5	5
Deposits	11	22	33
Other (including HG)	20	20	20

6. Technical Capacity and HDFC Developers Ltd.

HDFC's technical review of loan applications is concerned with the costs of land and building and in the case of corporate projects, infrastructure costs, to ensure that these costs are representative and that HDFC finance is not being misused. In late 1982 a review of technical services was conducted by HDFC's technical departments in the head and branch offices. This review indicated that HDFC technical services were adequate to accomplish the objectives of HDFC's present operational approach, i.e. to ensure that when a loan is approved the value of the house or project is such that the loan can be fully secured by the mortgage and that the borrower's contribution is fully made.

HDFC Developers Ltd. is a wholly owned subsidiary of HDFC. It was established to broaden HDFC's role in the delivery of housing by becoming directly involved in the design and construction process.

HDFC Developers Ltd. presently only has one management person and all work is contracted out. The subsidiary has three projects underway; 600 flats in the newly emergin industrial area in Pune, 200 flats in new Bombay and an office building in new Bombay. The latter consists of 8 floors totalling about 65,000 square feet. HDFC will keep two floors for new offices and sell the rest.

The initial intent was to move ambitiously a y with HDFC Developers Ltd. However the lack of technically trained staff and the intricacies and potential pitfalls of the construction process has resulted in HDFC Board members recommending that for the present HDFC Developers limit its activities to ongoing projects. Direct involvement in the construction process without the proper expertise, poses too high a risk factor.

HDFC, however, retains a strong interest in building up its technical capabilities in order to become more involved in the housing delivery process. Present plans call for increased emphasis on the design aspects with a view toward being able to provide technical advisory services to corporate and institutional borrowers on methods of reducing costs for units planned for workers through better layout and design. In April 1983 HDFC advertised for an architect as initial step in the process of enhancing these technical capabilities.

7. Problem Areas

From an operations standpoint, HDFC has two areas which need to be addressed: personnel training and decentralization of authority.

HDFC realizes more attention to training of new personnel is needed. Management has been occupied with the company's rapid growth and as a result people are hired, put in a slot, and expected to start performing. With a staff now totalling about 262 of whom about 45 are officers, there is however still no executive level office who is reponsible for personnel matters.

HDFC is fully cognizant of its personnel and training needs: the need to train new staff in the operations and objectives of the company; the need to recruit and keep high quality staff; and the need to develop training manuals and programs. Management has taken an initial steps toward addressing these needs in its decision to advertise for a full time personnel officer.

Additionally PRE/H has already had several discussions with HDFC about how one can design and establish staff training programs and is providing grant funds for technical assistance for this effort. The target is to have an ongoing in-house staff program in place by the end of CY 1983.

The second issue is one of decentralizing some of HDFC's operations and decision making. Until recently all loans were approved and checks for disbursement prepared at the Head Office. In view of the increasing number of loan approvals, which have now reached 1,500 per month, HDFC has taken the decision to decentralize the loan approval process by setting up loan review committees at the Branch Offices. However, the implementation of this procedure will be taken up in a phased manner, with Branch offices signaling their readiness to start assuming loan approval responsibilities. The target is to have all branches responsible for the approval of a significant portion of their loan portfolios by the close of FY83-84.

C. The Target Group and Affordability

1. Determination of Median Family Income

The lack of income data in India poses a problem in determinating median income. Any such figure has to be derived. An all-India figure even broken out between rural and urban is biased due to the large various between states. However analysis done during the project development work for the PP resulted in an accepted estimate of the median urban family incomes in India to be Rs.1,200 in mid-1981. This figure was derived from 1977 data and was considered to be a conservative estimate at that time.

The HG was structured so that all beneficiary families whose housing would be eligible for financing under the program would have to be at or below the Rs.1,200 per month level.

In an evaluation of HDFC borrowers conducted in December 1982 it was decided to obtain more recent data with regard to income distribution. However, no more recent studies on income are available than those utilized in 1981 which were thenselves based on 1977 data. An updating of those figures using consumer price index statistics prepared by the Center for Monitoring the Indian Economy, would indicate that median family income with monetary correction for urban India but without real income growth about Rs. 1,400 in 1984. The comparable figure for Bombay would be Rs. 1,778. (see Annex C).

For Phase II of the HG it is proposed that the same income figure for eligible beneficiaries be used as in Phase I i.e. Rs.1,200/mo. An updated median income figure would be used for follow on HG programs, however, the question of how to determine a such figure may be reassessed.

2. HDFC Beneficiaries and the HG Program

Because of the absolutely low income levels in India, the high cost of housing, the interest rates that HDFC must charge to cover its borrowing costs and the newness of HDFC as an institution in 1981, it was assumed that most beneficiaries under the Phase I HG Program would be corporation's or other organization's workers where the organization would pick up part of the cost of the housing. The intent was to look at ways to reach more individual borrowers in Phase II.

Because one of HDFC's major objectives is to provide housing finance for low and middle income families, HDFC's management reporting system provides income data on its borrowers. Income of borrowers is broken down in the following categories: up to Rs.1,000; Rs.1,001-2,000; Rs.2,001 to 3,000; and Rs.3,001 and above.

Cumulative figures for all loans approved through February 1983 indicated that of a total of the 47,107 units approved for financing, 28,931 (61.1%) were for individuals and the remaining number were included under various corporate or group projects.

Of the total units financed, 14,253 (30%) were for individuals or workers with incomes at or below Rs1,000/mo. This relates favorably to the objective in the PP logframe which indicated that approximately one third of total HDFC beneficiaries would be below the median income (Rs.1,200/mo.).

The average monthly income for all families receiving individual loans through November 1982 was Rs.2,200. For the period July 1 - February 1983 the figure was Rs.2,300. Beneficiaries under the corporate loan program had averaged Rs.1,000 per month from HDFC's inception. However the figure for the July 1 - February 28 period rose to 1,200. Therefore there appears to be a tendency for average income levels to be moving higher.

With regard to the distribution by income level of individual borrowers cumulative figures indicate that 15% of loans were to families up to Rs.1,000 per month income and another 43% went to families from Rs.1,000 - 2,000 per month income. However, for the period July 1 - February 28 1983 the comparable figures were 10% and 41%.

As anticipated in the project design the percentage of corporate beneficiaries is much higher. A total of 81% of worker families obtaining housing through the corporate program had incomes below Rs.1,000 per month and another 14% from Rs.1,000 - 2,000. Figures for July 1 - February 28, 1982, however, had shifted to 64% below Rs.1,000 per month with the shift occurring to the Rs.1,000 - 2,000 level. (See Annex B, HDFC's Management Report for details).

The above noted data regularily collected by HDFC does not provide information on the total number of eligible HG beneficiaries i.e. Rs.1,200/mo. and below. Nor does the data breakdown the eligible HG beneficiaries by income groups. As an example of these types of figures the latest month of loan approvals for individuals (April 1983) were tabulated and are presented in Table 2. This information indicates that while the percentage of families with below Rs.1,000/mo. is only 7.5% for April the percent of HG beneficiaries (Rs.1,200/mo.) is 22.6%.

TABLE 2

April 1983 HDFC Loan Approvals for Individual Borrowers

Income Group	# of loans approved	(%)	
Up to Rs.600	10	(.6)	)
601 - 800	29	(1.8)	) 22.6%
801 - 1,000	75	(4.7)	)
1,001 - 1,200	246	(15.5)	)
1,201 - 1,250	107	(6.8)	
1,251 and above	1,119	(70.6)	
Total	1,586		

In December 1982 PRE/H funded a socio economic analysis of HDFC Low Income Loan Applicants (Annex D). The study used small samples from each of two cities, Bombay and Bangalore. The survey indicates that the Bombay applicants with incomes below Rs.1,200/mo. are younger and financing smaller units at a higher cost than their counterparts in Bangalore. In both cities the units being financed are affordable to low income benficiaries only because of the large downpayments being made.

Evidence to date indicates that there is a market for HDFC at lower income levels, however the depth of the market requires additional analysis and such analysis would have to take into account regional differences. PRE/H plans to work with HDFC in the development of such market analyses as well as loan marketing and savings awareness programs geared toward lower income groups.

In conclusion there is a shift toward a slightly higher income level for HDFC clients, which undoubtedly reflects increasing incomes in India. However it is a factor that HDFC needs to address and is the subject of the following sections.

In Phase I of the HG program the emphasis was on reaching lower income beneficiearies via the corporate program. This has clearly proved to be a suitable vehicle for reaching the target group. Now increased emphasis on other approaches is required. To date 15% of individual loan approvals have been for applicants at or below Rs.1,000/mo.. Given rising incomes and the overall growth in the number of applications processed it seems reasonable to keep that figure as a target for Phase II. Such a target will result in an increase of the absolute number of lower income beneficiaries seeking individual loans and will represent a relatively lower income group.

3. <u>HDFC Low Income Policy and Initiatives</u>

PRE/H has had an ongoing dialogue with HDFC about increased emphasis on servicing lower income target groups. Given the relative youth and uniqueness of HDFC in India, their showing to date should not be underrated. However, as indicated above; in order to increase its service to these groups a more aggressive approach will be required. HDFC is aware of this need.

On April 12, 1983 the HDFC Board of Directors adopted A Policy Statement on Low Income Housing Finance (Annex E). AID had made the adoption of such a statement a prerequisit to Phase II authorization. A condition precedent to Phase II borrowing is to be the development of an action plan for implementation of the policy.

