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Report No. 11453

PROJECT COMPLETION REPORT

INDIA

HOUSING DEVELOPMENT FINANCE CORPORATION PROJECT
(LOAN 2929-IN)

DECEMBER 21, 1992

Infrastructure Operations Division
Country Department II
South Asia Regional Office

Currency Equivalents

Currency Name = Rupee (Rs)
US$1.0 = Rs 13.3
(At Appraisal, 1987)

US$1.0 = Rs 21.6
(At Closing, 1991)

Fiscal Year of Housing Development Finance Corporation, Ltd.

Fiscal Year 1988 and earlier: July 1 - June 30
Fiscal Year 1989: July 1, 1988 - March 31, 1989
Fiscal Year 1990 and later: April 1 - March 31

Abbreviations

CHS	Cooperative Housing Society
GIC	General Insurance Corporation
GOI	Government of India
HDFC	Housing Development Finance Corporation, Limited
HFI	Housing Finance Institution (generic term)
HLA	Home Loan Account, a contractual savings scheme of NHB
HUDCO	Housing and Urban Development Corporation, Limited
KfW	Kreditanstalt für Wiederaufbau, Germany
LIC	Life Insurance Corporation
MOF	Ministry of Finance, GOI
MOUD	Ministry of Urban Development, GOI
NHB	National Housing Bank
RBI	Reserve Bank of India
SAR	Staff Appraisal Report (No. 7081-IN), dated February 12, 1988

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THE WORLD BANK
Washington, D.C. 20433
U.S.A.

Office of Director-General
Operations Evaluation

December 21, 1992

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Completion Report on India
Housing Development Finance Corporation Project (Loan 2929-IN)

Attached is a copy of the report entitled "Project Completion Report on India - Housing Development Finance Corporation (HDFC) Project (Loan 2929-IN)" prepared by the South Asia Regional Office with Part II contributed by the Borrower.

HDFC implemented the project ahead of schedule in an efficient, market-based manner. Unfortunately, the policy environment deteriorated with increased distortions, heavy subsidies and restrictive regulations.

The Project Completion Report rates the project as a success and sustainability as likely with appropriate qualifications regarding sector policy changes and risks.

More progress on the regulatory and incentive framework is highly desirable to give housing finance the place it deserves in the Indian financial system.

The project will be audited.

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PREFACE

1. This is the Project Completion Report (PCR) for the Housing Development Finance Corporation Project, for which Loan 2929-IN in the amount of US$250.0 million equivalent was approved on March 31, 1988. The Housing Development Finance Corporation was the borrower of the loan and the Government of India, Guarantor. The loan was fully disbursed by February 13, 1991, seven months ahead of the scheduled closing.

2. This PCR was jointly prepared by the Infrastructure Operations Division, Country Department II, South Asia Regional Office (Preface, Evaluation Summary, Parts I and III), and the Borrower (Part II).

3. Preparation of this PCR was started during the Bank's final supervision mission in December, 1991, and is based, inter alia, on the Staff Appraisal Report, the Loan and Guarantee Agreements, Executive Project Summaries, supervision reports, correspondence between the Bank and the Borrower, and internal Bank memoranda.

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HOUSING DEVELOPMENT FINANCE CORPORATION PROJECT
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EVALUATION SUMMARY

1. Objectives. The project, which was carried out during a period of rapid transition in India's capital markets, aimed at (a) supporting continued growth of the Housing Development Finance Corporation (HDFC) which was at the time the only significant market-oriented housing finance institution in India, and (b) helping to establish a sound framework for market-oriented housing finance in India. Specific objectives included: (a) the extension of HDFC's lending to a wider geographical areas and to a broader group of middle and lower-income beneficiaries; (b) the development of HDFC's institutional capacity and its assistance to new housing finance institutions (HFIs); and (c) establishment of a supportive and regulatory framework for HFIs.

