

CHAPTER XI: MINISTRY OF HOUSING AND URBAN POVERTY ALLEVIATION

Housing and Urban Development Corporation Limited

11.1.1 Non-adherence to the guidelines

The Company did not adhere to the Reserve Bank of India guidelines and lacked control mechanism to monitor the utilisation of funds borrowed from banks for housing specific purposes.

Housing and Urban Development Corporation Limited, (Company) provides long term finance for construction of houses and urban development programmes. For this purpose, it raises funds through scheduled commercial banks (banks), financial institutions, bonds and public deposits.

During the period from April 1999 to March 2009, the Company borrowed funds aggregating Rs.6,535.25 crore from banks for housing purposes. The banks had lent funds to the Company subject to the guidelines laid down by the Reserve Bank of India (RBI) which stipulated that term loans could be granted by the banks to housing intermediary agencies* against the direct loans sanctioned/proposed to be sanctioned by these agencies. Loans upto Rs.five lakh per housing unit by housing intermediary agencies were to be treated as priority sector loans by the banks.

Audit scrutiny of funds borrowed by the Company from banks for housing sector during April 1999 to March 2009 revealed the following:

- The amount of Rs.6,535.25 crore borrowed from banks for housing sector lending (including Rs.5,031.25 crore for priority sector lending), was to be disbursed directly to the end users. The Company, however, disbursed only Rs.843.11 crore directly to the end users (including Rs.147.10 crore for priority sector). Thus, the Company did not lend Rs.5,692.14 crore as per RBI guidelines (which included Rs.4,884.15 crore meant for priority sector lending).
- The Company had borrowed funds aggregating Rs.8,813.92 crore during April 1999 to March 2009 but exact purpose for raising these loans was not specified in the respective loan agreements. These loans were classified broadly as 'Housing & Urban Infrastructure', 'Housing & Infrastructure', 'Housing & Social Infrastructure' etc. As housing loans were subject to separate RBI instructions these loans should have been classified separately and not merged with other loans.

* Like Housing and Urban Development Corporation Limited

- Funds amounting to Rs.771.76 crore disbursed by the Company for non-housing schemes like construction of commercial complex, office complex, river front development, development of Golf course, etc, were classified as housing loans.

The Management mainly stated (May 2009) that:

- The Company did not treat the bulk loans given to Government agencies for housing purpose as diversion of housing funds. The Company was funding to priority sector through Government agencies and was adhering to criteria of priority sector as defined by the Ministry of Housing and Urban Poverty Alleviation and the Planning Commission, which varied from the criteria adopted by the RBI.
- It would be difficult and imprudent proposition to maintain separate accounts (purpose-wise) for loans. However, due care was taken to ensure that the borrowings were deployed for the stated objectives.
- Area Development Schemes, viz., commercial and office complex, river front development, development of Golf course, etc., for township are being classified under 'Housing Schemes'.

The reply of the Management is not convincing as:

- The Company had agreed to comply with the RBI instructions while borrowing funds from banks for housing purposes. Therefore, it should have ensured that the instructions of the RBI were followed while utilising such funds. The RBI confirmed (August 2008) that bulk loans disbursed by the Company to State Housing Boards, Urban Development Authorities and Private builders could not be treated as direct loans by the Company.
- Absence of mechanism for monitoring sector-wise mobilisation and utilisation of funds led to diversion of priority sector funds to non-priority areas and of funds meant for direct retail lending to bulk lending.
- Schemes like construction of commercial complex, office complex, river front development, development of golf course, etc., can not be treated as Housing loans.

Thus, absence of a control mechanism in the Company to monitor the mobilisation and utilisation of borrowings for the specified purpose led to lending of Rs.5692.14 crore in violation of the RBI guidelines of which Rs.4884.15 crore pertained to priority sector.

As the Company would continue to borrow funds for housing purposes in future also, it is recommended that proper monitoring mechanism may be set up to ensure compliance of the RBI guidelines.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).