

CHAPTER IV

HDFC - OPERATIONAL HIGHLIGHTS.

4.1 ORIGIN AND GROWTH OF HDFC:-

Housing Development finance corporation is a financial Institution incorporated on October 17, 1977 under the Companies Act, 1956 and its shares are listed on the Bombay Stock Exchange. HDFC lends money to individuals, co-operative societies and companies for a new residential housing any where in India.¹

It is a private sector organisation engaged in retail lending for housing to individuals as distinguished from HUDCO's project lending. HDFC has served as a model for other Housing Finance Companies (HFC) and it has also assisted in the task of establishing the Gujarat Rural Housing Corporation set by HDFC itself, Canfin Homes Limited sponsored by Canara Bank and SBI Home Finance Limited sponsored by the state Bank of India by participating in their equity.²

HDFC is actively co-operating in the promotion of new institutions for housing finance, thereby keeping the gradual growth of a country-wide net work of development agencies to meet the enormous task of country's complex shelter problem.³

In a climate of liberalisation market opportunities tend to expand much more rapidly than the institutions that will serve them. The tradition

1 *Manorama Year Book 1992 - Focus on Housing in India* shelter for millions. S.D. Gosangadi, General Manager Housing Bank, Bombay.

2 *Ibid.*, page 383

3 *Yojana*, July 16-31, 1989. Title: *Housing Development Finance*: Dr.C.Harichandran, p.24.

of financial institutions in the economy since independence have been structured and networked in a manner that served the process of planning. The main issue that needs to be placed today is the role of specialised institutions like HDFC.⁴

Today HDFC is several laps ahead of other housing finance companies with a whopping market share of 65%. LIC housing finance perceived as second in the rate showed a rise of a mere 7% in loan sanctions in 1994-95 against HDFC's 46%; while it is hoping to double its lending by 1996-97; Managing Director Mr. Deepak Satwalekhar says that growth during the first three months of the year (1995) has been 45% higher than the corresponding period previous year.⁵

There are only two HDFC offices in Kerala. The main office is situated in Kochi. The HDFC in Kerala has its origin in 1982. Since the inception of this finance corporation, its growth has been gradual. The second HDFC office in Kerala was established in 1989 in Thiruvananthapuram. HDFC has no office in Kozhikode. Instead they have a reach out programme in Thrissur and Alagapuri.

Certain amount of marketing is being done through advertisements, personal approach and through the sharing of the positive experiences and the degree of satisfaction by the beneficiaries of loan and personal approach to various companies. Its loan facilities are available all over Kerala. No discrimination is made between urban and rural population with

4 *Resource flows for housing in India*, Deepak S. Parekh, Chairman, HDFC. Forum of free enterprise, Primal Mansion Bombay, Published by M.R. Pai, 1995.

5 "Latest - on HDFC" August 1995 - "Asias Best managed Companies" produced by HDFC Communications Ministry Bhavan 122, Church Gate, Bombay.

regard to granting of loans. But the available loans are utilised to a great extent by the urban population.⁶

The year 1997-98, HDFC twentieth year of its existence, saw 12 more branches being added to its stable. Surprisingly in its first 19 years HDFC had managed to build 28 branches with head office in Mumbai. The management plans to add 10 more branches in the current year. It is pertinent to note that while HDFC added 12 branches in 1997-98, its employees increased by only nine during the same period.⁷ At present there are 42 branch offices including the international office in Dubai.⁸

4.2 STRUCTURE:

Investment in the housing sector comes from two sources; formal sector and informal sector. The formal sector according to Rangarajan committee (1987), includes budgetary allocation of central and state Governments, assistance from financial institutions/agencies such as LIC, GIC, UTI, commercial banks, provident fund, specialised house financing institutions and co-operative housing finance societies. The informal section on the other hand covers households public and private sector employees extending housing loans to their employees, private builders providing houses on hire purchase basis etc.⁹

Housing finance institutions have two streams-Housing finance companies and co-operative housing societies. HFCs are of recent origin.

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- 6 *Manorama Year Book, 1992 - shleter for millions* S.D. Gosangadi and also personal interview with the HDFC officials.
- 7 *Express Investment Week, Oct. 19-25, 1998 Corporate Profile - HDFC A Blue chip* : Akash Joshi Vol. 8. Issue No. 43.
- 8 *HDFC 21st Annual Report 1997-98.*
- 9 A corporate story of Hudco 1970-1995, pp. 71-72, R.P. Singhal past, present and future of Housing Finance - an overview of HUDCO's approach.

There are a large number of HFCs but the most prominent among them with sizable equity base and operation are only two, namely the Housing and urban Development corporation and the Housing Development Finance Corporation Limited.¹⁰

Recent years have shown a spurt in house construction activity especially since the National Housing Bank has been instituted and with the easy availability of loan from Canfin Homes, LIC and HDFC.¹¹

For the year 1997-98 HDFC commanded a market share of 63% in the housing finance market. Revenues in the year 1997-98 grew by 14% over the previous year to touch Rs.14.44 billion and the profit after tax (PAT) by 18.6% to touch Rs. 2.93 billion. And this was despite the fact that a majority of HDFCs competitors had a lower cost of capital. Players like LIC Housing GIC Housing have access to concessionary funds from the parent insurance companies and the apex housing finance lending organisation-the National Housing Bank. Similar are the housing finance companies floated by banks like SBI housing finance of the state Bank of India. In HDFC the share of this is lowest at 6.9%.¹²

4.3 MAIN OBJECTIVES OF HDFC:

HDFC was promoted jointly by the Industrial Credit and Investment corporation (ICICI), International Finance Corporation, Washington (IFCW), an affiliate of the World Bank and his Royal Highness the Agakhan. HDFC has pioneered long term housing finance system in the country.¹³

10 Malayala Manorama Year Book 1992, *Focus on Housing*.

11 Indian Express an express supplement P.1 - *Building up a tradition*.

12 Express Investment Week - *HDFC The Blue Chip*; Oct. 19-25, 1998 by Akash Joshi.

13 HDFC - A profile Leaflet, September 5, 1991.

HDFC stresses housing as a response to the environment. Housing by its very nature is a combination of factors. It responds to the location, to the elements, to available and affordable materials and to individual skills which combine these factors in design and construction. HDFC by financing families, attempts to reinforce individual choice by supplementing family budgets and responding to individual aspiration towards their home ownership.¹⁴

The HDFC was established with a view to build up a specialised institution to channel household savings as well as funds from the capital markets to the housing sector.¹⁵

Since HDFC borrows money from International money market and domestic markets at high interest rates, lending to weaker sections has not been attempted.¹⁶

