

ASIAN DEVELOPMENT BANK

PCR:IND 27132

PROJECT COMPLETION REPORT

ON THE

**KARNATAKA URBAN INFRASTRUCTURE DEVELOPMENT PROJECT
(Loan 1416-IND)**

IN

INDIA

November 2001

CURRENCY EQUIVALENTS

Currency Unit - Indian Rupee/s (Re/Rs)

		At Appraisal (15 November 1995)	At Project Completion (26 January 2001)
Re1.00	=	\$0.0289	\$0.02
\$1.00	=	Rs34.63	Rs47.00

ABBREVIATIONS

ADB	-	Asian Development Bank
CBO	-	community-based organization
DHUD	-	Department of Housing and Urban Development
FI	-	financial institution
HDFC	-	Housing Development Finance Corporation
KUIDP	-	Karnataka Urban Infrastructure Development Project
LIBOR	-	London Inter-Bank Offered Rate
LBL	-	LIBOR-based lending
LIG	-	lower-income group
NGO	-	nongovernment organization
NHB	-	National Housing Bank
RRP	-	report and recommendation of the president
USAID	-	United States Agency for International Development

NOTES

- (i) The fiscal year (FY) of both the Government of India and HDFC ends on 31 March.
- (ii) In this report, "\$" refers to US dollars.

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BASIC DATA

A. Loan Identification

1. Country	India
2. Loan Number	1416-IND
3. Project Title	Karnataka Urban Infrastructure Development Project
4. Borrower	India
5. Name of DFI	Housing Development Finance Corporation Ltd. (HDFC)
6. Amount of Loan	\$20 million
7. PCR Number	PCR:IND 662

B. Loan Data

1. Appraisal	
- Date Started	16 Jun 1995
- Date Completed	5 Jul 1995
2. Loan Negotiations	
- Date Started	4 Aug 1995
- Date Completed	4 Sep 1995
3. Date of Board Approval	14 Dec 1995
4. Date of Loan Agreement	13 Dec 1996
5. Date of Loan Effectiveness	
- In Loan Agreement	11 Feb 1997
- Actual	19 Dec 1996
- Number of Extensions	Nil
6. Terminal Date for Commitments	
- In Loan Agreement	Nil
- Actual	5 Dec 2000
- Number of Extensions	Nil
7. Closing Date	
- In Loan Agreement	30 Jun 2002
- Actual	26 Jan 2001
- Number of Extensions	Nil
8. Terms to the Borrower	
- Interest Rate	ADB's pool-based variable lending rate
- Maturity (number of years)	20
- Grace Period (number of years)	5

9. Terms of Relending (if any) Not less than ADB's variable rate

10. Disbursements

a. Dates

Initial Disbursement 12 Dec 1997	Final Disbursement 8 Dec 2000	Time Interval 35 months, 25 days
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Effective Date 19 Dec 1996	Original Closing Date 30 Jun 2002	Time Interval 66 months, 12 days
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C. Implementation Data

Subloan No.	Date of Approval	No. of Beneficiaries			Amount (\$ million)		
		Total	LIG	Others	LIG	Others	Total
A01	12 Dec 1997	2618	1022	1596	2.46	7.54	10.00
A02	6 Jul 1998	1795	765	1030	1.35	2.73	4.08
A03	24 Feb 1999	438	438		0.92		0.92
A04	4 Aug 1999	599	599		1.00		1.00
A05	12 Oct 1999	754	754		1.50		1.50
A06	2 Feb 2000	289	289		0.50		0.50
A07	3 May 2000	298	298		0.50		0.50
A08	23 Sep 2000	468	468		1.00		1.00
A09	8 Dec 2000	252	252		0.50		0.50
Total		7511	4885	2696	9.73	10.27	20.00

LIG= lower-income group

D. Data on Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Fact-Finding	27 Feb – 17 Mar 1995	5	95	B, D, 2E, J
Appraisal	16 Jun-5 Jul 1995	5	20	A, B, C, 2E
Inception	29 Feb–9 Mar 1996	4	32	A, B, E, H
Review 1	9-13 Sep 1996	2	10	D, G
Review 2	1-3 Feb 1997	1	3	A

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization Of Members ¹
Midterm Review 3	19-29 Jan 1998	3	30	B, E, G, H
Review 4	8-19 Jun 1998	3	36	A, F, G
Review 5	24 Feb-9 Mar 1999	2	28	A, G
Review 6	1-5 Nov 1999	3	12	A, G, E
Review 7	30 Nov-9 Dec 1999	2	20	A, G
Review 8	21-25 Feb 2000	2	10	A, G
Project Completion	5-8 Jun 2001	2	4	A, J

E. Related Loans

Borrower	Loan No.	Approval Date	Effective Date	Amount (\$ million)
NHB	1549-IND	25 Sep 1997	12 Dec 1997	100.00
HUDCO	1550-IND	25 Sep 1997	11 Dec 1997	100.00
HDFC	1551-IND	25 Sep 1997	11 Dec 1997	100.00
HUDCO	1758-IND	21 Sep 2000	Not yet effective	100.00
NHB	1759-IND	21 Sep 2000	Not yet effective	40.00
HDFC	1760-IND	21 Sep 2000	Not yet effective	80.00
ICICI Ltd.	1761-IND	21 Sep 2000	Not yet effective	80.00
			Total	600.00

HDFC = Housing Development Finance Corporation
 HUDCO = Housing and Urban Development Corporation
 ICICI = Industrial Credit & Investment Corporation of India
 NHB = National Housing Bank

¹ A - project engineer, B – financial analyst, C - counsel, D - economist, E - urban specialist, F- control officer, G – implementation officer, H - loan administration staff, J – housing finance expert.

I. BACKGROUND

A. History

1. The Housing Development Finance Corporation Limited (HDFC) was promoted in October 1977 by the Industrial Credit and Investment Corporation of India (ICICI) with initial equity contribution by International Finance Corporation (Washington) and His Royal Highness, the Aga Khan, as a public limited company specializing in providing housing finance to individuals, co-operative societies, and the corporate sector. HDFC had concentrated on the home loan business as its core activity and acquired a reputation as the premier mortgage finance company. As part of its development activity since 1994, HDFC has promoted a commercial bank, four regional housing finance companies, a specialized infrastructure financial services company, a consumer finance company, and two other companies for property development and management. In the process, HDFC has acquired a name for growth and values in the financial system of the country.

B. Scope of Operations

2. As a housing finance company, the primary objective of HDFC is to enhance the residential housing stock in the country by providing housing finance on a systematic and professional basis, and to promote home ownership. To fulfill the objective, HDFC's major effort has been to increase the flow of resources to the housing sector by integrating the housing finance sector with the overall domestic financial markets. In the context of rapid urbanization coupled with a disproportionate growth and relatively low level of investment in housing, the Government of India adopted a national housing policy in 1994, which stressed the importance of housing in the context of overall economic development. One of the main objectives of the policy is to "help mobilize resources and facilitate the expansion of investment in housing." HDFC has been part of the process of implementing the policy objectives in mobilizing resources for housing and helping create a housing market driven by market forces.

3. The phased deregulation of directed and administrative mechanisms and various other monetary policy measures as part of financial sector reforms since 1991 has been transforming the economic environment. The success of HDFC in attuning its business plans to the changing environment lies in its philosophy of trust and transparency, and its products and services to meet the increasing demands of society and individual households. As a result, it has been able to develop close relationships with individual households, maintain its position as the premier housing finance institution in the country, provide consistently high returns to shareholders, and grow through diversification by leveraging off the existing client base.

C. Relationship with ADB and Other Lenders

4. HDFC has obtained three loans¹ totaling \$200 million from the Asian Development Bank (ADB). Of that amount, \$120 million, for two loans, has been fully disbursed. The third loan (Loan 1760: Housing Finance II) is not yet effective. In the ongoing financial sector reforms and deregulation process, the interest rate for both savings and loans in the economy is on the

¹ Loan 1416-IND: *Karnataka Urban Infrastructure Development*, for \$20 million, approved on 14 December 1995, Loan 1551-IND: *Housing Finance (Housing Development Finance Corporation)*, for \$100 million, approved on 25 September 1997; and Loan 1760-IND: *Housing Finance II- Housing Development Finance Corporation*, for \$80 million, approved on 21 September 2000.

downward trend. The financial institutions borrowing from ADB are of the view that in the present market conditions, housing loans are on-lent at 12 to 12.5 percent per annum for an average tenure of seven years, against which rupee funds of matching tenure are available at a cost of around 10.50 percent and even lower, depending on the credit rating. The housing and urban sector requires funds in rupees. There is no foreign currency requirement, for which an expensive external swap is needed, which in terms of cost is uncompetitive. HDFC is quite comfortable with its resource mobilizing ability within the country at a highly competitive rate.

