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

HIGHLIGHTS

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

  (Para 2.2)

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

  (Paras 3.3 and 3.4)

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

  (Paras 4.2 and 4.4)

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

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

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

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

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

(Para 4.5)

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

(Para 4.9)

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

(Para 5.2.1)

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

(Paras 5.2.4 and 5.2.2)

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

(Para 5.3)

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

[Para 5.5.1 (v)]

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

(Para 5.5.3)

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

[Para 5.6.1(ii)]

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

[Para 5.7.1(ii)]