The recent policy statement reaffirms that HDFC will actively. encourage access to lower income groups, by: attempting to increase the average loan/cost ratio for low income beneficiaries; strengthening its technical capabilities so as to be able to provide advisory services to institutional clients who are willing to broaden their range of beneficiaries; by becoming actively involved in municipal and or internationally sponsored urban shelter projects which target low income beneficiaries; introducing staff training programs which will include sensitizing staff to the special needs of low income applicants; outreach to smaller towns; and working toward the creation of an Institute for Housing Research which would study technical aspects of lowers housing costs and innovative financing mechanisms.

HDFC has already started advancing some of these ideas. Expanding the reach of existing branch offices to service smaller towns and thereby accessing relatively lower incomes has already started. The method used is to advertise in advance in local newspapers that HDFC representatives will be at a given location for a given number of days. In the area in which this approach has been tested (from the Puna Branch) the turn out has been good and HDFC has found that it does in fact access relatively lower income applicants.

HDFC has also had discussions about active participation in urban shelter projects in Calcutta and Bombay. In Bombay the World Bank is planning a Rs.3 billion project which would help fund infrastructure for slum upgrading and sites and services activities. HDFC's role would be to raise some Rs.450 million over four years (1985-88) for financing of shelter construction on site and service plots and for some home improvement activities. The income distribution of households in the project area suggests that 63% earn less than Rs.1,000/mo. of which 35% are below Rs.600/mo. In the Calcutta Metropolitan Project discussions have centered on HDFC servicing loans to project beneficiaries. The Calcutta project would provide HDFC staff with experience with low income households without the attendent financial risk.

These initiatives indicate that of HDFC is aware of the need to actively pursue lower income client groups.

D. Special Issues

A major issue facing HDFC, as it continues its growth, is operational. That is, it must ensure clear and efficient lines of authority, and adequate staff in terms of numbers, technical qualifications and opertional training. As noted in earlier sections these issues are being looked at by HDFC management and steps to address them are being taken.

HDFC's responsiveness to helping meet the housing finance needs of middle and low income families throughout the country has met with continued GOI support for the various concessions and designations, and continued AID assistance through the HG Program. While HDFC must balance its expanding operations across income levels, its greatest challenge will be in developing innovative mechanisms for servicing lower income groups. As discussed above the recent policy statement adopted by HDFC's Board of Directors provides the impetus for management to actively pursue new strategies for targetting low income families.

III. Phase II Program Objectives.

A. Current Program

The basic theme of the current HG project as set forth in the original PP is to support the development of a private sector housing finance institution which services AID's target group. HDFC is the first such institution in India and is pioneering the field of private sector housing finance in India. To achieve AID's goals, the strategy underlying the program with HDFC is to, with a relatively large infusions of capital, supplemented by some technical assistance, increase the resource availability of the HDFC and help broaden its exposure to potential lenders and depositors, thus enabling it to expand the overall scope of its operations. Infusion of HG financing, however, must be directed at families below the median income level. The AID strategy, therefore, also entails support for HDFC to carry out its own objective of financing homes for lower income families. In Phase I HDFC has shown reasonable success in this regard especially in its corporate program.

Phase II of the current HG program, while continuing to support HDFC's institutional development and continued growth, also marks a shift in program emphasis toward increasingly more active pursuit by HDFC of accessing lower income clients. This pursuit however must be staged withih the context of organizational realities. Adoption of a low income policy statement was clearly a necessary move in this direction. The next step the development of a realistic action plan for policy implementation. This is to be a condition precedent to the borrowing of Phase II funds. Future support will be tied to progress in implementing the action plan.

In conjunction with Phase II and future HG financing PRE/H will continue to provide technical assistance to HDFC in the design of programs to strengthen it as an organization (i.e. design of operational in house staff training programs) and to access, attract and service lower income populations (i.e. technical training in low cost housing design and design of targetted market surveys and savings awareness and loan promotion campaigns).

B. Long Term Strategy

HDFC is recognized as a major private sector initiative in the housing sector in India and is a significant contribution to AID's private sector activities. Its development demonstrates how imaginative use of capital resources coupled with a small amount of TA can contribute to institutional development and attendant policy changes. HDFC's success to date provides the GOI with a positive indication of the potential for a private role the housing finance system as it developes its new Five Year Plan. There now exists a private sector institution which offers long term mortgage financing as well as provides a model for other private sector housing financing activities. Step by step HDFC is carving out an institutional role within a legal and administrative structure which here to fore has not provided for the development of a private housing finance network.

For these reasons it will be proposed that AID develop and enter into a subsequent longer-term program commitment to HDFC to:

(1) Continue to improve its resource base and, through this, work with HDFC to develop means to increase its mobilization of resources from both the Indian capital market and individual savings.

(2) Continue to strengthen HDFC as an institution and as a leader in private sector housing finance development.

(3) Continue to increase the number of loans which finance housing for families below the median income.

A proposal for a follow on multi-year HG will depend on continued program progress. Initial project design may be expected to begin in 1983 for initial authorization in FY84.

IV. Phase II Implementation

The AID/HDFC Implementation Agreement for Phase II will be negotiated and signed during the early fall 1983. As a condition precedent to HG borrowing HDFC will submit and AID will approve, an action plan for implementation of the low income policy. Based on HDFC projections for financing requirements HDFC will probably seek investors in the U.S. capital market in November 1983 with loan and guaranty agreements to be consummated in early 1984. The draw down would occur as in Phase I i.e. as a single draw supported by previous HDFC disbursements against loans for families below Rs.1,200/mo.

Consideration will be given for an advance if it is required to meet the overall goals and objectives of this project.

Annex A

HDFC Profit and Loss Account

FY 81-82

(millions of rupees)

	Actual	Projected	
		HG (July 81)	IFC (March 78)
Income from Operations			
Interest on Housing Loans	53.7	54.2	53.6
Fees and other charges	9.6	8.1	
Other Interest, Div. & Discount	18.7	8.5	1.7
Profit on Sale of Investments	2.0	8.0	
Other Income	.6		
	84.5	78.8	55.3
Expenditure and Charges			
Interest and other charges	48.0	48.6	31.5
Staff Expenses	3.3		.9
Ext. Expenses	1.4		.3
Other Expenses	4.2	8.0	
Depreciation	.3		.4
Pre & Pub Income Exp - Written off	.2		
	57.4	56.6	33.1
Profit Before Tax	27.2	22.2	22.2
Less Prov. for taxes	9.0	7.6	12.2

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Profit After Tax	18.2	14.6	10.0
Add Profit from previous year	2.2	-	-
Profit after tax avail for Distribution	20.4	14.6	10.0
Distribution			
Special Reserve	10.8	8.8	-
Dividend	7.5	6.0	8.0
	18.3	14.8	8.0
Profit Carried Forward	2.0	.2	2.0

HDFC Balance Sheet
6-30-82
(million of Rupees)

	Actual	Projected	
		HG (July 81)	IFC (March 78)
Assets			
Net Current Assets	84.9	38.0	30.0
Investments	29.1	51.0	
Housing Loans	563.9	592.4	543.0
Net Fixed Assets (including advances)	11.7	22.5	-
Others	1.0	.9	-
Total	690.6	704.8	573.0
Liabilities and Net Worth			
Deposits	398.7	380.0	200.0
Term Depts	168.3	205.0	265.0
Total Liab.	567.0	585.0	465.0
Paid-in Capital	99.8	100.0	100.0
Special Reserves	21.7	19.4	8.0
P & L Acct.	2.0	.4	-
Total Net Worth	123.5	119.8	108.0
Total Liab. & Net Worth	690.5	704.8	573.0

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HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED

MANAGEMENT REPORT - OPERATIONS

AS AT FEBRUARY 28, 1983

38TH BOARD MEETING
APRIL 12, 1983
AGENDA ITEM NO:

I. AVERAGE LOAN PROFILE

	INDIVIDUAL OWNERSHIP		CORPORATE BODIES	
	CURRENT YEAR	CUMULA-TIVE	CURRENT YEAR	CUMULA-TIVE
1. COST PER UNIT	Rs 98,000	59,000	76,000	42,000
2. LOAN PER UNIT	Rs 42,000	38,000	43,000	22,000
3. RATE OF INTEREST	13.75%	13.06%	15.96%	14.62%
4. TERM OF LOAN	13.19 YRS	13.24 YRS	6.03 YRS	6.76 YRS
5. AREA OF DWELLING UNIT	71 SQ M	71 SQ M	54 SQ M	48 SQ M
6. AGE OF APPLICANT	37 YRS	37 YRS	-	-
7. FAMILY INCOME OF APPLICANT	Rs 2,300	2,300	1,200	1,000
8. LOAN/COST RATIO	43%	43%	57%	52%
9. COST/INCOME	3.81 : 1*			

* FOR FEBRUARY 1983

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STATUS OF APPLICATIONS RECEIVED

	INDIVIDUALS				
	FEB. '83	JAN. '83	C.YR. JULY-FEB. '83	PREV. YEAR JULY-FEB. '82	CUMUL-ATIVE
	(1)	(2)	(3)	(4)	(5)
1. OPENING BALANCE OF APPLNS UNDER PROCESS	2644	2385	1954	1580	-
2. APPLNS RECEIVED	1608	1457	10638	5718	36619
3. TOTAL ... (1+2)	4252	3842	12592	7298	36619
4. APPLNS CLOSED PRIOR TO SANCTION	130	107	639	463	2346
5. APPLNS REJECTED	24	24	183	117	1024
6. GROSS APPLICATIONS SANCTIONED	1192	1067	8864	5305	30343
7. TOTAL APPLNS PROCESSED (4+5+6)	1346	1198	9686	5885	33713
8. APPLNS CANCELLED AFTER SANCTION	59	40	350	335	1412
9. NET APPLNS SANCTIONED (6-8)	1133	1027	8514	4970	28931
10 APPLNS UNDER PROCESS AT THE MONTH END (3-7)	2906	2644	2906	1413	2906