5. HDFC has distinguished itself as the first Indian private sector institution to raise funds under the United States Agency for International Development (USAID) Housing Guaranty Program. The amount raised under this program was \$125 million. To insulate itself from losses as a result of exchange rate variations, HDFC structured innovative currency and interest swaps to lock into rupee funding at fixed rates in 1983, the first of its kind in India. The first ADB loan to HDFC (Loan 1416) approved in December 1995, became effective in December 1996. During the elapsed period, HDFC identified a suitable swap partner to mitigate the foreign exchange risk. HDFC disbursed a dollar-denominated rupee loan to a corporation with principal and interest payments denominated in dollars and the rate of interest fixed with reference to the six months dollar London Inter-Bank Offered Rate (LIBOR). As a result, HDFC is protected from the foreign currency risk in respect of payments of this loan. HDFC's other international borrowings are summarized in Table 1:

Table 1 : International Borrowings by HDFC

Source	Loan Amount (\$ million)	Approval Date
IFC, Washington	40	Mar 1991
IBRD	250	Aug 1988
CDC ^a	Pound Sterling 25	Mar 1993
USAID	20	Jan 1983
	10	Dec 1983
	20	Sep 1985
	25	Dec 1986
	15	Jun 1987
	35	Jan 1989
ADB1 (Loan 1416)	20	Dec 1996
ADB2 (Loan 1551)	100	Sep 1997
ADB3 (Loan 1760)	80	Sep 2000
KfW ^a	DM 25	Jun 1990

ADB= Asian Development Bank, IBRD=International Bank for Reconstruction and Development, CDC=Commonwealth Development Corporation, USAID=United States Agency for International Development, and KfW=Kreditanstalt fur Wiederaufbau

a The CDC and KfW loans were drawn in tranches and have not been converted into \$.

6. HDFC's international borrowings account for 9 percent of its funding requirements compared with 48 percent from public deposits and 43 percent from commercial banks and financial institutions.

D. Rationale for the ADB Loan

7. The Karnataka Urban Infrastructure Development Project (KUIDP)² was ADB's first loan to the urban sector in India. The Bangalore region was selected as the project area because the unprecedented growth due to the rapid development of the information technology sector in Bangalore was straining the capacity of all infrastructure and land for residential growth in the city. It is in this context that the Government approached ADB for assistance in formulating an integrated urban development strategy for the Bangalore subregion, to allow the development of selected "counter magnet" urban locations/growth centers. The Project objective was to relieve the urban growth pressure on Bangalore by improving basic services and livability in nearby smaller towns where more space for urban growth was available.

8. KUIDP was formulated with two distinct components and two separate loans; the first component (Loan 1415) was to improve infrastructure in four towns - Mysore, Tumkur, Channapatna, and Ramanagaram - to decongest Bangalore. KUIDP included water supply and sanitation, solid waste management, urban road development, slum upgrading, sites and services for low-income housing and industrial and commercial units (paras. 39 and 40 of the Report and Recommendation of the President [RRP]).

9. The second component (Loan 1416-IND) was to HDFC for onlending to qualified individuals at affordable interest rates without external subsidy, to promote home ownership and reduce the housing shortage in the Bangalore subregion and the four project towns of the related loan. At least 50 percent of this loan was to be on-lent to lower-income groups (LIG)³ at 12.5 percent interest per annum, and the balance to other households at market rates. Subloans to LIGs and middle-income groups were limited to 80 percent of the value of the property, not exceeding Rs900,000 for any one mortgage. Low-cost techniques and local building materials were to be used to keep the construction costs low and the units affordable.

II. IMPLEMENTATION

A. Lending Policies

10. HDFC provides housing loans. The product profile along with other parameters are shown in Appendix 1. The salient features of the products offered include:

- (i) home loans for new construction, home improvement, extension and for acquisition of land;
- (ii) repayment period ranging from 5 years to 15 years, except in case of adjustable home loans where the period is 20 years;
- (iii) loan-to-cost ratio of 85 percent for home loans and 70 percent home improvement loans; and
- (iv) repayment capacity during loan tenure verifiable from the nature of employment, current salary, and the nature and magnitude of family obligations.

² Loan 1415-IND: *Karnataka Urban Infrastructure Development Project*, for \$85 million, approved on 14 December 1995.

³ With monthly income of Rs2,650 or less (using the 1992 calendar year base), adjusted each calendar year by reference to the consumer price index.

B. Characteristics of Subloans

11. As required under the Project, the Borrower was to finance specified housing proposals by making subloans to qualified individuals in the Bangalore subregion including the four towns under KUIDP, to improve the physical, social, and economic conditions of low- and middle-income households. The Borrower was to ensure that at least 50 percent of the loan proceeds were used for qualified individuals whose monthly income was Rs2,650 or less - using the 1992 calendar year as base and adjusting every calendar year by referring to the consumer price index of the Government of India as Guarantor - at affordable interest rates through direct lending by HDFC.

12. HDFC has successfully implemented the Project, including the low-income housing component through its branch office in Bangalore. It established a separate dedicated unit within the branch, maintained a separate set of records for all mortgage lending made to beneficiaries from funds provided under the Project, and provided a cross-subsidy to the LIGs to enable them to avail of loans at 12.5 percent. There is, therefore, no financial or economic subsidy. HDFC submitted quarterly status reports on the Project as required.

1. Project Beneficiaries

13. The total number of project beneficiaries is 7,511 including 4,885 LIG households⁴. About 70 percent of the beneficiaries are in urban areas; the rest are in rural areas. Almost 85 percent of the beneficiaries belong to the employed, salaried class, and the rest are housewives, pensioners, retired, and self-employed. Most of the loans are in the range of Rs25,000 - Rs300,000, with more than 70 percent in the Rs100,000 - Rs300,000 range. The weighted average loan-to-cost ratio is about 53 percent. The households provided margin money from savings, inheritance, and contributions from all members of the family for the common purpose of owning a house. Overall, the quality of life of the beneficiaries has improved through the loans: larger houses, better locality, improved water supply and sanitation facilities, larger plot size, and cleaner environment. The beneficiaries are highly satisfied with house ownership. To date, the loan repayment is 100 percent. The details of the beneficiaries and loan disbursement are shown in Appendix 2.

14. The Loan Agreement indicated that at least 50 percent of the loan proceeds were to be used for qualified individuals whose monthly income was Rs2,650 or less, using the 1992 calendar year as base, adjusted every calendar year by referring to the consumer price index. Increase of the income ceiling from year to year based on inflation, and the number of LIG households covered per year are given in Appendix 2.

15. At the request of HDFC and the state government, the original scope was modified to include the entire Karnataka State, since the residential sites and services under the KUIDP are still under implementation, and the availability of LIG beneficiaries in the Bangalore subregion and the four towns was limited. There are 7,292 residential plots being developed under KUIDP, of which 4,897 are for LIG and lower income categories. HDFC has committed to extending loans from its internal resources to the LIG owners of these sites when the plots are allotted.

⁴ Of the LIG households, 398 belong to the economically weaker section (EWS) with a monthly income of less than Rs2,500.

16. The plots for industrial sites and services being developed under KUIDP will be sold to prospective industries based on market rates. The Karnataka Industrial Area Development Board will allot plots to those interested in setting up production of building materials and related activities. With regard to centers to be set up in the KUIDP area to facilitate the use of new low-cost technologies, there are sufficient low-cost building materials available in the market. The market conditions will govern their use and acceptability to the consumers.

17. In summary, the Project has generally met its targets. The loan has been fully disbursed and committed, and closed on 26 January 2001, 17 months ahead of the original loan closing date of 30 June 2002. HDFC provided loans to 7,511 beneficiaries, of which 4,885 belonged to the LIG. LIG beneficiaries received 49 percent of the funds compared with 50 percent envisaged at appraisal, and 65 percent of the loan.

2. Loan Details

18. The average plot size ranges from 60 to 120 square meter and the built-up accommodation is about two thirds of the plot. The loans were provided for construction of new houses all of which are complete. The average LIG family has six members. The average cost of a 37 square-meter house with minimum necessities is about Rs63,000 (\$2,006), of which the average loan was Rs57,000 (\$1,815). The beneficiary's own contribution either in kind (labor) or cash was Rs6,000 (\$191). The weighted average loan-to-cost ratio is 52.58 percent and the monthly installment toward loan repayment is Rs716 (\$22), which is 26 percent of the LIG beneficiary's monthly income, well within affordable limits. In the case of other beneficiaries, the loan applications were appraised on the basis of the lending norms of HDFC, on the basis that the overall property value must not exceed Rs900,000 for middle-income groups.

C. Implementation and Internal Operation of Subprojects

19. Though the Project was completed 17 months ahead of schedule, onlending to LIGs was initially slowed due to late allotment of the residential sites and services. To overcome delays, HDFC was in constant touch with the district government officials⁵ to expedite completion of layouts and process of allotting Government housing schemes such as Ashraya for households belonging to the informal sector, police constables, and teachers. The combined efforts of the state government of Karnataka and HDFC were successful and accelerated the allotment of sites, particularly at Kota, Tumkur, and Bangalore subregion. Similarly bureaucratic delays at the local government levels required intensive follow-up by HDFC. As a result of these efforts, officials of the urban development department instituted a monitoring mechanism, to verify the progress of activities at the ground level, for land acquisition, physical layouts, and status of allotment to beneficiaries. Simultaneously, HDFC advertised the availability of the schemes in the local language to facilitate identification of beneficiaries.

⁵ Deputy commissioners (DCs), and urban development commissioners (UDCs).

D. Operational Performance of HDFC

1. Organization, Management, and Staffing

20. The organizational structure for the Project permitted top-down and bottom-up flow of instructions to ensure effective control and overall functioning of the offices. The top management in the head office is linked functionally to regional heads, who, in turn, are linked to branches, representative offices, and service centers. The organization chart of HDFC is in Appendix 3.