2. Implementation Experience. HDFC carried out the project competently and efficiently. It nearly quadrupled its lending volume over the three-year project period and increased the number of its branch offices from 15 to 25. It also allowed longer maturities (up to 20 years) and graduated payment schedules for an increasing portion of its loans, making them more affordable. While expanding its size and diversity, HDFC maintained the quality of its appraisal and collection practices and increased its operating efficiency and profitability. External borrowing, including not only the Bank loan but also US$70 million borrowed from USAID and IFC during FY 1988-91, was the key to HDFC's expansion during the period as its deposit mobilization decreased partly due to new regulatory restrictions. Technical assistance and training under the project helped HDFC decentralize and computerize its operations and establish a high-calibre training facility not only for its own staff but also staff of other HFIs. The project also assisted institutional development of three new HFIs which subsequently grew rapidly.

3. While HDFC continued its strong growth and development, the market and regulatory environment deteriorated during the project period. India's growing macroeconomic difficulties led to increased financial and regulatory constraints. The National Housing Bank (NHB), newly chartered around the time the project started, responded to these difficulties as well as its mandates by promoting refinancing and resource mobilization schemes involving heavy subsidies and restrictive regulations. By the time the project started, it remained unclear whether NHB would develop as an apex lender of directed credit, as it turned out, or as a regulator and promoter of market-oriented housing finance. The project included several measures to induce NHB to take the latter course of development and to ease financial and legal constraints for market-oriented HFIs. These measures, however, were not effective, and only the project loan itself provided some protection for HDFC against the impacts of the deteriorating sector environment.

4. Results. The project helped finance about 300,000 housing units, much more than all other housing units and plots built with Bank financing in India. While HDFC's loans have generally benefitted a broad clientele of urban middle-income groups, the Bank's long-term loan allowed HDFC to offer more affordable loan terms and thereby to reach more lower-middle income borrowers. The project also helped increase the financial stability and operational efficiency of HDFC, reinforcing the visible model of market-based housing finance in the face of increasing financial and regulatory constraints during and after the project. The number and size of HFIs have grown rapidly during the project. However, their operations have come to be based less on market intermediation but more on directed credits due to the macroeconomic, financial and regulatory constraints that grew during the project period.

5. Sustainability. There is little question that the direct benefits of the project - the housing units built partly with the loan, the affordable loan products, HDFC's stable financial structure, and organizational efficiency of HDFC and other HFIs - will be sustained. However, the growth of HDFC and other HFIs will be limited in the short term by the macroeconomic conditions, and in the long term by structural distortions such as restricted and uneven access to market funds, regulated borrowing and lending rates, and weakness in mortgage security. Directed credits and cross-subsidies which have grown more important in HFIs' operations during the project period would not be sustainable, especially as India's financial sector in general becomes more liberalized. It would be essential, therefore, to ease the various distortions if the housing finance system is to grow and meet the increasing demand, especially by the rapidly growing urban middle-income groups.

6. Findings and lessons learned.

(a) The efficient manner in which HDFC implemented the project confirms that competent, market-oriented housing finance institutions are among the most efficient and sustainable channels of mobilizing and allocating resources for housing, especially for middle-income groups; but

(b) Viability of market-oriented housing finance depend critically on the policy environment. Specifically, restricted or uneven access to funds, restrictions on borrowing and lending terms, and weak mortgage security will limit the benefits and growth of housing finance; and

(c) Effective reform of policy framework requires well-defined sequence of actions involving key policy agencies.

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PART I : PROJECT REVIEW FROM THE BANK'S PERSPECTIVE

A. Project Identity

Project Name:	Housing Development Finance Corporation Project
Loan Number:	2929-IN
RVP Unit:	Country Department II, South Asia Regional Office
Country:	India
Sector:	Infrastructure
Subsector:	Housing

B. Background

1. Sector Context. For most of post-Independence period, India's financial sector has served mainly as a mechanism for the Government to direct resources to desired uses, through complex sets of regulations and institutions. Since the late 1970s, steps were taken gradually to increase competition and diversity in the financial market, including the permission for non-financial companies to issue certificates of deposit (CDs) and bonds. By the late 1980s, however, the growing deficit of the Government and deteriorating competitive position of nationalized banks were threatening the progress of liberalization.