HDFC Bank was established in 1994 with a view to provide the very best the banking industry has to offer in terms of skills, products, technology and services. HDFC has also developed a network of institutions to serve its customer base with specialised financial services. HDFC network is the response to the emerging environment in the country.¹⁷

HDFC enters its third decade in a period of major transition; globalisation on a world scale and a rapidly liberalising market

14 Coverheme : *HDFC Tenth Annual Report 1986-1987*. Hassan Fathy (Egyptian Architect) University of Chicago Press.

15 Yojana, July 16-36, 1989; *Housing Development Finance* Author; Dr. C. Harichandran.

16 Ibid;

17 *Chairman's Review - 18th Annual Report - Dedicated to the memory of former Chairman Mr. H.T. Parekh, 1995.*

economy at home. As HDFC moves ahead, they are dedicated to the search of a better world in which people are housed in decent shelter and can look forward to a life of fulfillment and dignity.¹⁸

Today HDFC dominates the component attributable to specialised housing finance institutions. During this period a number of specialised house financing institutions have been established, some with the assistance of HDFC to widen the institutional base for housing finance. In the years to come they will form the core of the housing finance system regulated and supported by the National Housing Bank.¹⁹

The annual report of 1988-89 emphasises the theme of customer service combined with technological innovation. For HDFC this is important as it deals with retail consumer financial services that meet customer needs at minimum cost and inconvenience and at maximum speed and efficiency.

While private developers are the major suppliers of housing in most major urban centers, housing for the poor remains outside the formal private delivery system. Much has to be done in designing and financing low income housing. Links between formal financial institution and informal local level networks would be critical to future policy in this area. HDFC reaches to this objective through Gujarat Rural Housing finance corporation and shelter assistance fund.²⁰

HDFC tries hard to widen the concept of affordability by taking into account family joint income, lengthening the period of repayment and by

18 *Twentieth Annual Report of HDFC 1996-97* - Deepak S Parekh pp. 15-16.

19 *Thirteenth Annual Report 1989-90*, p.11 H.T. Parekh.

20 *Twelfth Annual Report 1988-89*, p.9 H.T. Parekh.

offering lower interest rates through saving linked schemes. However, HDFCs high cost of borrowing is a limiting factor.

To have a roof over ones head is not only an essential requisite for life, it creates large demand for labour, skilled and unskilled all over the country. Construction is known to be the largest employment generating activity in urban and rural areas.²¹

4.4 IMPORTANT SCHEMES OF HDFC :

HDFC has been implementing several schemes through which household savings have been tapped directly or indirectly through intermediaries such as banks, insurance companies, mutual funds and through bond issues. Moreover HDFC has been able to mobilise external capital from international institutions, Government agencies and non-resident Indians.

During the year 1987-88 HDFC introduced the Telescopic Loan Plan (TLP) and the Short Term Building Loan Facility (STBL). The TLP is essentially targeted at young individuals starting their career. The STBL will help individuals move from an existing residence to newer, better and larger dwelling units. The Step Up Repayment Facility (SURF) which was introduced in 1986-87 has helped several lower income individuals avail of a loan with repayments which are smaller in the initial years and increasing over the term of loan.²²

During the financial year 1989-90 two new products were launched: Home Improvement loans (HIL) and Home Extension Loans

21 *Eleventh Annual Report 1987-88* H.T. Parekh, Chairman, pp. 10-11

22 *HDFC Annual Report 1987-88*, Directors Report p.13

(HEL). Over the years HDFC had received requests from individuals and existing borrowers for financial assistance for home improvement and home extension.²³

During the year 1996-97 HDFC opened its first international branch at Dubai. This branch provides fee-based advisory services for property acquisition in India to Non-resident Indians (NRIs) in Dubai. Loans sourced from NRIs based in the Middle East have since increased. HDFC has also expanded its reach through the appointment of service associates in Kuwait, Oman and Qatar.²⁴

Loans to NRIs are subject to the terms and conditions as stipulated by Reserve Bank of India (RBI) from time to time. Maximum loan for NRIs is Rs. 25, lakhs subject to the loan not exceeding 75% of the cost of the dwelling unit for loans up to and including Rs.15 lacs. The loan is also subject to the loan not exceeding 50% of the cost of the dwelling unit for loans over Rs. 15 lacs and up to 25 lacs. The security offered should be the equitable mortgage of the dwelling unit financed or any other security acceptable to HDFC. The current rate of interest is 15% per annum and the repayment term is maximum 60 months. The method of repayment is EMI from NRE A/c only.²⁵

The Housing finance market has witnessed periodic fluctuations in interest rates both upward and downward. With the result, today everyone perceives movement of interest rates as a two way street. So at the request of the customers HDFC offers, Adjustable Rate Home Loans (ARHL). The

23 *HDFC Annual Report 1989-90*, p.16.

24 *HDFC twenty first Annual Report 1997-98*. Directors Report p.19 - Deepak S. Parekh.

25 *HDFC Brochure NRI Scheme 1999*.

rates on the ARHL will be linked to HDFCs Retail Prime Lending Rate (RPLR). The rate on the loan will be revised every six months from the date of the first disbursement, if there is a change in RPLR. Thus the rate at which the loan will be repaid may change. However the point to be noted that the Equated monthly Instalment on the Home Loan disbursed to the customer will not change. Also, there is no prepayment charges in the case of ARHL.

A new facility from HDFC called Non - Residential Premises Loans was introduced in 1994. It is meant for the doctors, chartered Accountants, Architects, Lawyers, Consultants and all other self-employed professionals. Non-Residential premises Loans for professionals work very much like HDFC Home Loans.²⁶

4.5 FUNCTIONING OF HDFC:

HDFC over the years has ensured that no loan applicant has been turned away as a result of want of funds. Resources mobilisation has taken place with a strong marketing philosophy, designing products and processes to tap variety of resources ensuring a healthy mix of short and long term funds.²⁷

HDFC over the past decade has charted the course for the development of a workable and rapidly expanding housing finance network. Its lending policy norms have been adopted as the industry standard. It has helped to promote new institutions and train their management staff.

26 *HDFC Brochure - Non-Residential Premises Loans for professionals. A44/10/1994/50*

27 *Resource flows for housing in India - Deepak S Parekh, Chairman, HDFC, Forum of free enterprise, 1995*

It has become active in helping to develop housing finance in a global perspective especially in South Asia.²⁸

HDFC is an agency engaged in extending long term housing finance. Loans provided by HDFC have a longer repayment period and consequently the monthly repayment liability is less. Equated Monthly instalments in the different ranges and interest rates are given below taking Rs. 10,000 as a unit.²⁹

Table 4.5.1

Repayment per month as instalments

Term of loan	12.5%	13.5%	14.0%	14.5%
5 Years	235	240	243	246
10 Years	151	157	160	163
15 Years	126	133	136	140
20 Years	116	123	126	130

Source: Resource flows for housing in India; Forum of free enterprise 1995.