	GROUP PROJECTS					LINE OF CREDIT					CORPORATE BODIES				
	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
1. OPENING BALANCE OF APPLNS UNDER PROCESS	5	6	3	10	-	6	3	1	-	-	22	17	15	4	-
2. APPLNS RECEIVED	-	-	7	9	92	2	3	13	5	48	3	6	38	34	160
3. TOTAL ... (1+2)	5	6	10	19	92	8	6	14	5	48	25	23	53	38	160
4. APPLNS CLOSED PRIOR TO SANCTION	-	-	-	1	10	-	-	-	-	-	-	-	2	1	12
5. APPLNS REJECTED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6. GROSS APPLICATIONS SANCTIONED	1	1	6	14	78	1	-	7	4	41	7	1	33	23	130
7. TOTAL APPLNS PROCESSED (4+5+6)	1	1	6	15	88	1	-	7	4	41	7	1	35	24	142
8. APPLNS CANCELLED AFTER SANCTION	-	-	-	-	2	-	-	-	-	1	-	-	-	-	6
9. NET APPLNS SANCTIONED (6-8)	1	1	6	14	76	1	-	7	4	40	7	1	33	23	124
10 APPLNS UNDER PROCESS AT THE MONTH END (3-7)	4	5	4	4	4	7	6	7	1	7	18	22	18	14	18

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SUMMARY SHEET

III. NET SANCTIONS	CUMULATIVE FIGURES FEB. '83			CUMULATIVE FIGURES JAN. '83		
	NO.OF APPL.	NO.OF UNITS	RS.IN LACS	NO.OF APPL.	NO.OF UNITS	RS.IN LACS
INDIVIDUALS	28931	28931	11063.53	27798	27798	10600.45
GROUP PROJ.	76	1717	500.80	75	1689	481.13
L.O.C.	40	1914	616.90	39	1842	586.90
CORP. BODIES	124	12104	2609.51	117	11918	2480.52
CONST. FIN.	10	2441	208.34	10	2441	208.34
I. TOTAL	29181	47107	15019.08	28039	45688	14357.34
DISBURSEMENTS						
INDIVIDUALS	20175	20175	6620.01	19335	19335	6298.79
GROUP. PROJ.	60	1420	352.86	60	1420	347.20
LOC	25	688	374.22	25	680	369.90
CORP. BODIES	77	8033	1470.11	75	7967	1470.81
CONST. FIN.	8	821	155.34	7	789	143.34
II. TOTAL	20345	31137	8978.54	19502	30191	8630.04
COMMITMENTS						
INDIVIDUALS	8756	8756	4463.52	8463	8463	4301.66
GROUP PROJ.	16	297	147.94	15	269	133.93
L.O.C.	15	1226	242.68	14	1162	217.00
CORP. BODIES	47	4071	1133.40	42	3951	1009.71
CONST. FIN.	2	1620	53.00	3	1652	65.00
III. TOTAL	8836	15970	6040.54	8537	15497	5727.30
IV. TOTAL REPAYMENT OF PRINCIPAL RECD.			934.24			880.77
V. ADDL. FUNDS TO BE MOBILISED			5106.30			4646.53

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NET SANCTIONS	FEBRUARY '83			JANUARY '83			CURRENT YEAR JULY - FEBRUARY '83					
							ACTUAL			FORECAST		
	NO.OF APPL.	NO.OF UNITS	RS.IN LACS	NO.OF APPL	NO.OF UNITS	RS.IN LACS	NO.OF APPL.	NO.OF UNITS	RS.IN LACS	NO.OF APPL	NO.OF UNITS	RS.IN LACS
INDIVIDUALS	1133	1133	483.08	1027	1027	434.89	[illegible]	8514	3557.55	7600	7600	3000.00
GROUP PORJ.	1	28	19.67	1	7	3.21	[illegible]	95	46.40	14		80.00
L.O.C.	1	72	30.00	–	–	–	7	235	98.50			160.00
CORP. BODIES	7	186	128.99	1	4	1.00	11	1794	777.39	40		893.33
CONST. FIN.	–	–	–	–	–	–	2	1152	40.00			133.33
TOTAL	1142	1419	661.74	1029	1038	439.10	[illegible]	11790	4519.84			4266.66

DISBURSEMENTS

DISBURSEMENTS	FEB. NO.OF APPL.	FEB. NO.OF UNITS	FEB. RS.IN LACS	JAN. NO.OF APPL	JAN. NO.OF UNITS	JAN. RS.IN LACS	ACTUAL NO.OF APPL.	ACTUAL NO.OF UNITS	ACTUAL RS.IN LACS	FORECAST NO.OF APPL	FORECAST NO.OF UNITS	FORECAST RS.IN LACS
INDIVIDUALS	840	840	321.22	743	743	307.71	[illegible]	6191	2298.13			2200.00
GROUP PROJ.	–	–	5.66	1	12	6.54	6	128	57.30			68.66
L.O.C.	–	8	4.32	–	5	3.62	[illegible]	95	57.60			160.00
CORP. BODIES	2	66	5.30	1	63	50.45	17	817	412.78			483.34
CONST. FIN.	1	32	12.00	–	–	–	2	144	37.00			133.34
TOTAL	843	946	348.50	745	823	368.32	[illegible]	7375	2862.81			3045.34

IV. LOANS SANCTIONED REGIONWISE

REGION	JULY 1982 TO FEBRUARY 1983			JULY 1981 TO FEBRUARY '82			CUMULATIVE		
	NO.OF ADDL. PLACES	RS. IN LACS	(%)	NO.OF ADDL. PLACES	RS. IN LACS	(%)	NO.OF ADDL. PLACES	RS. IN LACS	(%)
NORTH	11	610.35	13	10	439.07	16	48	1940.61	13
SOUTH	4	1442.20	32	5	867.63	33	70	4256.67	28
EAST	2	147.05	3	3	75.31	3	39	705.40	5
WEST	4	2320.24	52	12	1282.46	46	94	8116.40	54
TOTAL	21	4519.84	100	30	2604.47	100	251	15019.08	100

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V. AGEING OF LOAN APPLICATIONS UNDER PROCESS

	INDIVI-DUALS	GROUP PROJ	LINE OF CREDIT	CORPORATE BODIES
UPTO 1 MONTH	1503	-	2	2
1 MONTH - 2 MONTHS	710	-	2	6
2 MONTHS - 3 MONTHS	397	2	1	2
3 MONTHS - 4 MONTHS	127	1	-	-
MORE THAN 4 MONTHS	169	1	2	8
TOTAL NO. OF APPLICATIONS	2906	4	7	18
VALUE (RS IN LACS)	1220.52	126.17	195.00	331.15
TOTAL VALUE (RS IN LACS)				1872.84

VI: DISTRIBUTION OF BORROWERS - BY INCOME GROUP(ON NET SANCTION)

A. INDIVIDUAL OWNERSHIP

GROSS ADJUSTED* MONTHLY INCOME (RS)	NUMBER OF UNITS		AMOUNT OF LOAN (RS. IN LACS)		AVERAGE LOAN	
	CURRENT YEAR	CUMULATIVE	CURRENT YEAR	CUMULATIVE	CURRENT YEAR	CUMUL...
UPTO 1000	835 (10)	4518 (15)	154.62 (4)	730.87 (6)	19,000	16,0
1001 - 2000	3539 (41)	13079 (43)	1032.08 (29)	3644.71 (31)	29,000	26,
2001 - 3000	2420 (28)	7537 (24)	1113.47 (31)	3314.93 (29)	46,000	44,0
3001 & ABOVE	1816 (21)	5704 (18)	1305.28 (36)	3955.04 (34)	72,000	62,0
TOTAL	8610 (100)	30838 (100)	3605.45 (100)	11646.55 (100)	42,000	38,0

NOTE : FIGURES IN PARANTHESIS INDICATE %.

SANCTIONS UNDER LINES OF CREDIT, WHERE NOT FULLY DISBURSED, HAVE BEEN IGNORES.

: GROSS ADJUSTED MONTHLY INCOME COMPRISES THE JOINT INCOMEE OF BORROWER & COBORROWER.

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VI. DISTRIBUTION OF BORROWERS - BY INCOME GROUP (ON NET SANCTION)

B. CORPORATE BODIES

GROSS ADJUSTED MONTHLY INCOME (Rs)	NUMBER OF UNITS		AMOUNT OF LOANS*		AVERAGE LOAN	
	CURRENT YEAR	CUMULATIVE	CURRENT YEAR	CUMULATIVE	CURRENT YEAR	CUMULATIVE
UPTO 1000	1138 (64)	9735 (81)	329.87 (43)	1192.37 (46)	29,000	12,000
1001 - 2000	383 (21)	1713 (14)	187.10 (24)	836.60 (32)	49,000	49,000
2001 - 3000	203 (11)	490 (4)	171.92 (22)	396.41 (15)	85,000	81,000
3001 & ABOVE	70 (4)	166 (1)	88.50 (11)	184.13 (7)	126,000	111,000
TOTAL	1794 (100)	12104 (100)	777.39 (100)	2609.51 (100)	43,000	22,000

NOTE : FIGURES IN PARANTHESIS INDICATE %.

