OVERVIEW

The total housing shortage in the country in 1997 was estimated to be 13.66 million units. More than 90 *per cent* of this shortage was for the poor and low income category. With rising incomes, favorable demographic profiles, swelling middle class and rapid urbanisation, the demand is projected to rise to 73.96 million units during the 11th Plan period (2007-2012).

In 1998, the Government of India formulated the National Housing and Habitat Policy which stressed, *inter alia,* on removal of legal, financial and administrative barriers for facilitating access to loans, finance and technology. The draft National Urban Housing and Habitat Policy-2005 document, while narrowing its focus to urban shelters, also emphasised the need for the larger flow of funds for the housing sector.

After setting up of the National Housing Bank in 1988 to accelerate housing finance activity and to act as the regulator of the housing industry, the public insurance companies and the Scheduled Commercial Banks (SCBs) floated separate Housing Finance Companies (HFCs). As on 31 March 2006, 44 HFCs were registered with the National Housing Bank of which, seven were Central public sector companies under the audit jurisdiction of the Comptroller and Auditor General of India. Of late, the SCBs have themselves aggressively entered the housing loan market giving stiff competition to the HFCs, including their own subsidiaries.

Housing loan disbursements in the country have risen from Rs.23858 crore in 2001-02 to Rs.86034 crore in 2005-06, recording a growth of 261 *per cent* during the period. The Central public sector HFCs' share of the market has however, decreased from 10.19 *per cent* in 2001-02 to 2.63 *per cent* in 2005-06. Against this background, a performance audit of the following five Central public sector HFCs for the period from 2001-02 to 2005-06 was conducted:

Housing and Urban Development Corporation Limited (HUDCO)
BOB Housing Finance Limited (BOBHFL)
Cent Bank Home Finance Limited (CBHFL)
IDBI Home Finance Limited (IHFL)
PNB Housing Finance Limited (PNBHFL)

HUDCO is under the administrative control of the Ministry of Housing and Urban Poverty Alleviation; the other four HFCs, subsidiaries of the Nationalised banks, are under the administrative control of the Ministry of Finance, Government of India. These five HFCs operated through 99 Regional Offices or Branches across the country as on 31 March 2006.

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

The ability of the HFCs to raise resources at the lowest cost is constrained as compared to banks due to the absence of access to low-cost retail deposits. The five HFCs mainly raised funds through bonds, bank loans and commercial papers. The Public Deposits and the NHB refinance routes were not resorted to in a big way and the option of raising finance through securitisation of assets has not been resorted to by any of the HFCs reviewed in audit. Except for IHFL, the other four HFCs borrowed at comparatively higher cost.

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

During audit of the important performance indicators of the five HFCs, two discernible trends in decline in housing disbursements and rising level of non-performing assets were noticed in HUDCO, CBHFL and BOBHFL, while PNBHFL and IHFL performed well against these two benchmarks. The major factor leading to higher level of non-performing assets in HUDCO, CBHFL and BOBHFL was the inadequate functioning of various controls relating to appraisal, sanction, disbursement, monitoring and recovery.

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