HDFC offers attractive deposit schemes for individuals namely individual deposits and monthly income plan. Individuals and Non-resident Indians, minors through guardians, Hindu undivided family, societies and associations of persons can place deposits in these schemes. Charitable and religious trusts and educational Institutions can also invest in this monthly income plan.

28 *Resource flows for housing in India - 1995 - Deepak S Parekh.*

29 Ibid

Interest earned on deposit with HDFC will qualify for selection 80 L benefit of the Income Tax Act, 1961; Deposits placed with HDFC are exempt from wealth tax. HDFC also offers loan facility against deposits to the individual depositors in both the schemes.³⁰

4.6 KEY FINANCIALS OF SELECT COMPANIES IN COMPARISON WITH HDFC

Table 4.6.1

Key Financials of Select Companies in comparison with HDFC

Particulars	HDFC	LICHF	GIC HF	Dewan Housing
Sanctions (Rs. crores)	2521.70	738	163.60	57.63
Disbursements (Rs. crores)	2100.78	668	142.79	64.42
Loan outstanding (Rs. crores)	5709.32	2604.75	325.78	421.10
Operating income (Rs. crores)	1216.31	399.77	50.45	73.21
Net Profit (Rs. crores)	247.88	63.37	10.22	7.80
Equity capital (Rs. crores)	119.10	74.99	17.97	27.99
EPS (Rs)	203	8.44	5.69	2.80
CMP (Rs)	2716	35	18.10	11.50

Source: Urban Affairs Ministry

From the table it is observed that HDFC ranks first in all key financials in comparison with other leading housing financial institutions in India. The influence of private corporate housing sector is very significant as is shown in the investment in the housing sector during the five year plans.³¹

30 *HDFC Brochure - Home Loans - individuals A1:/10/1995/125.*

31 *The Hindu : " Business Line P.16. Sunday Feb.1, 1998. B.B. Vageesh and Deeptha Rajkumar. An interview to Business Line by Mr. Deepak Satwalekar M.D of HDFC*

Table 4.6.2

Housing Finance : A Glance

Particulars	HDFC	LIC HF	GIC HF	Dewan Housing
Loan disbursed	122329.9	7693.1	1304.8	922.5
Operating income	13870.31	4947.9	692.4	772.3
Net Profit	2933.58	877.3	104.6	103.8
Equity	1191.09	749.9	179.7	280.1
Net worth	17772.38	4091.4	792.8	605.2
Borrowings	99256.93	29787.9	4003.9	4359.7

All figures are in millions: Market price as on October 12, 1998

Source: *Industry and Financial Express*

Table 4.6.3

Housing Investment under the Five Year Plans -
The Great Fall Investment in Housing

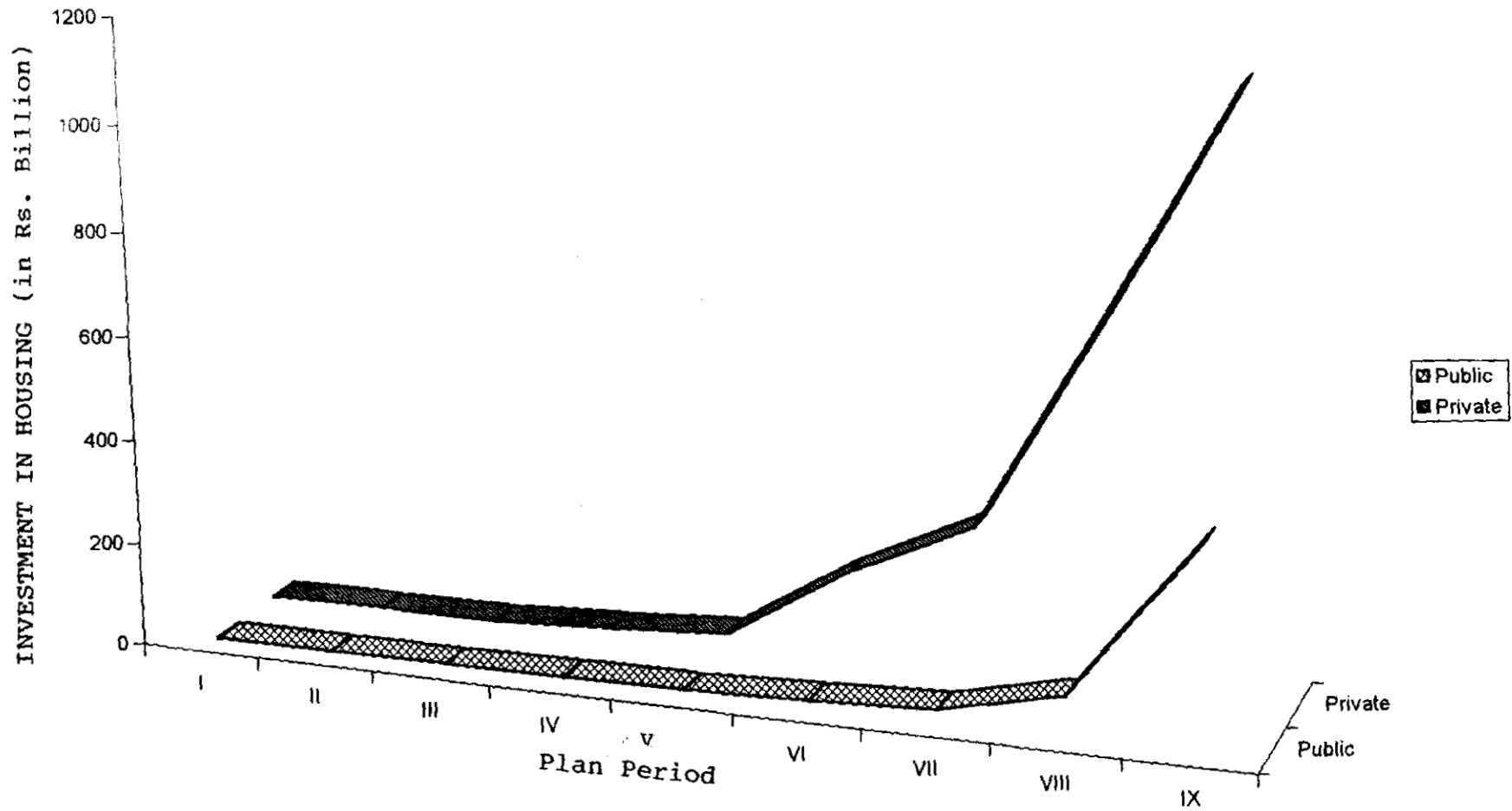
(in Rs. billion)