2. Under the directed credit system, housing was considered a low-priority sector and was allocated a marginal amount of formal credit, which financed less than 10% of housing investment. Most of the credit was channeled to public housing authorities and Cooperative Housing Societies (CHSs) through the Housing and Urban Development Corporation (HUDCO) and the state apex CHSs. Heavily burdened with defaults and subsidies, this system was fiscally costly and yet benefitted mostly middle- and upper-middle income groups. The cost limited its growth and sustainability, and housing investment as a percentage of GNP declined.

3. On the other hand, the Housing Development Finance Corporation (HDFC), founded in 1977 with a diverse institutional sponsorship, succeeded in establishing retail mortgage lending as a commercially viable business. It lent long-term mortgage loans (up to 15 years) to middle income clientele at market rates and collected repayments with few arrears, even though security of mortgage collateral was relatively weak under the existing legal system. Though it did not enjoy the subsidies and guarantees that were given to public sector financial institutions, it was able to exploit capital market niches which were opening in the process of financial liberalization. It also borrowed a substantial part of its resources from IFC, one of the main equity participants, and USAID. As a result, it grew by over 30% a year consistently so that its lending volume rivaled HUDCO's by the late 1980s.

4. The failure of the existing housing finance system prompted the Government, starting from 1985, to consider establishing a National Housing Bank

(NHB) to lead an alternative system of housing finance. While HDFC's success, which was encouraging several new institutions to enter the market, clearly influenced the policy deliberation, considerable support remained for consolidating and expanding the directed credit system. The debates continued during the project preparation and the NHB bill which passed the parliament in late 1987 left room for NHB to take either direction. Although NHB's status as a subsidiary of the Reserve Bank of India indicated an emphasis on regulatory role, NHB's staffing and direction were still unspecified by the time the Board approved the project.

5. Bank Group Assistance for Housing. Improving housing conditions has been one of the major focuses of the Bank Group's assistance to India's urban sector, with specific aims of enhancing affordability and mobilization of private initiative and resources. These aims have been pursued mainly through sites and services investments and slum upgrading, included in most urban development projects. These projects introduced efficient physical design strategies and long-term (15 year) mortgage financing through public sector agencies which were responsible for construction and financing. However, these projects suffered from various implementation problems and their impacts were limited. HDFC presented an efficient and progressive alternative for the Bank Group's housing sector assistance. Furthermore, the uncertainty about the direction of NHB and the housing finance sector in general at the time presented the Bank a good opportunity to promote development of market-oriented housing finance.

C. Project Objectives and Description

6. Project Objectives were to support (SAR para 4.01):

(a) extension of HDFC's lending to a wider geographical area and to a broader group of middle and lower-income beneficiaries;

(b) further institutional development of HDFC's role as an innovator and advocate of market-oriented finance, and as sector leader assisting the entry and development of similar institutions;

(c) sector development of a supportive regulatory framework to ensure the financial integrity of housing finance institutions and their capacity to mobilize resources at market rates.

7. Project Description. The project was to finance 30% of mortgage loans disbursed by HDFC, provided that at least half of the Bank loan was relent to households with incomes below urban median. The project also included technical assistance and training required for expansion of HDFC branch network, management decentralization, computerization, and for its assistance to new HFIs - Confine Homes, Housing Promotion Finance Co., and Gujarat Rural Housing Finance Co. Financial and management performance standards required of HDFC under the project included adequate debt-equity ratio (less than 17.5) and loan loss provisions (more than 0.4% of outstanding loans). The second tranche of the Bank loan or US$100 million was to be disbursed only after NHB had begun implementing prudential regulation of HFIs and promoting market-oriented resource mobilization instruments; and a committee (constituted in 1987) had made final recommendations to the Ministry of Finance for establishing a mortgage insurance system and a mechanism to facilitate adjudication of mortgage claims.