2. Personnel Administration

21. The development of human resources is central to HDFC's management. An objective performance review of productivity has created a work culture and a brand of human resources specific to HDFC. Loyalty and commitment are the hallmark of the employees of HDFC. This has paid rich dividend since despite the consistent growth in business over the years, growth in employee strength at HDFC has been very well managed as summarized in Appendix 4, and profit and asset per employee reached Rs0.47 million and Rs175.2 million, respectively, for the year 2000 as detailed in Appendix 5.

3. Lending Operations

22. HDFC provides a wide array of simplified, customer-friendly products (Appendix 1), along with a streamlined loan disbursement process. HDFC regularly updates processes to make them simpler, time saving, cost-effective and efficient as described in Appendix 6. The time taken in processing loan applications has been brought down to a maximum 7 days, compared with 15-30 days some years back. This became possible with the introduction of a compressed processing system and on-line technology support, which were recently introduced for loan applications.

23. HDFC has uniform operational practices in all its offices and branches to assess the repayment capacity of the subborrower during the tenure of the loan and has developed the ability to adjust the due diligence and appraisal process based on the perceived economic and financial situation in a particular region.

24. HDFC's total assets of Rs150.8 billion (\$3.21 billion) includes housing loans, preferred shares and debentures for financing housing and real estate (73 percent), investments in equity shares, debentures and bonds (16 percent), and net current assets⁶ or fixed assets (1 percent). The composition of assets is well balanced and reflects prudent deployment of assets and compliance with the regulatory norm of the National Housing Bank (NHB).

⁶ Defined as current assets minus current liabilities.

E. Financial Performance of HDFC

25. HDFC's portfolio has grown from Rs57 billion in 1997 to Rs110 billion in 2000. In the area of loan recovery, HDFC has an excellent record, being one of the lowest in the financial sector. Nonperforming loans are defined as loans where repayments are in arrears for over six months. HDFC has written off loans amounting to only Rs0.7 billion since inception. In addition HDFC is adequately covered by the provision for contingencies as follows:

Table 2: HDFC Provision for Contingencies

	Nonperforming Loans^a	Provision for Contingencies^a
1998	0.69	1.37
1999	1.01	1.47
2000	0.90	1.38

^a As a percentage of the portfolio = loans, preferred shares and debentures for financing real estate projects.

26. The lending highlights are shown in Table 3:

**Table 3: HDFC Lending Highlights
(Rs billion)**

Item	1998	1999	2000	Cumulative
Approvals	32.51	40.71	53.05	242.15
Disbursements	27.54	34.25	44.93	201.50
Cumulative Investment in the Housing Sector	327.10	405.40	507.43	
Loans Outstanding	69.44	82.19	100.63	

F. Financial Statements and Ratios

1. Balance Sheet

27. The total assets of HDFC grew from Rs99.26 billion in March 1998 to Rs117.96 billion in March 1999, to Rs150.84 billion in March 2000. The growth rate of 28 percent in 1999-2000 compared with that in the previous year, was comparable with the industry's average growth rate for the same year. HDFC's distinctive growth is due to its large asset base as outlined in Appendix 7.

28. Loans outstanding grew from Rs69.44 billion in March 1998 to Rs82.19 billion in March 1999 to Rs100.63 billion in March 2000, representing a growth of 18 percent and 22 percent, respectively. But the growth of loans outstanding for individuals - 21 percent in March 1999 and 29 percent in March 2000 - demonstrates that HDFC is emphasizing loans to individuals.

29. The exposure in real estate financing shows HDFC's interest in the supply side of housing. HDFC invests in preferred shares and debentures of corporations for developing and

financing their real estate housing projects. Its investments in real estate projects increased substantially during the year ending March 2000: Rs9.36 billion compared with Rs3.76 billion for the year ending March 1999. As a result, the total portfolio increased from Rs82.19 billion in March 1999 to Rs100.63 billion in March 2000.

30. Deposits outstanding grew from Rs44.23 billion in March 1998 to Rs52.65 billion in March 1999, to Rs62.24 billion in March 2000, representing a growth of 19 percent and 18 percent, respectively. HDFC has a depositors' base of about 1.1 million and an agent network of 46,000. Though the tenure of a substantial amount of deposits is between one and five years, it has not exposed HDFC to any strain on its long-term mortgage financing business because 60 percent aggregate of deposits from individuals and trusts are renewed in the normal course, substantially reducing the time gap between deposit liabilities and housing loan assets. HDFC has installed an appropriate control mechanism to identify and monitor the maturity profile, and to take timely measures to contain a wide variation in the time gap.

2. HDFC's Sources of Funding

31. Deposits account for almost 48 percent of HDFC's funds. In addition, HDFC has domestic borrowings from banks and financial institutions, which constitute 43 per cent while international borrowings make up the remaining 9 percent (Table 1). The pattern of liabilities reflects confidence of the general public, banks and financial institutions (FIs) in HDFC. It has been able to overcome overdependence on any particular source of funds. Its credit rating and the confidence of the investing public, banks and FI's provide a cushion to adjust its liabilities profile, in keeping with the changing environment in the financial sector.

32. The rating agencies, i.e., Credit Rating and Information Services of India Limited and Indian Credit Rating Agency have reaffirmed their 'AAA' rating for HDFC's deposits and bonds for the sixth consecutive year. This represents "highest safety as regards timely repayment of principal and interest."

3. Income Statement

33. HDFC has a sound financial management system. Its total income grew from Rs14.45 billion in 1998 to Rs17.53 billion in March 1999 to Rs20.16 billion in March 2000. During the financial year 1999-2000, its total income grew by 15 percent over the corresponding period in the previous year. HDFC's total expenses grew from Rs10.93 billion in 1998 to Rs13.64 billion in March 1999 to Rs15.55 billion in March 2000. As of 31 March 2000, the total expenses had grown by 14 percent over the corresponding period in the previous year. The average yield on performing loan assets during the year ending March 2000 was 14.84 percent per annum compared with 15.48 percent per annum in the previous year. The average cost of funds was 13 percent per annum compared with 13.65 percent per annum in the previous year. The spread on loans over the cost of borrowings for the year was 1.84 percent per annum as against 1.83 percent in the previous year. HDFC has maintained its spread from year to year despite the volatility of the financial market.

34. Profit after tax grew from Rs2.93 billion in 1998 to Rs3.33 billion in March 1999 to Rs4.01 billion in March 2000. As of 31 March 2000, the profit after tax had grown by 20 percent over the corresponding period in the previous year as shown in Appendix 8.

4. Cash Flow Management

35. HDFC shows a steady rise in cash and cash equivalent in its financing activities at the end of the year compared with the beginning of the year signifying the level of its borrowings and lending. There is an increasing trend of cash outflow for investment activities, strengthening its viability. The increasing level of cash generation from its operating activities signifies its strength in terms of liquidity. HDFC's management of cash flows from its operating, investing, and financing activities is detailed in its cash flow statement in Appendix 9.

5. Key Ratios

36. Return on equity grew from 16.9 percent in 1998 to 17.8 percent in 1999 to 19.8 percent in 2000. The debt equity also grew from 16.9 percent in 1998 to 17.8 percent in 1999 to 19.8 percent in 2000. The interest coverage ratio remained constant at 1.4. The book value per share increased from Rs149 per share in 1998 to Rs166 per share in 1999 to Rs176 in 2000. However, the adjusted book value per share, after considering appreciation in value of investments, increased from Rs179 per share in 1998 to Rs193 per share in 1999 to Rs319 in 2000. Key and other ratios are shown in Appendix 10. The trend in book value per share, return on equity, and operating cost to average total assets are in Appendix 11.

37. HDFC has complied with the guidelines of NHB, the regulating authority for housing finance companies, for income recognition, provisioning, asset classification, provisioning for bad and doubtful debts, capital adequacy, and concentration of credit and investments. HDFC has been submitting returns and statements to NHB as required.

G. Covenants

38. HDFC has complied with all major loan covenants. To avoid the currency risk, HDFC was able to convert dollar-denominated liability into rupee-denominated liability and has ensured the availability of rupee funds to qualified individuals. In its financial management, HDFC has maintained sound ratios of its consolidated debt, including that of its subsidiaries, to the consolidated equity and the consolidated debt. Its compliance with the major loan covenants is summarized in Appendix 12.

H. ADB's Performance

39. The loan was declared effective in December 1996. ADB regularly undertook review missions and closely monitored the progress of the Project, provided useful advice in several areas, and facilitated discussions with the Karnataka State government for quick allotment of residential houses under various Government schemes to assist in faster disbursements. ADB delegated project administration to the India Resident Mission (INRM) in January 1996. In addition to regular ADB review missions, the Project was reviewed at biannual meetings at INRM and HDFC, and at tripartite portfolio review meetings at the Ministry of Finance with ADB, Department of Economic Affairs (DEA), and HDFC participating. HDFC and DEA found these bilateral and tripartite review meetings very useful in addressing major constraints and in agreeing on steps and targets for effective implementation.