: RUPEES IN LAKHS

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VII. DISTRIBUTION OF BORROWERS - BY AREA OF DWELLING UNIT ([illegible])

A. INDIVIDUAL OWNERSHIP

AREA SQ. MTRS	NUMBER OF UNITS				AMOUNT [illegible] (RS. IN LACS)				AVERAGE LOAN	
	CURRENT YEAR		CUMULATIVE		CURRENT YEAR		CUMULATIVE		CURRENT YEAR	CUMULATIVE
UPTO 50	2929	(34)	11243	(37)	855.90	[illegible]	2792.61	(24)	29000	25000
51 - 80	2942	(34)	9731	(32)	1136.07	[illegible]	3516.93	(30)	39000	36000
81 - 95	742	(9)	2578	(8)	369.74	[illegible]	1202.35	(10)	50000	47000
96 & ABOVE	1598	(18)	5340	(17)	1031.27	[illegible]	3211.48	(28)	65000	60000
N.S.	399	(5)	1946	(6)	212.39	[illegible]	923.18	(8)	53000	47000
TOTAL	8610	(100)	30838	(100)	3605.45	(100)	11646.55	(100)	42000	38000

NOTE :

FIGURES IN PARANTHESIS INDICATE %.

SANCTIONS UNDER LINE OF CREDIT, WHERE NOT FULLY DISBURSED, HAVE BEEN IGNORED.

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VII. DISTRIBUTION OF BORROWERS - BY AREA OF DWELLING UNIT (ON NET SANCTION)

B. CORPORATE BODIES

AREA SQ. MTRS	NUMBER OF UNITS		AMOUNT OF LOAN (RS IN LACS)		AVERAGE LOAN	
	CURRENT YEAR	CUMULATIVE	CURRENT YEAR	CUMULATIVE	CURRENT YEAR	CUMULATIVE
UPTO 50	958 (54)	7523 (62)	213.14 (27)	832.54 (32)	22,000	11,000
51 - 80	539 (30)	3820 (32)	299.48 (39)	1117.28 (43)	56,000	29,000
81 - 95	184 (10)	368 (3)	138.06 (18)	279.90 (11)	75,000	76,000
96 & ABOVE	113 (6)	393 (3)	126.71 (16)	379.79 (14)	112,000	97,000
TOTAL	1794 (100)	12104 (100)	777.39 (100)	2609.51 (100)	43,000	22,000

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VIII. GROUP PROJECTS, CORPORATE BODIES AND LINE OF CREDIT UNDER PROCESS

A. GROUP PROJECTS

1. CABINET SECRETARIAT COOP SOC., NEW DELHI	-	30.00
2. CHALTAN KHAND UDYOG, SURAT	-	31.30
3. PEICO EMPLOYEES COOP HSG SOC LTD, CALCUTTA	-	55.30
4. COSMOPOLITAN COOP HSG SOC, VASHI	-	9.57
		126.17

B. CORPORATE BODIES

1. SUNIL SYNCHEM LTD, NEW DELHI	-	17.00
2. SHIVA PAPER MILLS, RAMPUR (UP)	-	12.00
3. EMBEE TEXTILES (P) LTD, COIMBATORE	-	5.00
4. INDIAN RAYON CORPORATION, CALCUTTA	-	60.00
5. RAJASTHAN GLYAXOL LTD, BOMBAY	-	1.00
6. SHREE MAHAVIR ISPAT LTD, TARAPUR	-	5.00
7. HIND LAMPS LTD, NEW DELHI	-	10.00
8. TAMIL NADU IND. DEV. CORPN, MADRAS	-	16.00
9. FORBES ESTATE LTD, BOMBAY	-	17.55
10. MAHAVIR SPG & WVG MILLS LTD, NEW DELHI	-	21.50
11. GULBARGA UNIVERSITY, GULBARGA	-	39.00
12. ELECTRO STEEL CASTINGS LTD, TAMIL NADU	-	30.00
13. J M FINANCIAL & INVESTMENT SERVICES (P) LTD, BOMBAY	-	4.00
14. PATNI COMPUTERS PVT LTD, BOMBAY	-	25.00
15. OKASA CO. PVT LTD, BOMBAY	-	2.50
16. NIRFABRICS LTD, PALGHAR	-	00.60
17. TATA CHEMICALS LTD, MITHAPUR	-	50.00
18. FARIYAS HOTEL (P) LTD, LONAVALA	-	15.00
		331.15

C. LINE OF CREDIT

1. KERALA STATE SMALL IND DEV & EMP CORPN LTD	-	15.00
2. MAFATLAL SPG & WVG MILLS LTD	-	50.00
3. MAFATLAL INDUSTRIES LTD	-	50.00
4. REPUBLIC FORGE LTD	-	15.00
5. ZUARI AGRO INDUSTRIES LTD	-	30.00
6. VISVESVARAYA IRON & STEEL	-	20.00
7. TUBE INVESTMENTS STAFF WELFARE TRUST, MADRAS	-	15.00
		195.00

IX. APPLICATION FORMS SOLD

	THIS MONTH	YEAR TO DATE
INDIVIDUALS	5972	37583
GROUP PROJECTS	-	13
CORPORATE BODIES	9	44

X.. FEES AND CHARGES COLLECTED

	THIS MONTH	YEAR TO DATE
APPLICATION FORM CHARGES	61,785	3,84,707
PROCESSING FEES	5,61,750	35,97,363
LEGAL & TECHNICAL FEES	5,11,210	42,58,981
TOTAL	11,34,745	82,41,051

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DEPOSIT OPERATIONS

OUTSTANDING DEPOSITS
(Rupees in Thousands)

HDFC-CD SCHEME :	AS AT FEBRUARY 28,1983	AS AT JANUARY 31,1983	AS AT DECEMBER 31,1982
Number of CDs	2,234	2,073	2,021
30 - 180 days	7,62,45	7,60,90	8,37,50
6 months	7,64,52	6,35,51	6,74,67
12	9,05,29	8,78,56	9,28,17
24	60,09	59,30	66,80
36	1,79,73	1,79,03	1,51,07
60	20,81,21	20,50,67	20,49,40
TOTAL: Rs.	47,53,29	45,63,97	47,07,61
INCREASE (DECREASE) OVER PREVIOUS MONTH Rs.	1,89,32	(1,43,64)	(2,49,65)

AS AT
FEBRUARY 28,1982

Rs. 32,66,05

HDFC-LLD SCHEME	AS AT FEBRUARY 28,1983	AS AT JANUARY 31,1983	AS AT DECEMBER 31,1982
Number of Accounts	2,9[illegible]1	2,650	2,494
DEPOSITS Rs.	35,45	32,02	29,56
INCREASE OVER PREVIOUS MONTH	3,43	2,46	3,18

AS AT
FEBRUARY 28,1982

Rs. 7,12

RK/pv
21383

Annex C
February 1983

MEDIAN INCOMES DATA UPDATE

A review of reports available from Government and non-Government organizations in Bombay and inquiries made of USAID, Delhi, failed to locate any more recent household incomes and expenditures studies than the NCAER's (National Council for Applied Economic Research) 1975-1976 survey of House-hold Income and its Disposition (which survey was not published until 1980 indicating some of the problems of data-processing in India) and the IBRD "Staff Appraisal Report. Second Bombay Water and Sewerage Project" (1978)* which was used to establish the present median urban income of Rs1,200 (Private Sector Housing Finance Program, India. Project Paper, Project No. 386-HG-000, July 1981), in 1981.

Consequently, it was decided to follow the same method of updating incomes as that used in the Project Paper. The Centre for Monitoring the Indian Economy (CMIE: Basic Statistics, August 1982) forecasts a 7.3% increase in the consumer price index from December,d 1981 - December, 1982 (Index Numbers of Consumer Prices for Industrial Workers, 1939 - 1982). Using simple extrapolation alone and not counting for any real increase in income levels, such an increase brings the current median income up from Rs1,200 to Rs1,288 in December, 1982. A further forecast increase of 9% (Dec. 1983) would bring the median urban income to Rs1,403. Using the same forecasts for Bombay would give an estimated median income of Rs1,631 (Dec. 1982) and Rs. 1,778 (Dec. 1983).

It must be stressed that no real increase in income has been taken into consideration, and that this is a purely nominal increase adjusting for inflation; however, CMIE estimates a trend rate of growth of 3.3% in Real National Income 1971-1983.

Household Income Distribution of Total Population of Greater Bombay

Income Group Rs. Month 1977	Income Group Rs. Month 1981 x49%	Income Group Rs. Month 1982 x7.3%	Income Group Rs. Month 1983 x9%	Total Population %	
Under 200	Under 298	Under 320	Under 349	2.75	
201-450	298-670	320-719	349-784	13.25	16.00
451-700	671-1043	720-1119	785-1220	15.96	31.96
701-1000	1044-1490	1120-1599	1221-1743	18.15	50.11
1001-1500	1491-2235	1600-2398	1744-2614	15.85	65.96
1501-2000	2236-2980	2399-3198	2615-3486	12.10	78.06
2001-3000	2981-4470	3199-4796	3487-5228	11.62	89.88
3001-5000	4471-7450	4797-7994	5229-8713	6.20	95.86
Above 5000	Above 7450	4797-7994	Above 8713	1.75	97.63
Not Recorded				2.38	100
				100	

Updated from: Private Sector Housing Finance Program, India. Project Paper, Project No. 386-HG-000, July 1981, p.35

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DRAFT ONLY. Annex D

A Socio-Economic Analysis of HDFC Low-Income Loan Applicants in BOMBAY and BANGALORE.

PREPARED FOR

Housing Development Finance Corporation

(HDFC)

USAID PRE/HUD

USAID PRE/HUD RHUDO/Asia

[illegible]

PADCO INC.

1834, JEFFERSON PLACE N.W.

WASHINGTON, D.C. 20036.

February, 1983.

Introduction.

This study was carried out to provide socio-economic data on below-median income (Rs.Indian 1,200) HDFC loan applicants with particular emphasis on extent and type of household savings and sources of funds for housing (other than HDFC loans). The groundwork for the study was carried out in Bombay and Bangalore from December 6 - 17th, 1982. The data obtained has been processed by hand and the results are attached in the form of 12 Tables and 4 Figures.

