CHAPTER VI

Conclusions

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

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

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

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

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

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

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

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

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

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