III. EVALUATION

A. Loan Appraisal

1. Distribution of Subloans

40. The Project has met its objective of providing 50 percent of the loans to LIGs (paras. 13-18). The geographic reach of the Project was enlarged to cover the whole of Karnataka in contrast with the original focus on the Bangalore subregion, since the sites and services under the related KUIDP were not ready and other schemes of the Government were also not ready for allotment in the original project area (para. 15).

41. The demand for house sites by LIGs is large, but accessing LIG households with a verifiable and regular income was difficult. To overcome this, HDFC targeted LIG employees of organizations such as Bangalore Municipal Corporation, Karnataka Police, and Karnataka State Road Transport Corporation, who have a steady and verifiable source of income. There is a greater risk in lending to LIGs in the informal sector who have no stable income and whose repayment capacity is suspect. FIs are apprehensive in lending to this category, unless the households are able to provide collateral in addition to normal security. In the beginning, HDFC held a series of meetings with nongovernmental organizations (NGOs), and community-based organizations (CBOs) to involve them as intermediaries, as envisaged at appraisal (para. 55, and para. 5 of Appendix 4, of the RRP). However, despite such efforts, HDFC could not finalize loans through these entities because there were no NGOs experienced in housing finance. As a result, HDFC restricted its identification to LIG households with stable and regular income.

2. Covenants

42. HDFC complied with all the major covenants (para. 38).

3. Quality of Loan Appraisal

43. The Project is located in the state of Karnataka, which has been witnessing an economic growth rate higher than that of India. The state is expected to maintain its momentum of growth in the future. HDFC's southern regional headquarters is located in Bangalore. HDFC maintains a highly satisfactory record of loan recovery. Its nonperforming loans- defined by regulatory authority as loans where repayments against the principal loans outstanding are in arrears for over six month - are one of the lowest in the financial sector (paras. 27-36). One single factor that contributes to such an excellent record is the quality of appraisal and monitoring of repayments of installments. Its appraisal standard does not permit any compromise in properly assessing the repayment capacity of the borrower. Under the Project, the record of loan recovery to date is 100 percent.

B. Implementation

44. HDFC offers products to suit individuals of various economic category and has developed a compressed loan processing system with technology support. Its personnel management has induced a strong and committed work culture, helping HDFC to grow fast. As such, the Project was completed ahead of schedule and the major loan covenants complied

with. HDFC took a proactive role in pursuing concerned state government officials to expedite completion of layouts, the allotment process, make sites and services available to beneficiaries interested in purchasing sites for house construction and in availing of finance from HDFC. At HDFC's request, the State government convened several meetings with Deputy Commissioners (DCs) and Urban Development Commissioners (UDCs) to verify and monitor the progress of activities like land acquisition, formation of layouts, and status of allotment of sites to beneficiaries. In some districts including Kolar, Tumkur, and Bangalore, urban and rural, DCs took timely initiatives in issuing press notification, informing the public about the availability of finance. The government officials were active in collecting the application forms and forwarding those to HDFC. In respect of the other locations, HDFC regularly conducted outreach programs at Mangalore, Hospet, Belgaum and Kolar Gold Fields to market the loan products and process loan applications. HDFC's loan schemes were extensively advertised in leading newspapers to promote them to the general public (para. 19).

45. The proactive, continuous, and timely initiatives by HDFC contributed to meeting the Project objectives. When HDFC observed that the progress on the site and services in the identified urban towns within Bangalore subregion was slow, they requested the state government to expand the scope of the Project to cover the whole of Karnataka. This accelerated disbursement and commitment of loan funds. The objective to help and assist the LIG households was achieved.

46. There had been no major change during implementation in the scope and content of the Project. The only minor change in scope was of expansion of the Project area to cover the whole state of Karnataka to ensure adequate LIG household coverage. Of the total number of beneficiaries, 63 percent are in Bangalore subregion and its four project towns and 37 percent in other areas of the State. Effective monitoring and timely initiatives by HDFC resulted in project implementation and loan utilization ahead of schedule.

IV. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

47. The Project is rated highly successful given that full loan disbursement with appropriate targeting of beneficiaries was completed ahead of the original loan closing date. The Project generally met its original target of 50 percent of the loans going to LIG beneficiaries at a concessional rate of interest and the remaining 50 percent to other residents of the Bangalore region at market-related rates of interest. The Project was highly relevant and has been effective in reducing the housing shortage in the designated project towns and other locations in Karnataka. Effective monitoring and timely initiatives by HDFC (paras. 44-46) resulted in project implementation and loan utilization ahead of schedule. The Project gave a cross-subsidy to the LIGs and required no financial or economic subsidy outside the component. The Project has improved the quality of life of the beneficiaries (para. 13). As a pilot, the Project led to the formulation of full-scale housing loans⁷ to India. The overall performance of the Project is assessed in Appendix 13.

⁷ Loans 1549,1550,1551-IND: *Housing Finance I*, for \$300 million, approved on 25 September 1997; and Loan 1758, 1759, 1760, 1761-IND: *Housing Finance II*, for \$300 million, approved on 21 September 2000.

48. In addition to experience on this Project, HDFC gained capability during the successful implementation of its \$80 million component of Housing Finance I, also completed ahead of schedule. HDFC would be a desirable executing agency for future loans to the housing sector.

B. Lessons Learned

1. Project-Related

49. The participation of NGOs and CBOs to help in identifying the LIG households was envisaged during loan formulation. However, HDFC found that such organizations with experience in housing were not present in the area. Therefore, HDFC developed a database to identify LIG households and obtained support from state and local municipal government agencies in identifying the potential LIG clients. In retrospect, more public consultation and specific discussions with local communities during loan formulation would have identified this lack of capacity. Building the capacity of NGOs and CBOs should have been built into the Project design.

50. During loan formulation, it was envisaged that the housing component (Loan 1416-IND) would finance housing for LIGs and other borrowers in the four towns under the main KUIDP (Loan 1415-IND). This turned out not to be possible because the new sites and services were not completed until year 2000, too late for the housing component. This shows that it is difficult to directly link projects that are not in the same sector; implementation of the urban development component took much longer than the much less complex housing component.

2. Future Loan Programs

51. The LIG category, while meeting low-income criteria, was limited to salaried households in the formal sector where HDFC could establish monthly salary deductions with the employer. HDFC was unwilling to lend to even well-established informal sector applicants who had demonstrated sources of regular income. Future loans should develop mechanisms to encourage housing finance for the informal sector.

52. In the case of households where both husband and wife were employed, HDFC would allow bigger loans and require that the wife be a joint owner. This was not the case for single-income households. Future loans should incorporate joint husband/wife ownership for all beneficiaries, regardless of income source.

53. Despite the pilot nature of this first housing loan to India, HDFC successfully completed the Project. It was able to establish transparent evaluation and eligibility criteria, reach LIGs that would not normally be able to access loans, and maintain excellent records. This demonstrates that private sector institutions can deliver housing finance to LIGs.

C. Recommendations

1. Project-Related

54. ADB will encourage HDFC to provide housing finance to the beneficiaries of sites and services under the ongoing KUIDP (paras. 8 and 15).

2. Future Loan Programs

55. **Mortgage Insurance.** ADB and the Government of India need to review and modify policies to encourage financing for the informal sector. One way to overcome the deficiency of borrowers from that sector and at the same time provide comfort to banks and housing finance companies is to institutionalize mortgage insurance for such borrowers. This aspect was studied in a larger context in the ADB-financed TA Feasibility of Establishing a Mortgage Insurance Fund in India⁸ and further appraisal is required in the present context as perspectives have changed since 1999. Other options also need to be studied. The summary of findings with reference to low-income households is in Appendix 14.

56. **NGO/CBO Involvement in Accessing the Informal Sector.** Suitable and experienced NGOs should be identified at the appraisal stage through intensive dialogue, to ensure their participation in reaching the LIG and lower-group households. NGOs, can be used to combine responsibility and accountability to facilitate access to mortgage funds.

57. **Scope of the Project.** The scope of a future project should not be limited to a geographic area, which can limit the accessibility of LIGs.

58. **Bank Interest Rates.** As part of the economic reform process ongoing since 1991, the Government of India and Reserve Bank of India have adopted fiscal and monetary policy measures aimed at, among others, containing the fiscal deficit to below 5 percent of the gross domestic product and inflation at around 5 percent. Consequently, the interest rate on savings, investment, and loans has steadily declined and is now determined fundamentally on the credit rating of the borrowing institution. The prevailing rates for public deposits and term loans for highly rated institutions from the domestic financial market are lower than the swap rate of loans from international institutions, with fewer conditions. HDFC's foreign currency borrowings from multilateral institutions including ADB accounts for 9 percent of its fund requirements compared with 48 percent from public deposits and 43 percent from banks and FIs (para. 31). The average cost of funds for HDFC is now 13 percent compared with 13.65 percent in the previous year and is still lower in the current financial year. As a result, HDFC's margin and spread over the average cost of borrowing have been improving. The introduction by ADB of the LIBOR-based lending facility (LBL) effective 1 July 2002 is a positive development in ADB's lending to the housing sector in India, by lowering the cost of ADB-financed housing loans.

⁸ TA 2833-IND: *Strengthening Housing Finance Institution, Part-B, Feasibility of Establishing a Mortgage Insurance Fund in India*, for \$600,000, approved on 24 July 1997.