Methodology.

As it was not possible to draw a statistically random sample of individual low-income HDFC borrowers in the time available, 100 individual cases were selected from the Agenda Item lists in Bangalore and 80 individual cases were selected from the Agenda Item lists in Bombay. Selection criteria were that the borrowers should be at or below the median income of Rs1,200; in addition, the Bangalore cases were split 50-50 between recent cases (undisbursed loans) and older cases (fully disbursed loans), while in Bombay 50 recent cases were selected and 30 older cases, and the stage of disbursal was mixed throughout. It proved rather difficult to locate older cases below-median income in Bombay.

Owing to the fact that this is not a statistically random sample, and that the Bombay files were so mixed, data has not, on the whole, been analysed according to the time-lapse factor except in the case of Table 4.

Data was drawn principally from the following forms in the HDFC individual case files:

- Individual Residential Loan Application Form;
- HDFC Loan Appraisal Form (Individual);
- HDFC Loan Application Follow-Up Letter;
- HDFC Request for Verification of Employment.

1. Bombay and Bangalore low-income applicants display some strikingly different characteristics: Bangalore applicants are more likely to be older (37 years) on the average; married (95%), and with larger families (4.7 persons). By contrast, 50% of the Bombay sample are single persons, overall they have an average age of 29 years and an average family size of 2.6 persons (Table 1). In both Bombay and Bangalore, however, over 90% of applicants are male and sole borrowers.

2. As to be expected, both Bombay and Bangalore low-income applicants display a very different average loan profile (with the sole exception of average age, in Bangalore) to the General Average Loan Profile presented in the HDFC Report of Operations as at October 31st (Table 2).

3. The difference in occupational structure of Bombay and Bangalore applicants clearly reflects the economic structures of the two cities - Bangalore is noted for heavy industry and is the location of such major industrial concerns as Hindu Aeronautics, Indian Telephone Industries etc. and 59% of Bangalore applicants have directly industrial jobs, while many of those in the clerical category work for these companies too. Bombay applicants' occupations reflect the commercial and administrative structures of that city, with a significant number of young professionals just beginning their careers (Fig. 1). The average length of present employment is 5.5 years in Bombay compared to 12 years in Bangalore

4. Average monthly family incomes in Bombay and Bangalore are Rs.1001 and Rs. 959, repectively. There is heavy clustering in the Rs. 901 - 1200 income groups (80% in Bombay and 81% in Bangalore). However, more applicants (26%) earn between Rs 1101 - 1200 per month in Bombay than in Bangalore (2%) (Table 3).

5. Table 4 indicates that recent HDFC applicants in Bangalore have slightly lower average incomes than was the case 6 months to 1 year ago, while the opposite is the case in Bombay. However, not too much significance should be attached to this, for reasons mentioned in the Introduction.

6. Table 5 shows the higher cost of real estate in Bombay - almost double that of Bangalore. Many Bombay applicants intend to purchase, or are purchasing small flats or apartments constructed by private or public developers (e.g. CIDCO), whereas in Bangalore, families are constructing fairly lange, individual bungalow-type homes.

7. Tables 6 and 7 show a Loan/Cost ratio of 39% in Bombay and 36% in Bangalore, compared to 43% overall (as of Oct. 1982), indicating that lower-income applicants have to provide more of their housing finance from within their own resources. However, both Tables show an excess of total availabl finance over unit cost. Advance payments made, HDFC loans and other finance to be obtained are each roughly one third of total unit cost.

8. While it is generally indicated on HDFC files whether personal savings only or savings plus other sources of finance have been utilized in payments already made, there is not often a breakdown of the amount contributed from each source. Consequently, it is not possible to obtain an accurate estimate of the total amount of savings already spent. The other sources of finance utilized are quite diverse and include chit funds*, Provident Funds, loans and gifts from relatives and friends, sale of gold and jewellery, sale of property (land, houses, apartments), encashment of Fixed, Recurring and Cumulative Time deposits in banks, and agricultural income (only 3 persons).

In both Bombay and Bangalore, average payments already made out of personal savings only are, on the whole, approximately half that of payments made from

*Chit funds are a variation of the common rotating credit association: In this case, bids are made for the "pot" and the excess over the loan is paid back and several sources. However, 29% of the sample in Bombay had as yet made no payments - most of these had not yet finally selected their dwelling units. In Bangalore, only 2% had made no payments and this was because they intended to extend their own houses. 54% of Bangalore applicants had used savings alone for payments, compared with only 30% in Bombay. (Tables 8 and 9).

9. HDFC files were, understandably, more explicit about the sources of "other finance" required to cover the gap between downpayments plus the HDFC loan, and the total cost of the unit. Tables 10 and 11 show the average amountyet to be contributed, with percent share of the total amount, from each of 4 categories. Table 12 shows the actual number and percentage of the sample in each city who had such other sources of funds at their disposal, and Figures 2, 3 and 4 give a more detailed breakdown of the composition of each category.

Totals in Tables 10 and 11 show that Bombay applicants propose to obtain 36% of their remaining finance through further borrowings, as compared to only 20% for Bangalore. This is probably due largely to the younger age and unmarried status of a large proportion of the Bombay sample. These young people are relying heavily on parental help to get them started. The same demographic characteristics also doubtless account for the astonishing difference in the part played by Provident Funds as a source of finance (1% in Bombay and 22% in Bangalore). In fact, some of the Bombay sample had already used their Provident funds in making downpayments; however, the more mature average age and the greater average length of present employment of Bangalore applicants makes it more likely that they have reached the stage where they can withdraw and utilize their Provident Fund savings (including the share contributed by the employer) without having to repay it. Bombay applicants are much less likely to have been at work long enough with the same employer to be able to do this. In addition, several are self-employed.

10. In Table 12, it is noticeable that a greater proportion of Bangalore

applicants throughout have access to the different sources of funds than in Bombay.

11. Fig. 2 demonstrates the relative importance of the sale of gold and jewellery in Bangalore. The "Other" category is composed mainly of refunds of deposits made to landlords and has been swelled, in Bombay, by the payment of Rs100,000 "Pugree" to one applicant (i.e. a landlord's incentive payment to induce a tenant to move out - in Bombay tenants cannot be evicted after 12 years occupancy).

12. Fig. 3 shows the importance of families in providing additional finance at low- or no- interest rates, while loans from chit funds often carry high rates of interest. While chit funds are usually treated as a form of contractual savings in India, they are here treated as borrowings, as applicants are taking loans which they have to repay with interest. (It must also be noted that HDFC encourages applicants to pay off other formal loan obligations before taking an HDFC loan).

13. Fig. 4 demonstrates the popularity of the regular Bank Savings Accounts. Easy withdrawals, conveniently situated branches and interest paid indicate that HDFC will have to very carefully identify and persuade potential savers to make deposits with HDFC if it wishes to change present savings patterns in its own favour. Any campaign by HDFC to mobilize small savings should be very carefully planned against a background of thorough field research, which should also be carried out in other centres where HDFC has important operations, or has plans for expansion.

14. While it is not possible (owing to the problem with HDFC files noted in (8) above) to accurately calculate savings:incomes ratios or average propensity to save, it is evident that these are high in both Bombay and Bangalore. The propensity to save through Provident Fund is high also, though

this is not reflected in the present Bombay data. In addition 52% of the Bombay sample and 56% of the Bangalore sample declared that they had Life Insurance Policies.

15. Finally, it must be noted that an important characteristic of the Bombay sample is that a large proportion of it is probably upwardly mobile, owing to its present youth and relatively high level of education - this group will not stay below the median income for long, and they will not necessarily wish to stay in the homes they are presently purchasing.

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TABLE 1.

Basic Characteristics of Applicants	Bombay	Bangalore
Average Age (years)	29	37
Male (%)	91	96
Female (%)	9	4
Married (%)	50	95
Single (%)	50	5
Average Family Size	2.6	4.7
No Coborrower (%)	91	92

Basic Characteristics of HDFC Loan Applicants in Bombay and Bangalore.

TABLE 2.

	All HDFC Applicants - October, 1982	Bombay Low-Income Applicants Dec. 1982	Bangalore Low-income Applicants Dec. 1982
Cost of Unit	97000	49000	52000
Loan per Unit	42000	19000	19000
Area of Unit	74 sq. m.	31 sq. m.	59 sq. m.
Per sq. metre cost	1311	1581	881
Age of Applicant	38 years	29 years	37 years
Family Income	Rs. 2,300	Rs.1001	Rs. 959
Mo. Pymt, 15 yrs, 13½%	Rs. 547	Rs. 247	Rs 247

Comparison of Bombay and Bangalore Low Income Applicants with General Average Loan Profile Presented in HDFC Management Report of Operations as at Oct. 31st. 1982.

Income Group (Rupees)	Bombay			Bangalore		
	Number	%	Average Income	Number	%	Average Income
1101 - 1200	21	26	1176	2	2	1210
901 - 1100	43	54	1005	79	79	989
701 - 900	11	14	842	17	17	825
501 - 700	5	6	583	2	2	627
TOTAL	80	100	1001	100	100	959

TABLE 3.

Average Income per month (in Rupees) by Number of Persons in Sample by Income Group: Bombay and Bangalore Totals.

Note: One person in the Bangalore 1101 - 1200 income group was found to have an extra source of income which brought his monthly total to Rs. 1270. Likewise, one person in Bombay was stated to have a monthly income of only Rs.417, but was included in the bottom income group. This accounts for the skewing inthe top and bottom income groups in these two cities.

TABLE 4.