D. Project Design and Organization

8. Critical in evaluating the project design and implementation is the role of HDFC in India's housing finance sector as a whole. Up to 1988, HDFC was virtually the only market-oriented housing finance institution in India. Further, its operation was exemplary and its leadership role and demonstration effect for the sector were apparent. Hence, supporting HDFC was virtually synonymous with supporting market-oriented housing finance, as opposed to old directed credit system. The project was heavily underpinned by this perception, and can be seen firstly as an endorsement of HDFC's record and directions it represented and a support for its continued growth and innovation. The project, which financed HDFC's operations only, was effective in this regard.

9. Soon after the project start, however, NHB began assuming an increasingly critical role in shaping the sector, largely in a direction contrary to one supported by the project. At the time of project appraisal, the Bank recognized the potential of such a development and tried to focus NHB's attention, through disbursement conditions, toward establishing and safeguarding an enabling environment for market-oriented housing finance. However, these provisions were vague and their interpretation and enforcement depended on the willingness and authority of the Government of India (GOI) to direct NHB's actions, giving the Bank a weak and indirect leverage. The same was true of the other disbursement condition, which required an independent sitting committee to take initial steps toward establishing mortgage insurance and adjudication systems. This indirect and tentative approach severely limited the policy impact of the project.

10. It was difficult to involve NHB and the sitting committee more directly and define their actions more specifically at the time of project appraisal, October 1987, when the NHB bill was pending in the parliament and the sitting committee had just been constituted. Delaying the appraisal or negotiation several months until NHB started operations would have allowed the Bank to establish a working relationship with NHB during its formative stage and better define policy actions essential for sector development. Such a delay, however, could have led to a wider scope and more complex arrangements, risking the simplicity and a promise of quick disbursement. In retrospect, it appears that the delay and some additional complexity would have been worthwhile and essential to achieving sector development objectives of the project.

E. Project Implementation

11. Under the project, HDFC expanded its operations much faster than projected. Its loan disbursements grew from Rs 1.8 billion in FY 1987 to Rs 6.7 billion in FY 1991, compared with the appraisal projection of Rs 4.0 billion. Although the Rupee was devaluated faster than projected, the growth of HDFC's exceeded the original projection in real terms and HDFC fully drew down the Bank loan by February 1991, slightly ahead of schedule. The fast disbursement was in itself an important accomplishment, as most of the Bank-financed projects in India in general and urban and water sector, in particular, experienced long implementation delays, contributing to a persistent gap between planned and actual foreign savings.

12. HDFC opened ten new branch offices during the project period, compared with the nine planned. Technical assistance and training were carried

out generally as planned. The most important of these were the installation of a minicomputer and establishment of the Housing Finance Training Center, which began offering training courses not only for HDFC staff but others from housing finance institutions within and outside India. Consultant studies and training on organization and operations helped regional decentralization and the 1991 reorganization of the headquarters. HDFC also provided staff on deputation for three new HFIs and provided training for other staff of these HFIs generally as planned, although the Bank loan was not withdrawn for the services as they could not be priced under the existing accounting system. Foreign consultants were not employed under the project, though 13 person-weeks were planned at appraisal.