APPENDIXES

Number	Title	Page	Cited on (page, para.)
1	Products Profile for Resident and Nonresident Indians	15	3, 6 and 10, 22
2	Loans Distribution	17	4 and 13,14
3	Regional Organization Structure	19	6,20
4	Growth in Number of Employees and Offices	21	6,21
5	Growth of Profit and Asset per Employee	22	6,21
6	Loan Disbursement Process	23	6,22
7	Balance Sheet	24	7,27
8	Profit and Loss Accounts	25	8,34
9	Cash Flow Statement	26	9,35
10	Ratios	27	9,36
11	Financial Ratios	28	9,36
12	Major Loan Covenants	29	9,38
13	Assessment of Project Overall Performance	33	11,47
14	Summary of Findings of TA 2833: Strengthening Housing Finance Institution, Part B, Feasibility of Establishing a Mortgage Insurance Fund in India	35	13,55

**HOUSING DEVELOPMENT FINANCE CORPORATION
PRODUCTS PROFILE FOR RESIDENT AND NONRESIDENT INDIANS**

Products	Loan-to-Cost Ratio (%)	Maximum Loan Amount (Rs million)	Maximum Repayment Period (years)	Factors of Repayment Capacity	Up-front Charges (%)	Pre-payment Charges (%)
Loan to Resident Indian individuals						
Home loan	85	10	15	Current salary, fixed expense per month, savings, future earning capacity based on education	1.8	2
Adjustable rate home loans	85	10	20			
Home Extension loans	85	10	15	Current salary, fixed expense per month, savings, future earning capacity based on education	1.8	2
Land purchase loans	85	10	15	Current salary, fixed expense per month, savings, future earning capacity based on education	1.8	2
Home improvement loans	70 for new loan or 100 for existing loan	10	8		1	2
Short-term bridging loans	85	10	2		0.5	
Nonresident premises loans for professionals	85	10	10	Current salary, fixed expense per month, savings, future earning capacity based on education	1.8	2

Products	Loan-to-Cost Ratio (%)	Maximum Amount Loan (Rs Million)	Maximum Repayment Period (years)	Factors of Repayment Capacity	Up-front Charges (%)	Pre-payment Charges (%)
Loans for Nonresident Indian Individuals						
Home loan	85	10	7		2	
Adjustable rate home loans						
Home extension loans	85	10	7		2	
Land purchase loans	85	10	7		2	
Home improvement loans	70 for new loan or 100 existing loan	10	5		2	
Lending through corporations						
Line of credit facilities						
Corporate loan facility						

**HOUSING DEVELOPMENT FINANCE CORPORATION
LOANS DISTRIBUTION**

Table A2.1: Loans, by Location

Area	Number	Amount (Rs million)
Rural	2858	233.95
Urban	4653	567.00
	7511	790.95

Table A2.2: Loans by Employment Status of Beneficiaries

Status	Numbers	Amount (Rs million)
Employed	6,368	637.62
Housewife	364	35.40
Pensioner	20	3.63
Retired	33	4.56
Self-employed	137	24.11
Unemployed	11	1.04
Others	578	84.59
	7,511	790.95

Table A2.3: Distribution of LIG Loans by Income Ceiling and Period

Period	Income Level	Total Number of Beneficiaries
Dec 96-Dec 97	4,500	2,340
Jan 98-Dec 98	4,950	1,181
Jan 99-Dec 99	5,700	802
Jan 00-Dec 00	5,800	562
		4,885

Table A2.4: Loans, by Period

Period (Months)	Number of Beneficiaries	Amount (Rs Million)
0-60	328	44.24
61-84	475	47.91
85-120 .	1,529	162.14
121-156 .	1,479	148.53
Above 157	3,700	388.13
	7,511	790.95

Table A2.5: Individual Loans by Amount

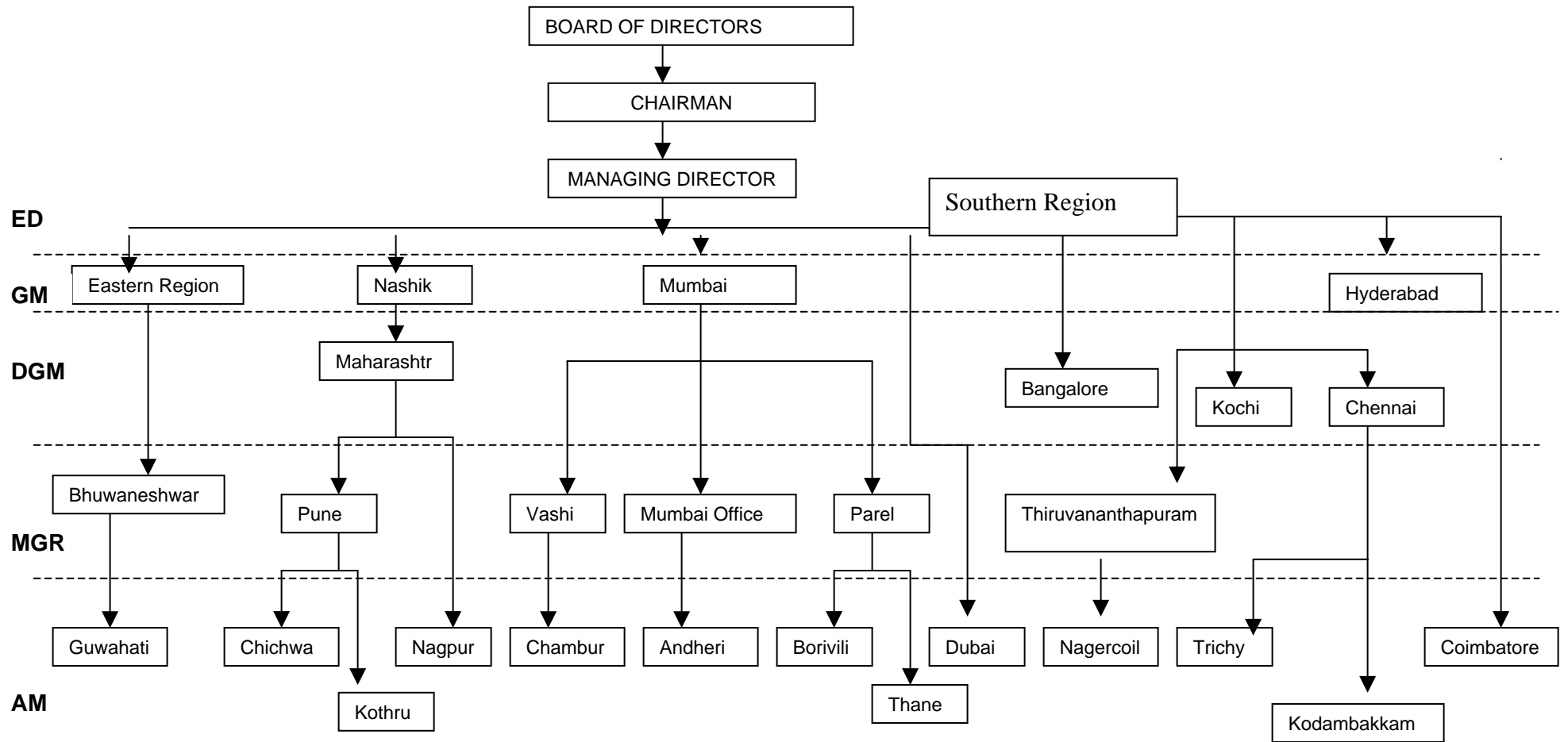
Amount (Rs)	Number	Amount (Rs million)
1-25,000	15	0.38
25,001-100,000	1858	101.60
100,001-200,000	4039	403.51
200,001-300,000	1254	189.14
300,001-500,000	223	53.36
500,001-1,000,000	115	41.83
Over 1,000,000	7	1.13
	7511	790.95