Income Group	BOMBAY		BANGALORE	
	Recent	Older	Recent	Older
1101 - 1200	1176	1170	1149	1270
901 - 1100	1012	990	979	999
701 - 900	846	829	821	831
501 - 700	589	573	--	627
TOTAL	1020	990	951	996

Average Incomes of HDFC Low-Income Beneficiaries in Bombay and Bangalore - Comparison of Recent and Older Cases.

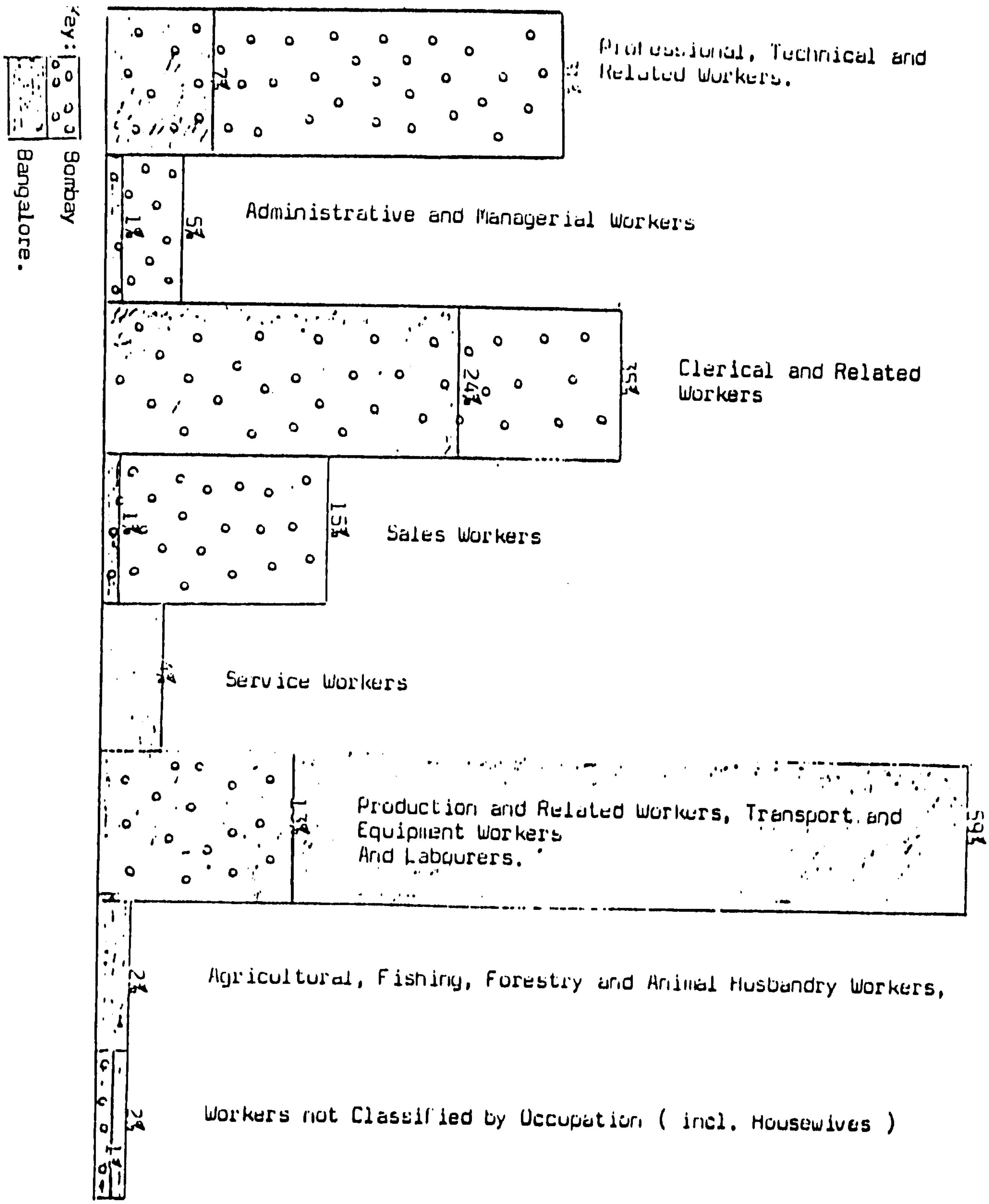

Figure 1:- Occupation of HDFC Low-Income Loan Applicants in Bombay and Bangalore.

TABLE 5

Income Group	Average Property Value (in Rupees)		Average Area (in sq. metres)	
	Bombay	Bangalore	Bombay	Bangalore
1101 - 1200	65,095	61000	35	50
901 - 1100	44,130	52,826	28	58
701 - 900	47,450	49,213	34	61
501 - 700	33,900	57,750	34	96
TOTAL	49,450	52,473	31	59

<u>Average Disclosed Value of Properties and Average Area in Square Metres - Bombay and Bangalore Totals, by Income Group.</u>

Bombay values are 92% of Bangalore values, while Bombay areas are only 52% of Bangalore areas.

Bombay average value per sq. metre is Rs.1595.

Bangalore average value per sq. metre is Rs.889.

TABLE 6.

Income Group	Average monthly Income (Rs.)	Average HDFC Loan	Average amount of Payments Already made	Average amount of Other Funds Available	Total Finance Available	Average cost Unit.
101 - 1200	1176	21952	26515	26883	77350	65095
01 - 1100	1005	19070	14764	17801	51655	44130
01 - 900	842	17182	21072	3709	41953	47450
01 - 700	583	11600	12000	11500	35100	33900
otal	1001	19100	18669	18379	56148	49450

mbay Total: Summary of Finance for Housing - Total Finance Available for Housing by Income Group and by Average Cost Per Unit.

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TABLE 7

Income Group	Average Monthly Income (Rs.)	Average HDFC Loan (Rs)	Average Amount of Payments Already Made	Average Amount of Other Funds Available (Rs.)	Total Finance Available (Rs)	Average Cos[t] of Unit (Rs[.])
1101 - 1200	1210	21500	12000	29000	62500	61000
901 - 1100	999	19380	15952	18432	53764	52926
701 - 900	825	15941	19055	15758	51752	49213
501 - 700	527	12500	27500	20500	60500	57750
TOTAL	959	18370	15646	18230	53745	52473

Bangalore Total: Summary of Finance for Housing - Total Finance Available for Housing by Income Group and by Average Cost per Unit (in Rupees).

TABLE 6.

Income Group	Source of Payments Made								Total		
	Savings only			Savings and Other Source			No Payments				
	Amount (Rs)	No. Persons	%	Amount (Rs.)	No. persons	%	No. Persons	%	Amount(Rs)	No. Persons	%
1101 - 1200	21431	5	24	29057	10	48	6	28	26515	21	100
901 - 1100	10434	18	42	21902	11	26	14	32	14784	43	100
701 - 900	13130	5	45	31000	4	36	2	18	21072	11	100
501 - 700	8500	2	40	15500	2	40	1	20	12000	5	100
TOTAL	12587	30	37	25426	27	34	23	29	18869	80	100

Average Amount of Payments Already Made - by Income group and Source of Payment: Bombay Total.

TABLE 9.

Income Group	Source of Payments Made								TOTAL		
	Savings Only			Savings and Other Source			No Payments				
	Amount (Rs)	No. Persons	%	Amount (Rs)	No. Persons	%	No. Persons	%	Amount (Rs)	No. Persons	%
1101 - 1200	6000	1	50	18000	1	50	--	--	12000	2	100
901 - 1100	12081	43	54	20648	34	43	2	3	15952	79	100
701 - 900	8955	9	53	30413	8	47	--	--	19055	17	100
501 - 700	12000	1	50	43000	1	50	--	--	27500	2	100
TOTAL	11447	54	54	23026	44	44	2	2	16648	100	100

Average Amount of Payments Already Made, by Income Group and Source of Payment: Bangalore Total.

Income Group	Disposal of Assets/Investments		Provident Fund		Savings		Borrowings		Total	
1101 - 1200	18095	63%	--	--	5635	20%	4952	17%	28653	100
901 _ 1100	2995	17%	279	2%	6278	35%	8249	46%	17801	100
701 - 900	454	12%	--	--	635	17%	2616	71%	3705	100
501 - 700	700	6%	200	2%	2480	22%	8120	71%	[illegible]	[illegible]
TOTAL	6456	35%	162	1%	5149	28%	6601	36%	[illegible]	[illegible]

TABLE 10: Other Sources of Funds for Housing by Income Group (Average Amount in Rupees and % share of Total c[illegible] to be Paid [illegible]) - Bombay Total.

Note: Average length of present employment is 5.5 years.

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Income Group	Disposal of Assets/ Investments		Provident Fund		Savings		Borrowings		Total	
1101 - 1200	9500	33%	8500	29%	3000	10%	8000	28%	29000	100
901 - 1100	58[illegible]	32%	4034	23%	4845	26%	3400	18%	18432	100
701 - 900	2913	19%	2589	15%	6365	40%	3691	25%	15755	100
501 - 700	9000	44%	2000	10%	--	--	9500	46%	20500	100
Total	5485	30%	4074	22%	4972	27%	3597	20%	18[illegible]	100

TABLE 11: Other Sources of Funds for Housing, by Income Group (Average Amount in Rupees and %/of Total share Sum to be Paid) - Bangalore Total.

Note: Average Length of present employment is 12 years.