Plan Period	Public	Private	Total	Housing investment/ total investment in Economy (%)
I	2.5	9.0	11.5	34.0
II	3.0	10.0	13.0	19.0
III	4.2	11.3	15.5	15.0
IV	6.3	21.7	28.0	12.0
V	7.9	36.4	44.3	9.3
VI	14.9	180.0	194.9	12.5
VII	24.6	290.0	314.6	9.0
VIII	77.5	697.5	775.0	7.3
IX	377.5	1132.5	1510.0	-

Source: *Express Investment Week, October 19-25, 1998, p.19.*

Figure 4.6.3

Housing investment under the five year plans in the public sector and private sector



Though great priority was given to housing in the first five year plan, its importance has gradually declined over the years. Only in the IX plan under the present Government, housing was declared as the priority sector and the total investment increases from 775 billion under the VIII plan to 1510 billion in the IX plan. There has been significant increase in the investment on housing both in public sector as well as private sector.³²

4.7 FORMALITIES AND CONDITIONS OF PROCUREMENT, DISBURSAL AND REPAYMENT OF LOAN :

HDFC offers loans for buying or constructing a house or even to extend or improve the existing home. HDFC also finances purchase of land from development authorities and private developers in approved layout.

The maximum amount an individual can borrow is up to 85% of the cost of property including the cost of land. HDFC lends up to maximum of Rs. 50 lakhs to an individual. Subject to the repayment capacity as determined by HDFC will help to decide how much a person can borrow. Repayment capacity takes into consideration factor such as income, age, qualifications, number of dependents, spouse's income, assets, liabilities, stability and continuity of occupation and savings history.

An individual can make an application at any time after he has decided to acquire the property/construct the house, even if the property has not been selected or the construction has not commenced.

³² *Express Investment Week* Oct. 19-25-1998 Prasanth Mahesh, p.19. Cover story - *Housing Finance - Safe and Steady* p.16.

The borrower should complete the application form that is available in the HDFC office and submit it along with the supporting documents. On receipt of the completed application form with the processing fees (0.8% of the amount applied for) HDFC will process the application, make enquiries as it deems necessary and convey its decision.

The period of repayment is maximum 15 years. It will not ordinarily extend beyond the borrowers retirement age or on reaching 65 years of age whichever is earlier. The repayment should be done in Equated Monthly Instalments comprising principal sum and interest. Repayment by way of EMI commences from the month following the month in which the borrower takes full disbursement. Pending final disbursement, he pays interest on the portion of the loan disbursed. This interest is called pre-EMI interest.

The security for loan is a first mortgage of the property to be financed normally by way of deposit of title deeds and /or such other collateral security as may be necessary. The borrower can take disbursement of the loan after the property has been technically appraised, all legal documentation has been completed including payment of administrative fees (1% of loan amount sanctioned) and he has invested his own contribution in full ie the cost of the property less HDFC loan.³³

**4.8 REVIEW OF LENDING OPERATIONS OF HDFC FROM THE YEAR
1983-84 to 1999-2000:³⁴**

Table 4.8.1

Review of lending operations of HDFC

Year	Loan approvals (Rs. in crores)	Loan disbursements (Rs. in crores)	Number of units in terms of approvals	Cumulative investment made possible in the housing sector (Rs. in crores)
1983-'84	102.88	74.89	27,379	665.72
1984-'85	134.58	93.24	27,645	982.05
1985-'86	186.42	145.73	40,848	1,386.54
1986-'87	237.51	175.52	46,023	1,953.76
1987-'88	304.95	235.31	55,156	2,606.91
1988-'89	333.30	255.21	49,682	3,252.85
1989-'90	603.03	489.26	95,971	4,442.07
1990-'91	813.78	668.50	1,15,906	6,011.33
1991-'92	711.86	627.78	95,327	7,385.85
1992-'93	859.14	719.89	1,09,382	9,053.21
1993-'94	1,024.77	889.07	8,11,000	11,275.47
1994-'95	1,494.55	1,211.66	9,20,000	15,137.77
1995-'96	2,071.46	1,683.55	1,06,306	19,928.88
1996-'97	2,521.70	2,100.78	1.1 million	26,207.51
1997-'98	3,251.27	2,753.61	1,31,000	32,710.05
1998-'99	4,071.76	3,424.27	1,26,000	N.A

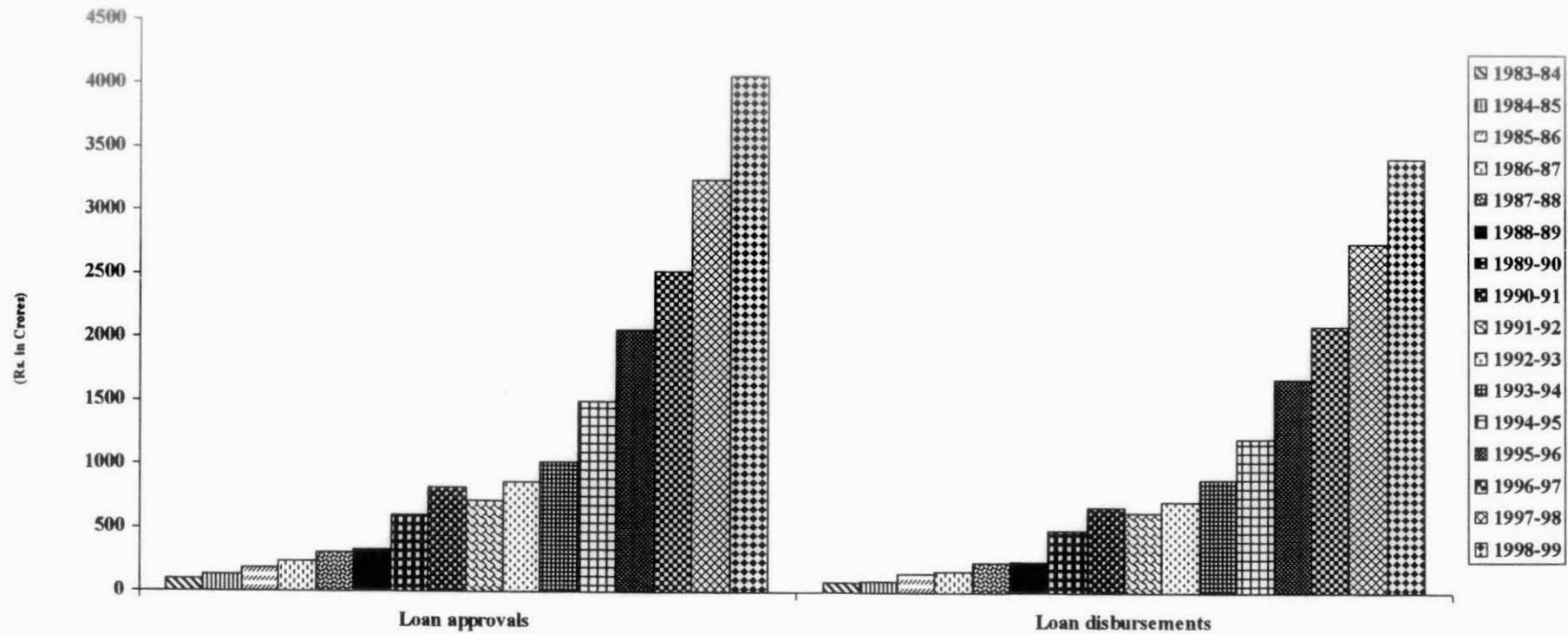
Source: Annual Reports of HDFC 1998-2000 Operational highlights.

