

CHAPTER III

Role played by Central Public Sector HFCs

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

3.1.1 Housing and Urban Development Corporation Limited

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

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

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

3.1.2 BOB Housing Finance Limited

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

3.1.3 Cent Bank Home Finance Limited

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

3.1.4 IDBI Home Finance Limited

Originally promoted as Tata Home Finance Limited, IDBI Home Finance Limited (IHFL) started functioning with a fresh Certificate of Incorporation (under section 23(I)

of the Companies Act, 1956) from December 2003. IHFL has 16 branches (*Annexure V*). This Report reviewed the performance of IHFL from December 2003 to March 2006.

3.1.5 PNB Housing Finance Limited

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

3.2 Financial Position and Working Results of HFCs

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

3.3 Implementation of Government schemes by HFCs

3.3.1 Golden Jubilee Rural Housing Finance Scheme

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

Audit analysis of implementation of the scheme indicated that:

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

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

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

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

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

3.3.2 Two Million Housing Programme

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

Table 4: Achievements of HUDCO under Two Million Housing Programme

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

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

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

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

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

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

Recommendation No.2

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