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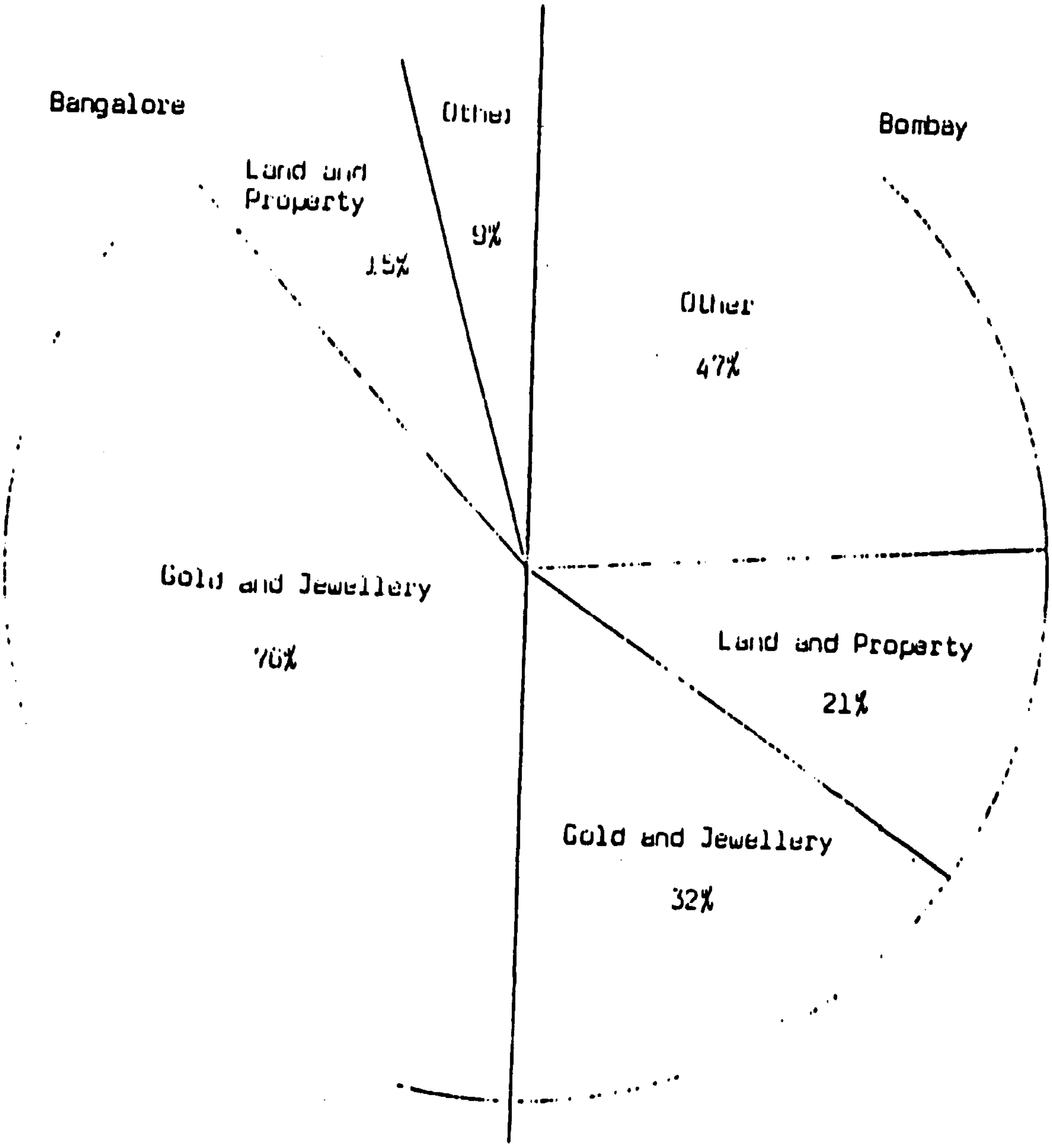
TABLE 12.

Source of Funds	BOMBAY		BANGALORE		TOTAL	
	Number	%	Number	%	Number	%
Disposal of Investments/Assets	19	24	54	54	73	40
Provident Fund	2	2	55	55	57	31
Savings	48	60	80	80	128	71
Borrowings	39	49	46	46	85	47

Number and Percentage of Sample Having Other Sources of Funds at their Disposal: Bombay and Bangalore Totals.

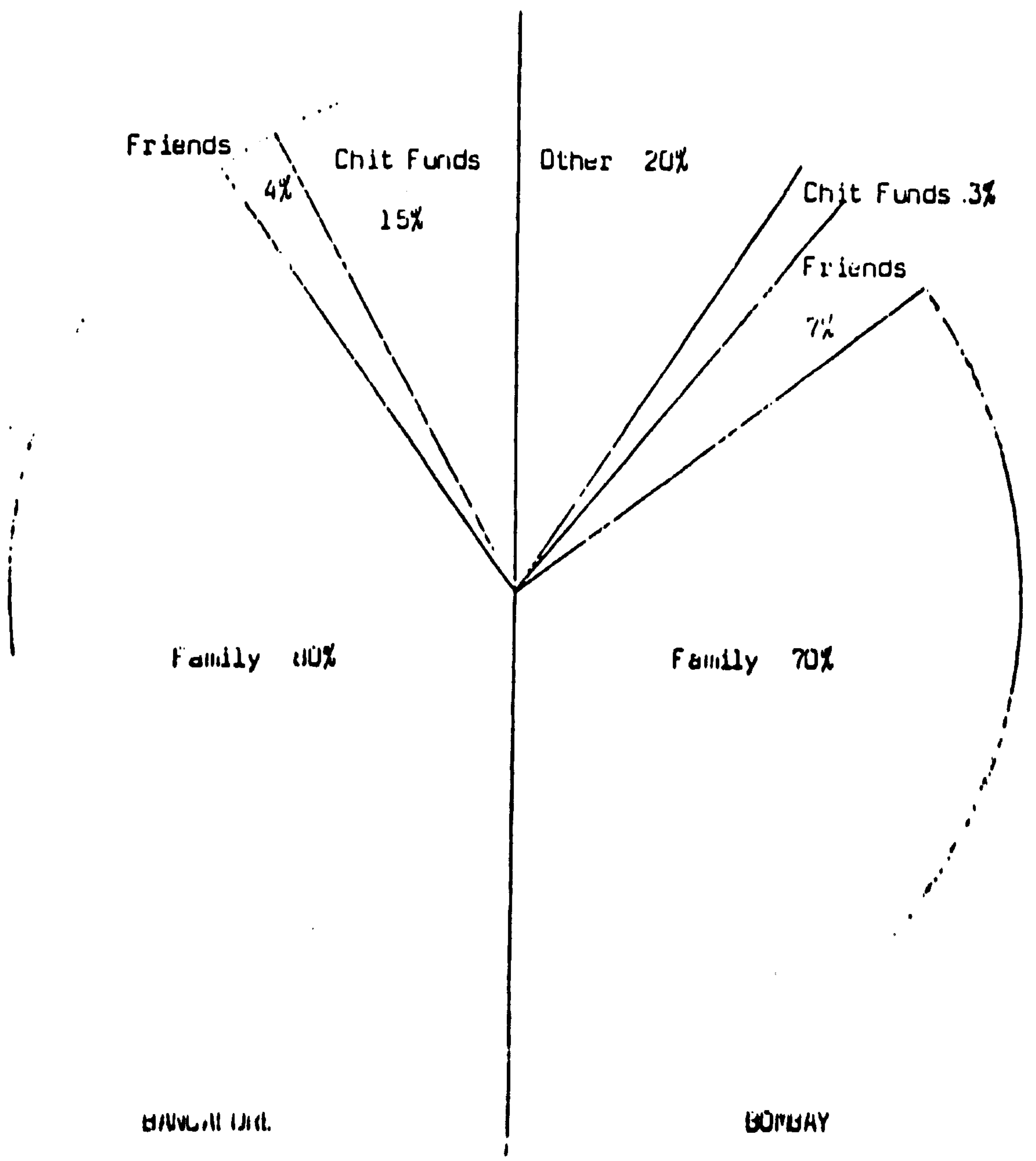
FIGURE 2.



Other Sources of Funds for Housing in Bombay and Bangalore: Percent Composition of Assets/Investments.

Note: The category "Other" is mainly composed of refunds of deposits made to Landlords.

FIGURE 3.



Other Sources of Funds for Housing in Bombay and Bangalore - Percent Composition of "Borrowings"