13. The impressive growth of HDFC's lending was not paralleled by increases in domestic market resources. In particular, net deposits, which funded more than half of its loan disbursements in FY 1987, declined in absolute terms during the project period and represented only a little over 10% of HDFC lending in FY 1991. Growth in other domestic borrowing also lagged behind lending growth, so that all domestic market resources accounted for less than a third of its lending during the project period. The rest consisted of housing loan repayments, NHB refinancing which HDFC began to use from FY 1991, and most importantly, foreign borrowing which amounted to more than a third of HDFC's lending during the three years FY 1988-91. In addition to the Bank loan equivalent to 30% of its lending, HDFC had access to: the project's retroactive financing provision during FY 1989; to US$30 million under the Housing Guaranty program of US Agency for International Development (USAID) in FY 1990; DM 25 million line of credit from Kreditanstalt für Wiederaufbau (KfW) during FY 1991; and to US$40 million loan from IFC in March, 1991.

14. While the average deposit interest, about 11.9% per year, was slightly lower than 12.5% interest on most of the other domestic and foreign institutional loans (except the IFC loan which was swapped at 13.5%), the transaction costs and the volatility made the deposits relatively unattractive. Further, deposit mobilization was made more difficult by a 1989 NHB regulation which barred HFIs from accepting deposits with maturities of less than two years, designed by the Government to protect commercial banks from competition. However, the fact that HDFC could mobilize nearly three times the net deposits in FY 1992 as the year before indicates that the decrease in net deposits during the project period was neither primarily due to the regulation nor was it a reflection of any lasting reduction in HDFC's capacity to compete for domestic market resources. The Bank's decision to increase the loan amount from the originally planned US$150 million and to allow retroactive financing as well as the other foreign loans not foreseen by the Bank apparently allowed HDFC to choose to replace deposit mobilization by the foreign funds to a substantial extent. On the other hand, without the foreign borrowing or at least a large part of it, HDFC would not have been able to sustain its growth during the project period, when the capital market conditions worsened rapidly and domestic resource mobilization in general became severely limited.

15. During negotiations, it was agreed that HDFC would hedge foreign exchange risks through a swap transaction. It was implied that, by a market swap with a non-governmental entity, HDFC would avoid the unnecessary risk without burdening the Government. To enable the transaction, the Bank allowed the Special Account balance to be used for swap. However, due apparently to difficulty of arranging frequent and small swaps with a non-governmental entity,

HDFC eventually entered a swap agreement with the Government which essentially amounted to an on-lending arrangement at 12.5% per year, a rate higher than normal in on-lending arrangements but consistent with the average cost of long-term domestic funds to HDFC.

16. The Loan Agreement (Schedule 1, para 2 (b)) specified, as conditions of disbursing more than US$100 million for HDFC's mortgage loans (described as "the second tranche" in the SAR), that the NHB should implement "specific proposals to: (i) regulate financial standards and operating procedures of housing finance institutions in India; and (ii) promote resource mobilization instruments to encourage market-oriented intermediation in housing finance sector". In June 1989, NHB issued a regulation governing operation and finance of the housing finance companies, including the ban on shorter-term deposits mentioned in para 14 above. It also established a refinancing scheme, with bi-lateral support, under which NHB would provide credits at subsidized interest rates to commercial banks, CHSs, and HFIs for certain types of housing, with emphasis on low-income housing. For resource mobilization, NHB had housing designated as a priority sector for which 1.5% of incremental deposits with the commercial banks were to be lent, one third of which to NHB and HUDCO. Seeing the large branch networks of the commercial banks and CHSs as good channels for fast expansion of the housing mortgage program under its guidance, NHB promoted the Home Loan Account (HLA) scheme which offered tax concessions and a promise of below-market rate mortgage loans through these institutions.

17. It was apparent that NHB chose to follow the path toward expanding the directed credit system for housing, with some modifications to be managed by itself as a apex lender. rather than as a regulator and an advocate for a market-oriented HFIs as the project tried to encourage. Its actions therefore were inconsistent with the intentions of the tranche conditions, especially regarding the resource mobilization instrument (ii). However, the conditions were defined vaguely enough to allow an argument that NHB's schemes complied at least with the letters of the provision. Therefore, after discussions with NHB and GOI to reverse some of the actions of NHB or add more market-oriented measures failed, the Bank allowed the disbursement to continue. Once NHB established its directions, even if the Bank could have won a legal argument and suspended disbursement of the second tranche, it would not have served any purpose other than weakening HDFC. In retrospect, therefore, neither the timing the tranche conditions took effect nor the actions specified did not prove to be effective in ensuring consistency of NHB's actions with the project's aims.