Table A2.6: Rate of Interest of Loans

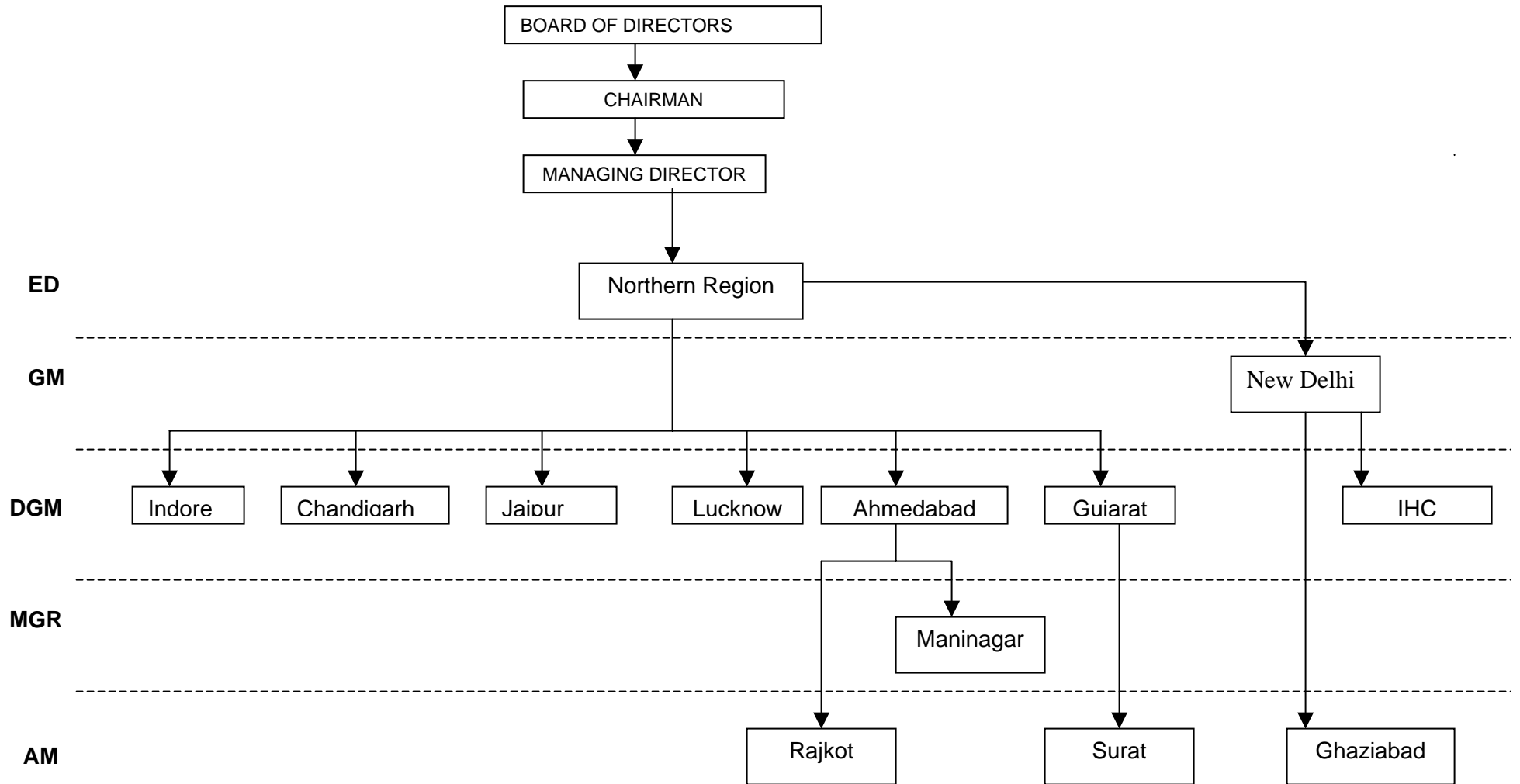
Interest Rate (%)	Number	Amount (Rs million)
Up to 12.50	235	27.48
12.51-13.50	1508	159.92
13.51-14.50	1165	110.13
14.51-15.50	2533	275.97
15.51-16.50	1649	167.56
16.51-17.50	392	44.53
17.51-18.50	29	5.38
	7511	790.95

HOUSING DEVELOPMENT FINANCE CORPORATION

REGIONAL ORGANIZATION STRUCTURE



ED=Executive Director
GM=General Manager
DGM=Deputy General Manager
MGR=Manager
AM=Area Manager



HOUSING DEVELOPMENT FINANCE CORPORATION
GROWTH IN NUMBER OF EMPLOYEES AND OFFICES

Year	Employees	Offices
1981	230	7
1987	575	15
1990	690	24
1992	728	26
1995	771	28
1996	769	29
1997	790	31
1999	814	50
2000	861	67

HOUSING DEVELOPMENT FINANCE CORPORATION
GROWTH OF PROFIT AND ASSET PER EMPLOYEE

Figure A5.1: Profit per Employee

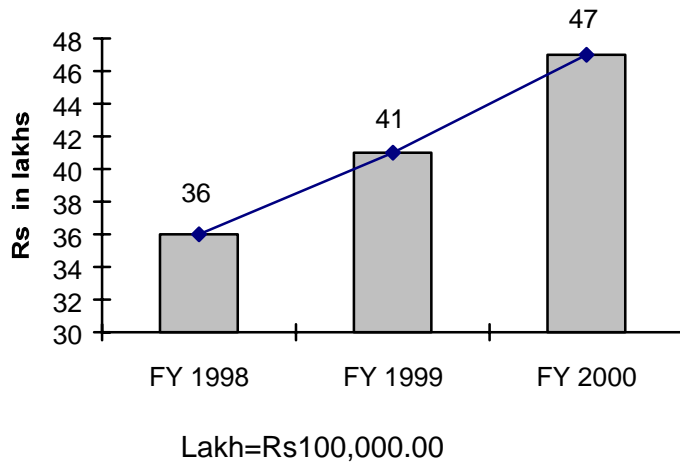
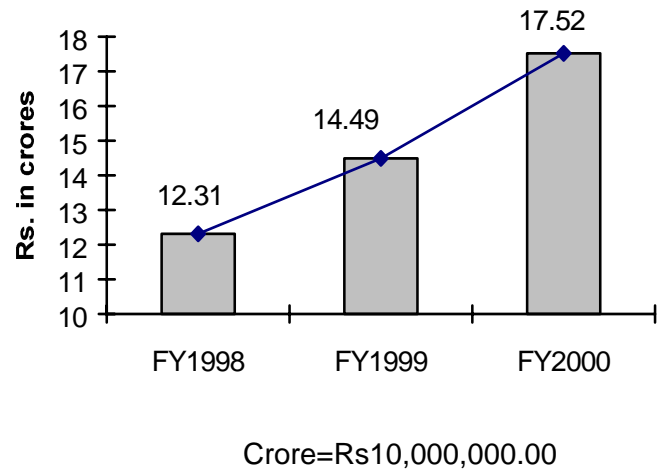
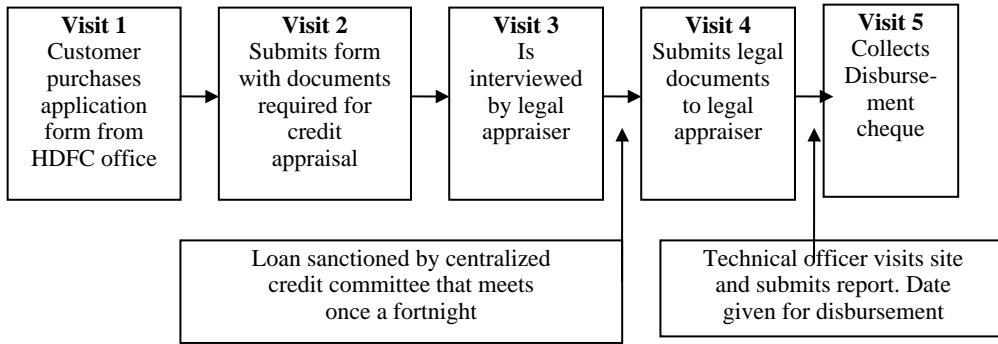


Figure A5.2: Assets per Employee

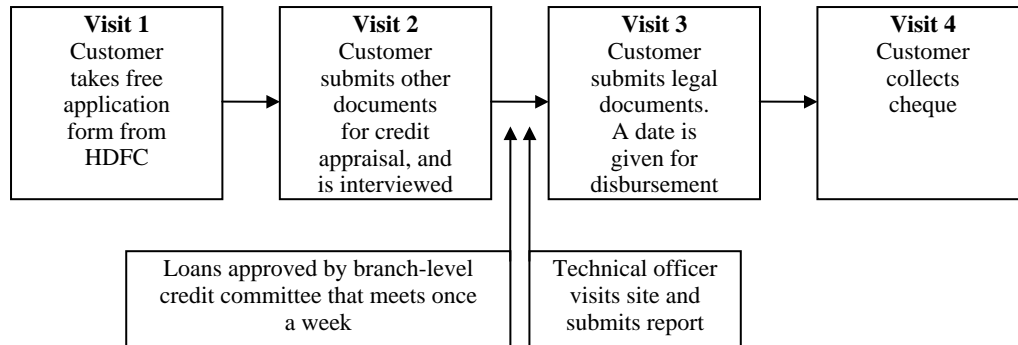


HOUSING DEVELOPMENT FINANCE CORPORATION LOAN DISBURSEMENT PROCESS

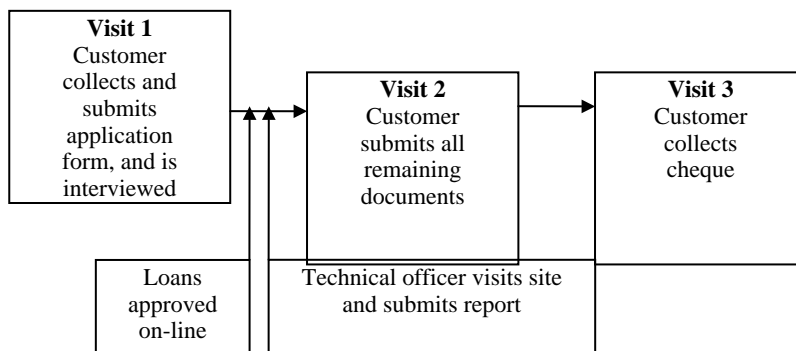
Up to 1992



Up to March 1995



Today



HOUSING DEVELOPMENT FINANCE CORPORATION
BALANCE SHEET

Assets and Liabilities	FY2000^a	FY1999^a	FY1998^a
			(Rs billion)
Assets			
Loans			
Individuals	72.39	56.31	46.63
Corporate	27.11	14.53	22.22
Others	1.13	11.34	.59
	100.63	82.19	69.44
Investments	33.18	24.53	18.23
Fixed Assets	2.14	2.56	2.81
Net Current Assets	14.89	8.67	8.77
Total assets	150.84	117.95	99.25
Liabilities			
Share Capital			
Equity	1.19	1.19	1.19
Reserves and Surplus	19.76	18.52	16.58
Loan Funds			
Term Loans	49.17	35.36	28.67
Bonds & Debentures	18.46	10.23	8.56
Deposits	62.24	52.65	44.23
	129.89	98.24	81.48
Total liabilities	150.84	117.95	99.25

^aAs reported in March of the specified year.