Best Available Document

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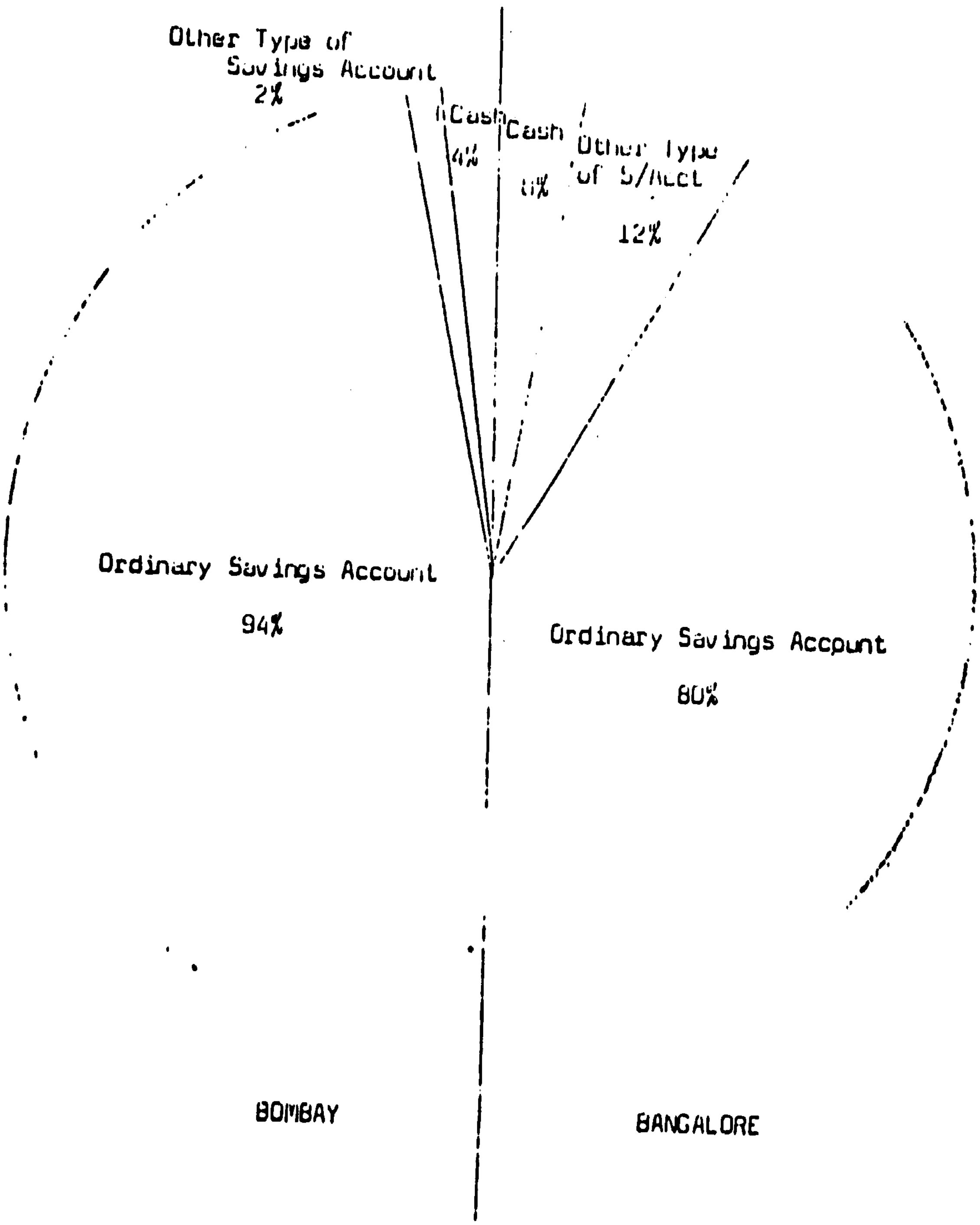
FIGURE 4.



Other Sources of Funds for Housing in Bombay and Bangalore - Percent Composition of "Savings"

Ramon House,
169, Backbay
Reclamation,
Bombay 400 020.

38th Board Meeting
April 12, 1983
Agenda Item No:7B(iv)

A POLICY STATEMENT ON LOW INCOME HOUSING FINANCE

1. HDFC will, as part of its general lending policy, ensure that access to lower income groups as individuals and as employees of the corporate sector is actively encouraged.

2. Wherever possible, HDFC will attempt to link longer term loans (over 15 years) with the mobilisation of long term resources, especially for lower income people. This will help to increase the average loan/cost ratio for low income beneficiaries.

3. HDFC will strengthen its technical capabilities so as to be in a position to influence housing project design, extent of implicit subsidies, the use of non-traditional materials, optimum use of land with required densities in order to reduce the cost per unit. This type of capability will enable HDFC to study housing projects more closely and offer advisory services to corporate and other institutional clients who wish to broaden the beneficiary groups which they wish to serve.

..2/-

4. HDFC will play more active part in urban shelter projects being undertaken by city development authorities in conjunction with international institutions primarily for low income people. A strong technical/financial input by HDFC would be a crucial factor not only in the planning and financing of projects but in actual construction control and monitoring.

5. HDFC's participation in large urban projects may be through direct financing of a lower income target group for the construction or improvement of permanent homes and/or by offering a service facility in originating mortgages with funds provided externally.

6. HDFC will also put in place a systematic training programme for its existing and new staff. The training programme will, in addition to job specific training, acquaint staff with the overall issues in housing policy and finance.

Emphasis will also be given to train staff to give special attention to individual applicants from low income groups. This training will make HDFC's staff more sensitive to the special requirements and problems that low income applicants face in procuring housing loans.

...3/-

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7. HDFC will make a systematic effort to reach smaller towns in order to increase accessibility of lower income groups of people to HDFC'S lending programme.

8. HDFC will work towards the setting up of an Institute for Housing Research. The Institute would study new technical methods by which to lower housing costs and would also examine innovative methods of financing low income housing projects.

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I N D I A

ECONOMIC ANALYSIS

Given the size of the Indian economy, the debt service on this $30 million HG loan will not create immediate difficulties for the GOI. The HDFC drew $20 million for Phase I of this project in February 1983, and anticipates drawing the remaining $10 million for Phase II in early 1984. The project is 100 percent local cost. The State Bank of India, as loan guarantor, will use the dollar loan for their own foreign exchange needs, and release to the HDFC the Indian rupee equivalents of the $20 million and $10 million disbursements.

Based on the March 1983 exchange rate those amounts would be about Rs 198 million and Rs 99 million respectively. In a country with a total money supply of Rs 684 billion at November 1982, this loan is comparatively a very small sum. As of November 1982, bank investment in the public sector stood at Rs 353 billion, with Rs 469 billion extended to the commercial sector. Restated, this HG loan is relatively so small as to have no measurable impact on the GOI's credit-worthiness or India's overall economic situation.

At the end of 1981, India's total outstanding debt was just over $18 billion. Foreign savings (balance of payments deficit on current account) have never financed a major portion of domestic investment. At present, foreign savings constitute about 10 percent of investment, down from a high of 20 percent in the early 60s. External assistance has been low both as a percentage of

GDP and in per capita terms. Net external assistance has never exceeded 3 percent of GDP, and was less than 1 percent at the end of the 1970s.

Steady growth of the Indian economy halted abruptly in 1979-80 (fiscal year April-March) as the country experienced a severe drought. Combined with a doubling of international oil prices and domestic energy shortages, this resulted in a sharp decline in foodgrain output, a drop in GDP, and the opening up of a large trade deficit. Inflation emerged as an economic force after several previous years of price stability.

India has since found it necessary to diversify its credit sources to maintain sufficient investment levels to support an adequate economic growth level. Continued balance of payment difficulties have necessitated the progressive use of foreign exchange reserves and non-concessional borrowings to finance the deficit. In 1981/82, the GOI drew down a record US$2.36 billion in foreign exchanage reserves, and withdrew almost $700 million under the recently negotiated IMF Extended Fund Facility. In 1980/81 and 1981/82, over $1.3 billion in government guaranteed commitments for commercial borrowing on major projects were contracted for.

Having maintained a clean debt service record, India has been able to tap the commercial banking market at comparatively favorable spreads (over relatively high base rates). Additional borrowings in the commercial market will continue to be important for India, as full adjustment of the balance of payments deficits will require several years and necessitate external credit in excess of that which can be arranged on concessional terms.

India's debt service ratio[1] for 1980-81 was 11.2 percent, slightly above World Bank projections which have forseen a figure at or slightly below 10 percent until 1984-85, rising somewhat thereafter, but staying below 16 percent through the decade.

Economic performance for 1981-82 was good overall. Real GDP increased by 5 percent in that period, following growth of 7.5 percent in 1980-81 when the economy rebounded from a setback in the previous year. At the same time, inflation fell sharply from 16 percent in 1980-81 to no more than 2 percent in 1981-82. The current account deficit in the balance of payments widened to 2.3 percent of GDP in 1981-82.

In a country where agriculture accounts for 48 percent of GNP, it was anticipated that a good harvest this year would complete the short term recovery process and reestablish momentum for economic growth. However, recent bad weather in several regions threatens this accomplishment. India attained self-sufficiency[2] in food five years ago and the GOI has built buffer stocks enabling it to moderate price rises and overall inflationary tendencies in the economy. However, crop damage from recent weather patterns will force India to import wheat to replenish reserve stock for the second year in a row. Four million tons imported from the U.S. last year cost India $654 million. While this should not affect India's creditworthiness, it does prolong if not aggravate the trade deficit and divert spending from developmental areas. The inflationary potential inherent in the shortfall in agricultural production is of course, a threat to sustained economic recovery.

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[1]Principal and interest payments on foreign loans as a percentage of export revenues.

[2]Self-sufficiency meaning a non-importer of foodgrains.

FINANCIAL SECTOR

Recent experience shows that the capital needs of the Indian economy continue to exceed the availability of resources, both domestic and foreign. Investment is greater than domestic savings. The latter, constituting nearly 25 percent of GDP, are already quite high, and increases will be difficult to obtain. However, in the last two years, the government has implemented price and tax increases as well as subsidy reduction on a number of commodities to generate higher savings in the public sector. To encourage private sector savings, interest rates on bank deposits and other financial instruments have been raised in the last two years, and the range of financial assets has been broadened (see attached Table No. 23). Due to interest rate adjustments and lower inflation, investors are generally enjoying positive real rates of return.

As a percentage of GDP, gross domestic savings have stayed between 22.2 and 22.9 percent during the last three years. Total government expenditures as a percentage of GDP have increased from 29.4 to 30.8 percent in that period. Domestic savings have grown at an average annual rate of 15 percent from 1980 through 1982, while domestic credit extended to both the public and private sector has outpaced savings growth by several percentage points.

India has an extensive natural resource base in terms of land, water and minerals. In the past seven years, the country has managed to exceed the long

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run trend for annual economic growth of 3.6 percent, despite the difficulties of 1979/80. This gives rise to the hope that sound economic management supported by adequate mobilization of foreign and domestic financial resources, will result in a sustained growth rate of 5 percent or more. Based on this rather positive outlook for long term economic growth, and in view of its relatively light debt burden, this HG loan appears to be comfortably affordable by the GOI.