1 crore = 10 million,

1988-89 change in financial year, it was a nine month period

³⁴ Annual Reports of HDFC 1998 - 2000 Operational highlights.

Figure 4.8.1
Review of lending operations of HDFC



There is a steady increase of loan approvals and loan disbursement over the years. There is a slight variation only in 1988-89 because it was a nine month period and there is a change in financial year. Number of units approved increases till 1988-89, then there is a sudden spurt in 1989-90 ie from 49682 to 95971 units. This shows that in late eighties and early nineties the housing demand was very high. This also can be due to the high rate of growth of population during these years. Cumulative investment made possible in the housing sector has been increasing steadily over the years.

4.9 REVISED INTEREST RATE OVER THE YEARS:

Table 4.9.1
Revised interest rate for the year 1992

Loan Amount (Rs)			% per annum
up to 7,500			10.5
7,501	-	15,000	12.0
15,001	-	25,000	13.5
25,001	-	50,000	15.5
50,001	-	1,00,000	16.0
1,00,001	-	5,00,000	16.5

Source: HDFC Brochure, Home loans

TABLE 4.9.2

EMI for a loan of Rs. 10,000

Term of the loan years	Percentage per annum of Rs. 10,000					
	10.5	12.0	13.5	15.5	16.0	16.5
5	223	232	240	252	255	258
10	139	148	157	170	173	176
15	113	123	133	146	150	153
20	102	112	123	137	141	145

Source: HDFC Brochure Home Loans A1/3/1990/280 ³⁵

Table 4.9.3**Revised interest rates - 1994**

Loan Amount (Rs)	% per annum
upto 25,000	12.0
25,001 - 1,00,000	15.1
above 1,00,000	15.5

Source: HDFC Brochure Homeloans, 1994

Table 4.9.4**EMI for a loan of Rs. 10,000**

Term of the loan Years	% per annum		
	12.0	15.0	15.5
5	232	249	252
10	148	167	170
15	123	143	146
20	112	134	137

Source: HDFC Brochure Homeloans, 1994

Table 4.9.5**Revised interest rates effective from May 1st 1996**

Loan Amount (Rs)	Rate of interest % per annum
0 - 25,000	12.00
25,001 - 2,00,000	16.00
above 2,00,000	17.00

Source: HDFC Brochure Homeloans, 1996³⁶

Table 4.9.6**EMI for a loan of Rs. 10,000**

Term of the loan Years	% per annum		
	12.0	16.0	17.0
5	232	255	261
10	148	173	179
15	123	150	157

Source: HDFC Brochure Homeloans, Individuals A1/10-/1995/125 and A1/4/1996/100

Table 4.9.7**Revised interest rates effective from May 12, 1998**

Loan Amount (Rs)	Rate of interest % per annum
up to 10,000	12.50
10,001 - 2,00,000	14.00
2,00,001 - 5,00,000	14.50
over 5,00,000	15.50

Inclusive of interest tax

Source: HDFC Brochure - Home loans, 1998

Table 4.9.8**EMI For a loan of Rs. 10,000**

Term of the loan Years	% per annum			
	12.50	14.00	14.50	15.50
5	235	243	246	252
10	151	160	163	170
15	126	136	140	146

Source: HDFC Brochure Homeloans, 1996

Table 4.9.9**Revised interest rates effective from 15, 1999**

Loan Amount (Rs)	Rate of interest % per annum
up to 10,000	12.50
10,001 - 5,00,000	13.50
5,00,001 - 15,00,000	14.50
over 15,00,000	15.50

For loans upto 10 years ROI 14.5% and for loans over 10 years ROI 15% inclusive of interest tax.

Source: HDFC Brochure Homeloans, 1999

Table 4.9.10**EMI for a loan of Rs. 10,000**

Term of the loan Years	% per annum			
	12.50	14.00	14.50	15.50
5	235	240	240	246
10	151	157	157	163
15	126	133	133	140

Source: HDFC Brochure Homeloans, 1996³⁷

Interest is calculated on annual rests. Principal repayments are credited at the end of HDFC's financial year. While it will be an endeavor of the corporation to keep the interest rate constant over the duration of the loan, it reserves the right to vary the rate of interest prospectively at any time in response to changes in money market conditions or if a levy, tax on interest or any other charge or burden is imposed by any Government or authority.

The repayment is done in Equated monthly instalments. The EMI is 1/12th of Equated Annual Instalment. The size of the monthly instalment comprising principal and interest depends on the quantum of the loan, the interest rate applicable and the term of the loan.³⁸

As we see from the tables, the rate of interest varies in different years. In the year 1992, the rate was high ie between 10% -16.5% as the loan amount increases, the interest rate also increases. In 1994, it is reduced to 12 % - 15.5%. In 1996 again the interest is revised and it went up to, from 12% - 17% with the increase in the quantum of loan amount. During 1998 and 1999 there is a slow decline in the rate of interest ie it is reduced from 12.5% - 15.5% . The equated monthly instalments also are adjusted accordingly. The rate of interest of HDFC housing loans as per the revision of the year 2000 remains at 13% for all loan slabs ie. from Rupees less than 10,000 to 15 lakhs. Exceeding Rs. 15 lakhs and with a tenure of more than 10 years HDFC charges 15%.

4.10 HDFC AND OTHER INTERNATIONAL AGENCIES:

In 1985 HDFC signed an agreement with the united states of America acting through the agency called International Development. (USAID) under which HDFC is able to borrow millions of dollars in the U.S. capital market. During 1987-88 the World Bank had approved a loan equivalent to US\$ 250 million to HDFC against a guarantee of Government of India. The world Bank Continues to utilise the Services of HDFC's executives to supervise existing housing Sector loans in developing countries as well as help to formulate new projects and identify development initiatives.