18. Another second tranche condition was that "the Sitting Committee [should] agree upon and submit to the Insurance Department of the Ministry of Finance recommendations relating to establishment of a mortgage insurance system and a system of adjudication for mortgage claims". This, again, was a vague provision which was followed only to the letter. The sitting committee's recommendations were not consistent with promoting prudent appraisal by the lender nor with competitive insurance provision and did not specify realistic steps to establish a special adjudication system for mortgage claims. For these reasons, the Insurance Department ruled that "it is premature to implement the recommendations". Later, in 1991, NHB did formulate a more realistic proposal to enhance the security of mortgages covered under its refinancing scheme.

F. Project Results

19. The project directly helped finance about 300,000 housing units, much more than all the housing units and plots constructed under ten other Bank-financed projects in India. Most of them were built efficiently and utilized immediately, unlike housing built by public authorities. The 20-year Bank loan enabled HDFC offer more mortgage loans with longer terms (20 years versus 7 - 15 years) and graduated payment schedules that made repayment burdens lighter and hence the loans more affordable. Loans with these features, negligible at the start of the project, accounted for more than 20% of individual housing loans (excluding construction loans and mortgage loans through corporations) by FY 1991. It also began offering home extension and repair loans. The expanded branch network also shifted the relative distribution of HDFC's loans away from the large cities with high cost and high incomes, especially Bombay, in favor of smaller cities with lower incomes.

20. As a result, the median household income of HDFC borrowers rose more slowly than inflation over the project period, from Rs 2000 in 1987 to Rs 2700 in 1991, a 35% rise compared with a 44% increase in consumer prices. In order to ensure benefits for lower-income groups, the project required that at least one half of the Bank loan or 15% of total HDFC lending should be lent to borrowers earning less than the median income of urban households, which was estimated at Rs 1700 a month in 1987 and assumed to rise only at the rate of inflation. Even under this restrictive assumption, the number of below-median income borrowers always exceeded one third of the total and the amount exceeded 25% of total loans sanctioned in each year of the project period. Despite the increases of the maximum loan size from Rs 100,000 in 1987 to Rs 500,000 in 1991 and of the loan-to-value ratio, the average size of HDFC loans increased by less than inflation, from about Rs 50,000 in FY 1987 to Rs 68,000 in FY 1991, and the relative amount lent to borrowers with monthly household incomes of Rs 3000 or more changed little despite inflation.

21. HDFC increased the size and diversity of its lending without any sacrifice in its portfolio quality or financial performance. It met all the financial and management standards required during the project period, increased its efficiency (increasing its staff by about 25% while more than doubling lending in real terms), increased profitability (25-33% on equity), and more than doubled the equity capital. By borrowing long-term loans from the Bank and other foreign sources, HDFC secured a close match between the terms of liabilities and assets. It avoided the foreign exchange and interest risks by swapping the foreign loans for fixed-rate Rupee loans with the Government and a domestic development finance institution.

22. In short, HDFC used the Bank assistance to expand and improve its operations beyond expectations. While these results by themselves and through demonstration effects contributed substantially to development of market-oriented housing finance, the project was not effective in influencing the development of housing sector framework, in particular that of NHB. Mainly due to the general credit tightening and partly due to sector-specific regulations, resource mobilization by HFI is more restricted today than before the project. The only additional resource available to HFIs today is the refinancing offered by NHB, which accounted for about a quarter of HDFC lending in FY 1992 and about half for other HFIs. Mortgage lending rates are more rigidly regulated, with six different rates compared with two before. Loans smaller than a certain size

(supposedly for lower-income borrowers) carry rates lower than the market cost of capital and hence can be funded only by the subsidized NHB refinancing scheme. Only after firmly establishing the refinancing program, did NHB begin to take initiatives more consistent with market-oriented housing finance, building supervision capacity, promoting measures to enhance security of mortgage claims and assisting securitization of HDFC's mortgage assets.