HOUSING DEVELOPMENT FINANCE CORPORATION
PROFIT AND LOSS ACCOUNTS

Item	FY2000^a	FY1999^a	FY1998^a
	(Rs million)		
Interest on Housing Loans	13,285.5	1,151.4	9,765.8
Fees and Other Charges	752.1	689.7	498.8
Income from Investments	5,644.1	4,586.4	3,429.0
Lease Rentals	446.9	641.2	675.5
Other Income	27.0	58.6	77.7
	20,155.6	17,527.3	14,446.8
Interest and Other Charges	14,369.5	12,504.7	9,828.1
Administrative Expenses	662.2	555.8	519.5
Provision for Contingencies	80.0	80.0	80.0
Depreciation	435.8	497.7	505.6
	15,547.5	13,638.3	10,933.2
Profit Before Tax	4,608.1	3,889.0	3,513.6
Provision for Tax	590.0	550.0	580.0
Profit After Tax	4,018.1	3,339.0	2,933.6
Special Reserve I		0.0	0.0
Special Reserve II	1,000.0	1,000.0	1,020.0
General Reserve	466.0	1,175.1	864.6
Dividend – Equity	2,263.1	1,012.5	893.4
Dividend – Preference		.0	33.0
Dividend Tax	249.0	111.4	92.6
Shelter Assistance Fund	40.0	40.0	30.0
Profit After Tax	4,018.1	3,339.0	2,933.6

^aAs reported in March of the specified year.

HOUSING DEVELOPMENT FINANCE CORPORATION

CASH FLOW STATEMENT

Item	(Rs million)		
	FY2000	FY1999	FY1998
A. Cash Flow From Operating Activities			
Profit before tax and extraordinary items adjusted for:	4,608.1	3,889.0	3,513.6
Depreciation (Net of Lease Terminal Adjustment)	416.7	435.5	401.4
Employee Stock Option Expense	18.3	0.0	0.0
Provision for Contingencies	80.0	80.0	80.0
Provision for Retirement Benefits	8.3	6.2	3.8
Profit/ (Loss) on Sale of Fixed Assets	0.1	(15.7)	(33.9)
Operating Profit Before Working Capital Changes	5,131.6	4,394.9	3,964.0
Adjustment for:			
Current Assets	(859.5)	(859.8)	(442.9)
Current Liabilities	2,146.1	1,319.8	824.5
Cash Generated from Operations	6,418.2	4,854.9	4,346.6
Advance Tax Paid	(669.5)	(705.0)	(695.0)
Net Cash from Operating Activities	5,748.7	4,149.9	3,651.6
B. Cash Flow from Investing Activities			
Purchase of Fixed Assets	(303.7)	(194.8)	(550.8)
Sale of Fixed Assets	318.7	25.0	46.8
Investment (net)	(8,641.4)	(6,334.5)	(5,536.6)
Net Cash Used in Investing	(8,626.4)	(6,504.3)	(6,040.6)
C. Cash Flow from Financing Activities			
Share Capital – Equity			
Share Capital – Preference	0.0	0.0	(500.0)
Share Premium			
Borrowing (Net)	31,639.3	16,745.8	16,052.8
Loan Disbursed (Net)	(18,503.6)	(12,752.2)	(12,348.1)
Dividend Paid – Preference Shares	0.0	0.0	33.0
Dividend Paid – Equity Shares	2,203.6	893.4	536.0
Tax Paid on Dividend	360.3	89.3	56.9
Shelter Assistance Reserve – Utilization	33.0	19.1	19.7
Net Cash from Financing Activities	10,538.7	2,991.7	2,559.1
Net Increase in Cash and Cash Equivalent	7,661.0	637.3	170.0
Cash and Cash Equivalent as at the Beginning of the Year	13,130.8	12,493.5	12,323.5
Cash and Cash Equivalent as at The end of the Year	20,791.8	13,130.8	12,493.5

HOUSING DEVELOPMENT FINANCE CORPORATION**RATIOS**

Item	2000	1999	1998
Return on equity (%)	19.8	17.8	16.9
Return on average assets (%)	3.0	3.1	3.2
Earnings per share (Rs) ^a	33.7	28.0	24.3
Book value per share (Rs) ^a	176.0	165.6	149.2
Book value per share including appreciation in value of investments ^a	319.0	193.3	179.0
Dividend per equity share (%)	190.0	85.0	75.0
Dividend pay out ratio (%)	62.5	33.7	33.6
Administrative expenses to average total assets (%)	0.49	0.51	0.57
Cost income ratio (%)	13.8	13.9	14.6
Debt equity ratio	6.2	5.0	4.6
Interest coverage ratio	1.4	1.4	1.4
Capital adequacy ratio (%)	14.05	16.2	17.6
Employees (no.)	861.0	814.0	806.0
Profit per employee (Rs million)	4.7	4.1	3.6
Assets per employee (Rs million)	175.2	144.9	123.1

^a Based on face value of Rs10 per equity share.

**HOUSING DEVELOPMENT FINANCE CORPORATION
FINANCIAL RATIOS**

Figure A11.1: Book Value

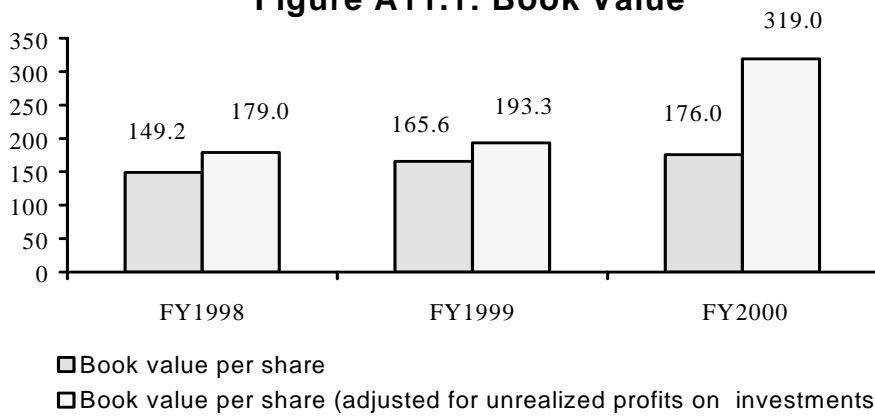


Figure A11.2: Return on Equity

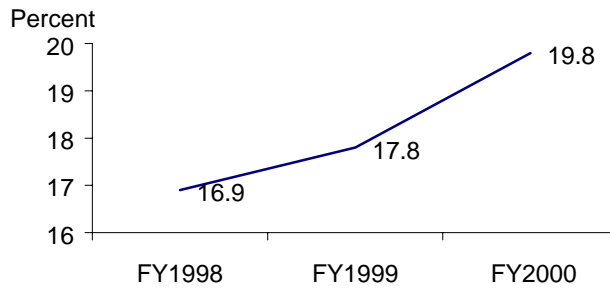
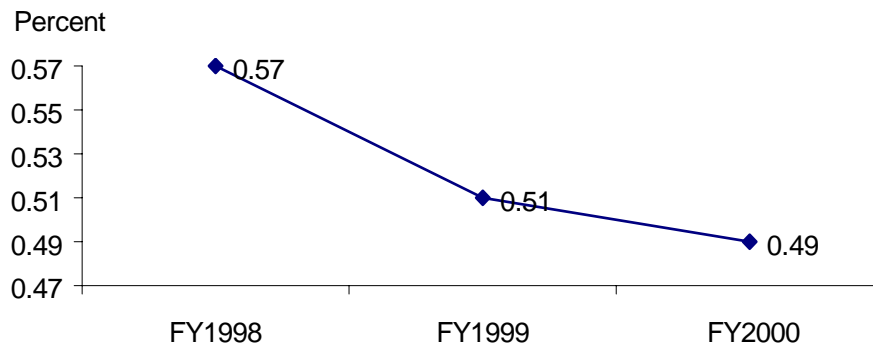


Figure A11.3: Operating Cost to Average Total Assets



HOUSING DEVELOPMENT FINANCE CORPORATION

MAJOR LOAN COVENANTS

Covenant	Reference to Loan Documents	Remarks
1. The Borrower will carry out the Project with due diligence and efficiency and in conformity with sound banking, administrative, financial, engineering, environmental, business, and housing practices.	LA, Section 5.01 (a)	Complied with
2. In the carrying out the Project, the Borrower will perform all the obligations set forth in Schedule 6 to the Guarantor Loan Agreement to the extent that they are applicable to the Borrower.	LA, Section 5.01 (b)	Complied with
3. The Borrower will at all times make adequate provision to protect itself against any loss resulting from changes in the rate of exchange between the rupee and the currency or currencies in which the Borrower's outstanding money obligations will have to be met.	LA, Section 5.02 (a)	Complied with In September 1998, HDFC disbursed a dollar-denominated term loan to a corporate client. As a result, the currency risk was passed onto the corporate client and HDFC's liability was converted into rupee liability. The repayment of this rupee term loan is coterminus with the repayment of the ADB Loan.
4. Except as ADB may otherwise agree, the Borrower may establish immediately after the Effective Date an imprest account at HDFC Bank. This imprest account will be established, managed, replenished, and liquidated in accordance with ADB's "Guidelines on Imprest Fund and Statement of Expenditures Procedures" dated November 1986, as amended from time to time, and detailed arrangements agreed upon by the Borrower and ADB. The initial amount to be deposited into the imprest account will not exceed \$10,000,000.	LA, Section 5.02 (b)	Complied with HDFC drew an initial amount of \$10 million in December 1996 and liquidated this imprest in accordance with the norms. In December 1997, HDFC drew the balance amount of \$10 million as advance in an imprest account and has completed the liquidation of the same.