During the period 1988-89 HDFC's executives assisted World Bank Missions in Ghana and Indonesia. HDFC also undertook an assignment for Commonwealth Development Corporation (CDC) to review the progress and operations of a private sector housing finance company in Thailand, the Sinkahakan Credit Froncier Company limited (SCFC).³⁹

During the year 1989-90 HDFC undertook assignments for the United Nations Capital Development fund in Ethiopia, for the Common Wealth Development Corporation in Mauritius for the United Nations centre for Human settlements in Nairobi and for ongoing projects of the World Bank in Indonesia and Ghana. In the year 1992-93 HDFC's consultancy activities have continued to expand. During the year these activities extended beyond Asia and Africa to Eastern Europe and the Caribbean.⁴⁰

During the year 1993-94 HDFC raised US \$ 11 million in the U.S capital markets under the Housing guarantee programme of USAID in order to protect itself from foreign exchange risk.⁴¹

On a request from Africa Project Development Facility (APDF), the corporation undertook a feasibility study to establish a building society in Malawi. The corporation has also undertaken a project for the Home finance Company (HFC) of Ghana for the provision of technical assistance in various operational areas including lending, resource mobilisation, low income lending, and mortgage accounting.⁴²

The Building Societies Association London had organised the XXI World Congress of the International Union for Housing Finance in which

39 *HDFC Annual Reports - 9th and 12th Directors Report* p. 16.

40 *Sixteenth Annual Report* of HDFC 1992-93 p.6.

41 *Seventeenth Annual Report* of HDFC 1993-94 p.9.

42 *Eighteenth Annual Report* of HDFC 1994-95 p.8.

leading executives of 42 housing finance institutions from all over the world including HDFC participated to focus on the Global, National and organisational issues relevant to housing.⁴³

As a part of the proceedings of the United Nations Conference on Human Settlements (Habitat II), an International Trade fair was held at Istanbul in Turkey, to promote best practices for better cities. More than twenty Indian Companies including HDFC participated in this fair. The fair was an integral component of HABITAT II - the major U.N. Conference on the future of Human Settlements.⁴⁴

Alliance Housing Bank (AHB), Oman has been set up for providing long term housing finance to Omani Nationals in the sultanate of Oman. During the year 1998-99 HDFC assisted HDFC of Srilanka limited under a technical assistance agreement with the Asian Development Bank. HDFC conducted a workshop on credit Appraisal and Loan Recovery for staff of Bank papan Sejahtera in Jakarta, Indonesia.⁴⁵

4.11 HDFC AND LOW COST HOUSING:

One of HDFC's major developmental objectives is to make housing finance accessible not only to Geographically dispersed households but to households at all levels of income. Low income families are particularly vulnerable to exclusion from formal housing finance institutions. HDFC has made special efforts to access low income households in variety of ways. For example housing for tea plantation workers, houses for the victims of natural calamities like flood, earthquake etc. HDFC has also helped to

43 *Nineteenth Annual Report 1995-96* p.11

44 *Twentieth Annual Report 1996-97* p.19

45 *Twentyfirst Annual Report 1997-98* p.19.

house the landless Tribals of Valod, South Gujarat. HDFC has another project in Bombay, designed to rehabilitate some of the city's numerous pavement dwellers, on the land provided by the Bombay Municipal Corporation.

In the year 1987 as declared by U.N. the International year of the shelter together with other financial institutions and Municipal Corporations, HDFC planned to assist the economically weaker sections and to assist scavengers to own their dwelling units in their own cities of Ghaziabad and Calcutta respectively.⁴⁶

HDFC introduced a lending instrument in 1984-85 called the Step Up Repayment Facility (SURF) aimed at helping lower income group. This also through the Rehabilitation Housing Scheme for Economically weaker sections affected by natural calamities in Kerala and financial assistance for employees of transport corporations in Tamil Nadu and Karnataka.⁴⁷

KREDITANSTALT FUR WIEDERAUFBAU (KFW) of West Germany has sanctioned a line of credit of DM 30 million to HDFC especially to fund loans disbursed by HDFC for low cost housing projects directed to economically weaker sections of households. HDFC during the period 1989-90 approved six such projects. These projects which are located in Andhra Pradesh, Gujarat, Kerala, Maharashtra and Uttar Pradesh are presently working well.⁴⁸

During the year 1997-98, in addition to financing new Construction and upgradation, the scope for utilisation of KFW funds was extended to finance small income generation activities or micro enterprises for weaker section communities with the objective of enhancing their income generating

46 *Tenth Annual Report 1986-87*. p.19 HDFC lending to low income households. p.19.

47 *Ninth Annual Plan Report 1985-86* p.13. Directors Report St. T. Parekh.

48 *Thirteenth Annual Report 1989-90* p. 16 M.T. Parekh.

capacity and thereby leading to the beneficiary availing a housing loan at a later date ⁴⁹

4.12 HDFC is endowed with various awards for its outstanding performance in house financing in the country.

TABLE 4.12.1

Awards and Achievements of HDFC

Year	Award	Sponsoring agency
1984-85	Indian Merchant's Chamber Award in 1984 for the out-standing contribution made towards encouraging savings	Trustees of Indian Merchants' Chamber
1986-87	The Best annual Reports and the Best presented Accounts	Institute of Chartered Accountants of India
1988-89	The Best Annual Reports and the Best presented Accounts	Institute of Chartered Accountants of India
1991-92	Sept.1991-Innovations in public-private partnerships to mobilise savings and to expand access to families to market oriented housing finance and services.	United Nations Scroll of honour
1991-92	Silver shield for best presented accounts in the category of Banks and other financial institutions	Institute of Chartered Accountants of India
1992-93'	Best presented Accounts	Institute of Chartered Accountants of India

49 *Twenty first Annual Report 1997-98*, p.19 Deepak S. Parekh.

