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International Finance Corporation

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IFC Investment in India For Housing Development

Under an agreement signed on May 19 with the International Finance Corporation (IFC), Washington, Housing Development Finance Corporation Limited (HDFC) has successfully completed its next step towards raising resources for establishing India's largest nation-wide, private sector housing finance institution. IFC has agreed to subscribe to equity shares of Rs 5 million by way of firm subscription and to provide a loan of up to \$4 million (about Rs 32 million) on commercial terms.

HDFC has been promoted by the Industrial Credit and Investment Corporation of India Limited (ICICI) to provide long-term finance mainly for middle and lower income residential housing. The project is seen as a significant step in fostering a steadier supply of housing finance from the capital market, supporting broader home ownership throughout India, and permitting a greater devotion of Government Funds to housing the weaker section of society. The Government is actively engaged in housing development and has provided important tax concessions in the recent budget.

HDFC is making an initial issue of equity capital of Rs 100 million of which shares of Rs 50.1 million have already been privately allotted to industrial concerns, banks, insurance companies and financial institutions. Shares of Rs 5 million have been reserved for offer to IFC and shares of Rs 5 million have been kept reserved for offer to His Royal Highness The Aga Khan. The remaining share capital of Rs 39.9 million is being offered to the public and the subscription list would open on May 23, 1978.

The present shortfall in the availability of housing finance, together with previous unfulfilled needs, are creating a significant increase in the demand for loan finance that cannot be entirely met from existing and projected sources. While HDFC's direct contribution in meeting the need for housing finance will be modest, relative to the demand, it is expected that this initial effort will help accelerate the process of housing development in India.

While this type of institution has existed for sometime elsewhere, notably building societies in the United Kingdom and savings and loan associations in the United States, this is the first attempt in India by a private institution to mobilize and transform savings into long-term investments appropriate for housing finance and to encourage new, essentially small household savings in housing finance institutions.

(Any inquiries strictly relating to IFC's participation in this project should be directed to the IFC Information Office, 1818 H Street, N.W., Washington, D.C. 20433, Telephone (202) 477-5340.)