Covenant	Reference to Loan Documents	Remarks
5. The Borrower will ensure that all additional local-currency funds and other resources, which are required by qualified individuals for carrying out their respective qualified housing proposals, will be available to such qualified individuals promptly as needed.	LA, Section 5.03	HDFC has ensured that all additional local currency funds and other resources required by qualified individuals for carrying out the respective qualified housing proposals are made available to such qualified Individuals promptly.
6. The Borrower will maintain records and accounts adequate to record the progress of the Project and of each qualified housing proposal (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of the Borrower.	LA, Section 5.04	Complied with
7. The Borrower will furnish ADB all such reports and information as ADB may reasonably request concerning (i) the loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the Project; (iii) the qualified individuals, the qualified housing proposals, and the subloans; (iv) the administration, operations and financial condition of the Borrower; (v) any other matters relating to the purposes of the loan.	LA, Section 5.05	Complied with All information required periodically by ADB has been submitted to the Bank as per their requirements.
8. Submission of quarterly progress reports on the execution of the project.	LA, Section 5.05 (b)	Complied with
9. Submission of Project Completion Report.	[LA, Section 5.05 (c)	Draft submitted to ADB Delhi.
10. Submission of audited financial statements and report of the auditors.	LA, Section 5.06 (a)	Complied with These financial statements have formed part of the quarterly submission and met the requirements of ADB.

Covenant	Reference to Loan Documents	Remarks
11. The Borrower will at all times conduct its business in accordance with sound administrative, financial, environmental, business and housing practices, and under the supervision of competent and experienced management and personnel.	LA, Section 5.08 (b)	HDFC has at all times conducted its business in accordance with sound administrative, financial, environmental, business, and housing practices, and under the supervision of senior management of the corporation.
12. Except as ADB and the Borrower may otherwise agree, the Borrower will not sell, lease, or otherwise dispose of any of its assets, except in the ordinary course of its business.	LA, Section 5.08 (c)	Complied with
13. Prior to establishing or acquiring any subsidiary, the Borrower will inform ADB of any such action.	LA, Section 5.08 (d)	<p>Informed in quarterly submissions of the progress reports</p> <p>Since 1997 HDFC has set up the following subsidiaries: HDFC Holding Limited, HDFC Asset Management Company Ltd., HDFC Trustee Company Ltd. HDFC Standard Life Insurance Company Ltd., HDFC Realty Ltd. GRUH Housing Finance Ltd (GRUH) has also become a subsidiary of HDFC and HDFC increased its shareholding in GRUH in financial year 2000/01.</p>
14. Except as ADB and the Borrower may otherwise agree, the Borrower will maintain a ratio of the consolidated debt of the Borrower and all its subsidiaries to the consolidated equity of the Borrower and all its subsidiaries not higher than 12.5:1. For purposes of the foregoing provision, the following definitions are applicable.	LA, Section 5.09	<p>Complied with</p> <p>(Ratio is 5.6:1 for the period ending 31 March 2000 and 5.49:1 for the period ending 31 March 2001.)</p>

Covenant	Reference to Loan Documents	Remarks
15. Except as ADB may otherwise agree, the Borrower will undertake its operations so as to ensure that the consolidated internal cash generation for debt service for each financial year is at least 1.1 times the consolidated debt-service requirement for that financial year. For the purposes of the foregoing provision, the definitions mentioned in the agreement are applicable.	LA, Section 5.10	Complied with (Ratio is 2.52:1 for the period ending 31 March 2000 and 2.34:1 for the period ending 31 March 2001.)
16. Except as ADB and the Borrower may otherwise agree, the Borrower will not take, or cause to be taken, any action that would have the effect of amending, abrogating, assigning, or waiving any provision of, or any right or obligation of the Borrower under the Guarantor's loan agreements, or repay any portion of the Guarantor's loans in advance of maturity.	LA, Section 5.11	Complied with HDFC has not repaid or prepaid any portion of the Guarantor's loans in advance of maturity.
17. The Borrower undertakes that, except as ADB and the Borrower may otherwise agree, (i) if the Borrower or any subsidiary will create any lien on any of its assets as security for any debt, such lien will <u>ipso facto</u> equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan; and the Borrower, in creating or permitting the creation of any such lien, will make express provision to that effect; and (ii) if any statutory lien is created on any assets of the Borrower or any subsidiary as security for any debt, the Borrower will grant ADB an equivalent lien satisfactory to ADB.	LA, Section 5.13 (a)	See item no. 13. Complied with

HOUSING DEVELOPMENT FINANCE CORPORATION
ASSESSMENT OF PROJECT OVERALL PERFORMANCE

Criterion (a)	Weight (b)	Assessment (c)	Rating Value (d)	Weighted Rating (bxd)	Remarks
1. Relevance	20%	Highly relevant Relevant Partly relevant Irrelevant	3	60	90 percent of housing shortage is in the category of LIG and EWS and there is poor and inadequate facility of on-site and off-site infrastructure. The Project was therefore designed with emphasis on LIG housing based on an integrated infrastructure development.
2. Efficacy	25%	Highly efficacious Efficacious Less efficacious Inefficacious	2	50	The Project has been substantially effective in reducing the housing shortage in the designated project towns and other locations in the state. It has generally met its target of 50 percent of the loans to the LIG category. However, it has identified beneficiaries whose income stream is certain and verifiable.
3. Efficiency	20%	Highly efficient Efficient Less efficient Inefficient	3	60	Notwithstanding the constraints at the ground level, the Project has achieved the distinction of effective monitoring and timely initiatives resulting in project implementation and loan utilization ahead of schedule.
4. Sustainability	20%	Most likely Likely Less likely Unlikely	3	60	The financial parameters relating to end use of funds and project implementation have proved that such projects with minor changes are most likely sustainable.

Criterion (a)	Weight (b)	Assessment (c)	Rating Value (d)	Weighted Rating (bxd)	Remarks
5. Institutional developments and other impacts	15%	Substantial Moderate Little Negligible	2	30	The beneficiaries are able to improve quality of the life. Coverage of such benefits is limited to project towns, but it has proved that such projects are relevant and sustainable given the proper institutional framework.
Overall rating				=2.6	

HOUSING DEVELOPMENT FINANCE CORPORATION**SUMMARY OF FINDINGS OF TA 2833-IND: STRENGTHENING HOUSING FINANCE INSTITUTION, PART- B, FEASIBILITY OF ESTABLISHING A MORTGAGE INSURANCE FUND IN INDIA**

1. Mortgage insurance (MI) can expand the volume of lending to first-time and marginal home buyers, not only through the incremental relaxation of certain underwriting standards, but through smooth channeling of funds from a formal finance institution to a nongovernment organization (NGO)/community-based organization's (CBO). MI alone is neither a subsidy, a fresh source of capital, nor a substitute for responsible underwriting by lenders. The sudden increase in total lending should not be expected solely as a result of MI availability at the beginning. However, MI can result in the eventual expansion of the overall size of the housing finance market for these reasons:

- (i) Low- and moderate-income households can have access to the formal housing finance system with the help of MI. The underserved and unserved segments of society, for example, self-employed households and wage earners, will benefit from MI. In addition, it will become easier to direct the flow of loanable funds from finance institutions to informal finance institutions, for example, NGOs/CBOs by providing secure collaterals in the form of MI.
- (ii) The cost of owning a home can be reduced due to the increased efficiency of the housing finance market.
- (iii) The securitization of housing loans can be expedited.
- (iv) Risk management and underwriting standards of housing finance company's can be improved, which will ensure their financial soundness in a changing financial environment.

2. Various credit enhancement methods can be used to protect against default by borrowers:

- (i) The whole loan can be insured by a mortgage insurance fund (USA).
- (ii) Certain predetermined amounts of the loan can be guaranteed by a housing loan credit guarantee fund (South Korea).
- (iii) The amount of the loan can exceed a certain percentage of the loan being insured by a mortgage insurance fund (Australia, Canada, UK, US).
- (iv) Borrowers are required to contribute separately to a reserve fund to cover losses (Denmark).
- (v) Borrowers are required to provide third-party guarantors other than a mortgage insurance or housing loan insurance.