Year	Award	Sponsoring agency
1993-94	Best managed Company	Asiamoney Magazine
1993-94	Best presented Accounts	Institute of Chartered Accountants of India
1994-95	Best presented accounts for 1994-95 (position 3) in the SAARC region	South Asian Federation of Accountants
1994-95	Best presented Accounts	Institute of Chartered Accountants of India
1995-96	Best in investor relations strategy and management in India.	Asiamoney magazines
1995-96	Best presented annual Accounts	Institute of Chartered Accountants of India
1996-97	Best managed company in India	Asiamoney magazine
1996-97	Second most Competitive company in India	Euromoney magazine
1997-98	Most competitive company in India	Euromoney magazine

Source: HDFC Annual Reports of

1987-86 p.18

1995-96 p.11

1990-91 p.17

1996-97 p.21

1991-92 p.14

1997-98 p.23, 24

1993-94 p.18

1994-95 p.10

4.13 BRIEF EVALUATION OF HDFC IN THE LAST YEAR OF THE MILLENNIUM:

We are living in a revolutionary environment. Small and large revolutions are taking place across the globe with a high speed. Much of this process is the consequences of new technologies and net works. The motto of HDFC at the threshold of this millennium is : "own the information ; set the standards; keep the customer". Consumers themselves are changing from loyal limited information consumers to choice driven price and information sensitive consumers. This will demand an all new marketing strategy.⁵¹

Fairness, kindness, efficiency and effectiveness have been the driving principles of HDFC. And Company's annual report claims that these principles have provided the strength and sustenance to take on fresh challenges. In spite of having umpteen changes facing the housing industry, HDFC has the strength to sustain its leadership position.⁵²

The total approval of housing loans by the HDFC during the financial year 1998-99 were Rs. 4071.76 crores and disbursement in Rs. 3424.27 crores. The approvals and disbursements grew by 25% and 24% respectively as compared to the approvals and disbursements for the previous financial year. About 1,26,000 housing units have been financed during the year. During this year, the economy witnessed a softening of interest rates. Rates of interest on housing loans were revised downwards twice during the year. Lower interest rate along with steady property prices have increased the affordability for the target households.⁵³

51 *Nineteenth Annual Report 1995-96. p.4.*

52 *Express Investment Week Oct. 19-25, 1998. HDFC The Blue Chip by Akash Joshi p. 22.*

53 www.hdfcindia.com

The present Government of India has included housing in its National Agenda for Governance. The Government has also promised to enunciate its housing policy by June 1998. The Cabinet has approved a proposal for repealing the urban Land Ceiling and Regulation Act. With these decisions the Government has given the right signals that it wishes to use housing as the cornerstone to revitalise the economy.

HDFC's future strategy will continue focussing on retail markets for both housing loans and deposits. The coming years will see much more intense flow of capital into the country both domestic and from overseas. Competition will arise and new entrants will establish themselves. As HDFC launches out into the future, increasingly, the customer will begin to source the best deals for his needs on the Internet.

HDFC is re-inventing itself to face the on coming competition. Strategies that have brought HDFC to where it is today may have to be abandoned in the changed circumstances.

HDFC has opened 12 new offices in the year (1999) and plans on opening another ten offices in the year 2000.⁵⁴ HDFC's principles and core values remain almost untouched over these twenty one years. They have been sharpened as they explore them further, though HDFCs strategic vision has undergone periodic re-evaluation in tune with changes in the business environment.⁵⁵

The Housing Development finance corporation on the 8th of March 2000 announced a further reduction in the interest rates for housing loans

54 *HDFC twentyfirst Annual Report 1997-98*, Deepak S. Parekh pp.11 - 15.

55 *HDFC twentieth annual report 1996-97*, p.14 Deepak S. Parekh.

as its Retail Prime Lending Rate (RPLR) was reduced to 12.75% per annum. It has also for the first time introduced a uniform rate for all loans under the adjustable rate home loans and a uniform rate for all loans under the fixed rate home loan. In a press release issued, HDFC stated that "the reduction in rates of interest is part of HDFC's efforts to rationalise interest rates on housing loans and its commitment to further simplify terms for its lending products". Consequently the revised rates of interest on housing loans upto Rs one crore effective from March are : Adjustable Rate Home Loans at RPLR, that is 12.75% per annum and fixed rate Home Loans at 13.25% The HDFC has merged four loan slabs upto Rs 10,000, one lakh to 10 lakhs, 10 lakhs to 15 lakhs and 15 lakhs to 50 lakhs into one uniform block.⁵⁶

To provide additional benefits to individual customers HDFC's existing lending products have been simplified and new products have been introduced. According to HDFC, these initiatives will help customers access to a wide array of housing finance products at affordable rates on interest through HDFC's network of 63 offices across the country and one in Middle East. The initiatives are : HDFC has introduced the adjustable rate home loans for Non-Resident Indians. To enhance loan eligibilities, the maximum term for loans under the adjustable rate home loan facility has been increased to 20 years. There are no prepayment charges for an adjustable Rate Home Loan. The company has introduced loans for education and other personal loans against mortgage of property under the Home Equity Loan facility. Land purchase loans are now available at simplified terms and a reduced rate of interest.

56 *The Financial Express*, Kochi, Wednesday March 8, 2000, p.10. "HDFC Cuts Home Loan Rates."

The revised rate of interest will apply for new loans and loans which are approved but not yet disbursed. HDFC further stated that this reduction in interest rate coupled with income tax benefits with respect to repayment of principal upto Rs 20,000 per annum (enhanced from Rs. 10,000 per annum in the recent union Budget.) and interest payment upto Rs. 75,000 per annum offered substantial benefits to borrower and would encourage individuals to acquire houses.⁵⁷

The interest rates on small loans upto Rs 10,000 have however gone up by 75 basis points for fixed rate loans and 25 basis points for floating rate loans. It has also doubled the ceiling of loan amount from Rs. 50 lakh to one crore. The revised interest rates are effective from March 8, 2000.⁵⁸

4.14 THE ROLE OF VOLUNTARY AGENCIES IN THE LOW INCOME GROUP HOUSING BY HDFC:

HDFC has extended its housing loans to the lower income Group and the economically weaker sections of the society through various non-Governmental organisations who would take the initiative to find out the deserving homeless specially in the rural areas. In many cases voluntary organisations not only make an effort to select the eligible shelterless households but also contribute a share of the total construction cost and relieve them from repayment liability. A good number of religious organisation and charitable societies have come forward to work in

57 *The Hindu Daily*, Wednesday March 8, 2000 p.18. "HDFC Lowers Interest Rates."

58 *Business Express (The New Indian Express)*, Kochi, Thursday, March 9, 2000, p.15. "HDFC slashes interest rates"

collaboration with HDFC to extend their housing schemes to the poorest of the poor. The various Social Service Societies working, under the different dioceses in Kerala are good example for this.⁵⁹

4.14.1 **Save a Family Plan (India):**

SAFP (I), registered as Charitable Trust No. 603/90 had a modest beginning in 1969 as a small housing scheme sponsored by a Canadian Trust. It grew and branched out as a gigantic project all over India specially in Kerala helping the poor to build a house in rural and suburban areas. It has close link with all the Diocesan social service societies in Kerala. It has introduced a millennium Housing Scheme (2000 Homes by 2000). It is an HDFC linked Housing programme which has Rs 25,000 as a Canadian contribution per house. The main stipulation of this programme is that the diocese would also mobilise local funds at the ratio of one locality funded house to four at SAFP supported house(1:4 ratio). This means that when the N.G.O sends Rs. 25,000 or multiples there of to the SAFP(I) office, 4 times that amount plus the voluntary agencies contribution will be released from SAFP(I) for the housing endeavour.⁶⁰

The guidelines for millennium Housing programme in Collaboration with HDFC and the voluntary agencies will follow.

The cost per house is fixed as Rs. 35,000. Out of this HDFC loan to the voluntary organisation with SAFP's recommendation is Rs. 30,000 and the contribution from the beneficiary, Sanghom and the NGO as labour, material and cash together constitute Rs. 5000/-.

59 *Information gathered from the officials of N.G.O. in collaboration with HDFC.*

60 *A letter from the Executive Secretary (SAFP 1) Rev. Fr. Francis Kolencherry, Aaiswaryagram, Parapuram, Kanjoor, Ernakulam District.*

The rate of interest is 9% and the maximum repayment period is 22 years. The repayment should be made in Equated monthly instalments as Rs. 265/- The amount will be disbursed in two or three instalments. The documents required by HDFC as a security are original title deed of the land in which the house is constructed, encumbrance certificate for fourteen years, Tax payment receipt and possession certificate.

4.14.2 **Repayment mechanism:**

The SAFF deposits Rs. 25,000/- per house in HDFC for their "Monthly Income Plan Deposit" at 11% for a period of 5 years. The monthly interest will come to Rs. 229/- per month. So monthly income received from HDFC is Rs.229/- and out of which Rs. 99/- will go to the loan account of the beneficiary and the balance Rs. 130 will be pooled in another account. The balance amount to be paid to the loan account is Rs.166 should be paid to the beneficiary through the voluntary agency. At the end of the 5th year, the outstanding loan amount will become Rs. 27129/-. The settling of the loan could be done with the deposit ie Rs. 25,000/- plus the amount pooled from the interest of the deposit. The balance of Rs. 5671/- (Rs.130x12x5 - 2129), after closing the loan account shall be used for insurance covering of the total loan account (ie. beneficiaries Life Insurance Coverage for Rs. 30,000 for a period of 10 years) and for the administrative expenditure.⁶¹

4.14.3 **Project application - Millennium Housing Scheme of HDFC:**

Under the Special Housing Loan Scheme (Millennium Housing) of HDFC, the terms and conditions for getting the loan for the deserving persons are as follows.

61 Brochure - Save a family plan India - guideline "Millennium Housing Programme"

4.14.3.1 Beneficiaries :

The beneficiaries are selected from among the target groups. The selection is done by the local level people's organisations. The beneficiaries are manual labourers who are the active members of sanghoms*. Sanghoms are formations of local peoples organisations. It is managed by the elected members of the local units in a most non-formal and unstructured manner. They also have an administrative and functional structure headed by the president. The duration of the executive body is two years. Housing always remains a dream for them. HDFC housing scheme is considered as an occasion for realising their dreams. The criteria for selection of beneficiaries are as follows :

- They are active members of the Sanghoms, who regularly attend the Sanghom activities and participate in the resource mobilisation - 30% of the total selected beneficiaries are women.
- The beneficiaries own a minimum 3 cents of land.
- The family income per month does not exceed Rs. 1,500 to Rs.2,200
- The selected beneficiaries have no livable house of his/her own or his/her own sons or daughters.
- The beneficiaries spend Rs.5000 either in cash or free labour in the construction of the house.
- Preference is given to widows and destitute women.

* Sanghoms are formations of local people's organisations. It is managed by the elected members of the local units in a most non-formal and unstructured manner. They also have an administrative and functional structure headed by the president. The duration of the executive body is two years.

4.14.3.2 **Plan and Estimate :**

The plinth area of the house to be constructed will not exceed 250 sq.ft minimum or 300 sq.ft maximum. The expense is estimated to be Rs.35,000. It is decided that smokeless choolahs and latrine are compulsorily be annexed to the house.

4.14.3.3 **Loan disbursement :**

Necessary internal arrangements are made for releasing the loan. This is to ensure that the whole construction is being done within the stipulated time. 80% of the loan is released after the completion of foundation and basement. The beneficiary's contribution of Rs. 5,000/- is utilised at this stage of laying foundation and constructing basement. The remaining 20% is released after the completion of the house.

4.14.3.4 **Loan Repayment :**

The beneficiaries are members of credit unions. They deposit Rs.50/- every week from the very next month of releasing the loan. The credit union president/secretary withdraws Rs.170/- every month from their account and remits to the voluntary agency. The agency in return pays the instalment in lump sum. The sanghoms are responsible for the repayment to the agency office, and not the individual beneficiaries. The repayment of loan by the agency to the HDFC will have no connection with the remittance of loan amount by the Sanghoms. That means the agency takes responsibility and account ability to HDFC in the repayment of loan.

4.14.3.5 **Monitoring and Supervision :**

The staff of the voluntary agency supervise every stage of construction and it is on the basis of their certificate the part of the loan

amount is released. In order to minimise the construction cost, it is decided to collect the construction materials in bulk. This depends on the geographic situation of the plot and accordingly it is possible to make these materials available for the beneficiaries. This also ensured the quality of the materials used for construction.

4.14.3.6 Finance pattern of one house :

Total unit cost	:	Rs. 35,000.00
Loan from HDFC	:	Rs. 30,000.00
Local contribution	:	Rs. 5,000.00. ⁶²

4.14.3.7 The usual SAFF (Save a family Plan) intervention pattern involves active participation of the beneficiary, the community and in most cases, a local financial agency. The process followed makes the whole approach to housing for the poor, a development endeavour. Savings, community involvement, use of credit and the sharing in the decision making process elevate the venture to the level of development. This marks a vital departure from the usual welfare housing schemes promoted by the Government wherein there is little scope for people's meaningful participation and growth process. SAFF has developed several important cost effective measures in construction technology over the years in collaboration with several Government agencies including the Department of Science and technology. They have established rapport and working relation with several national house financing agencies like the HDFC and Kerala State Housing Board which are eager to collaborate with SAFF mainly because of the strong infrastructures and built in measures for strong repayment. SAFF also has a wide network of contacts with the grass root elements and regional sponsors.⁶³

62 *Millennium Housing Programme "2000 Homes by 2000" of HDFC - Project proposal by Calicut Diocese Social Service Society pp. 10-12.*

63 *Save a Family plan India - Housing Programme Brochure p.2. - Fr. Francis Kolencherry, Executive Director SAFF (1)*