23. Canfin Homes and the Gujarat Rural Housing Finance Co. which received technical assistance from HDFC under the project, grew rapidly and disbursed a combined total of Rs 1.7 billion in FY 1991. However, another HFI who similarly benefitted, the Housing Promotion Finance Corporation, performed less well due to the depressed economic conditions of its market region, north-east India. HDFC's influence is evident in the similarity of operating procedures of these institutions. At present, partly as a result of the demonstration effect of HDFC and partly due to NHB's active promotion, there are at least six more new HFIs in operation. The unexpectedly fast growth of the new HFIs, ironically, appears to have lent some support for increased directed credit as they have not gained access to any new market-oriented resource mobilization instruments or to foreign borrowing. Subsidized funding by commercial banks and especially the public sector insurance companies of their fully-owned subsidiaries poses a threat to a competitive mortgage market.

G. Project Sustainability

24. There is little doubt that the housing units financed under the project would continue to provide sustained benefits and, given HDFC's past record, that the mortgage loans will be recovered without any significant arrears. The long-term Bank loan has also helped HDFC to stabilize its asset-liability structure, thereby providing it with a secure basis for further growth and innovation. As HDFC has increased its organizational efficiency and maintained its collection efficiency, it is likely to maintain its profitability even as the growth slows. The affordable loan products, with longer terms and graduated payments, that the project helped develop are likely to remain available and also be adopted by other HFIs.

25. However, it would be difficult for HDFC to sustain its fast growth, 30%-40% a year through 1991, primarily due to resource constraints. In fact, the capital scarcity during 1991-92 caused a serious cyclical downturn of housing finance, and HDFC, unable to replace foreign borrowing fully with domestic resources, reduced its lending by about 6% between FY 1991 and 1992. While its growth is expected to resume as macroeconomic conditions improve, the growth of HDFC and other HFIs is likely to be slower than during the 1980s, under the increased limitations of the current housing finance framework. The large and growing demand for housing finance, especially by the rapidly increasing urban middle-income groups, can only be met by market-oriented housing finance. Such as a system could also help expand and stabilize the financial market. Developing such a system would require removal of various distortions in the housing finance system, including the rigidly stratified and regulated lending and borrowing rates, differences in access to capital and tax treatments between HFI and other financial institutions and among different HFIs, weak prudential regulatory framework, and weak mortgage security. While some of the necessary reforms would concern India's capital market in general, many would be specific to housing finance.

H. Performance of Bank, Borrower, and Government

26. HDFC carried out its role as the borrower in a particularly active and efficient manner, leading and taking full responsibility for the project preparation and implementation. The Bank involved itself mainly in a supportive role, more passive than under most other projects. The relationship has been cooperative throughout preparation and implementation. The Government also was strongly supportive, advocating the project, providing the loan guaranty and acting as HDFC's partner in the foreign currency swap transaction. Under the Guarantee Agreement for the project, the Government had a specific policy role to play, to ensure that NHB and the sitting committee to take actions for sector development that were specified as tranche conditions. However, it does not appear that the key agencies responsible for housing finance policy and regulation, MOF Department of Banking and the Reserve Bank of India, were sufficiently aware of the project itself and the policy development it tried to promote. The Bank's consultation with these agencies were sporadic and informal during project preparation and implementation. Instead, the Bank's interface with the Government was limited largely to the usual channel, the Department of Economic Affairs, a Ministry of Finance (MOF) agency responsible for external financing, and the Ministry of Urban Development which had direct but limited authority over NHB and HDFC.

27. NHB, which held the main key to sector development, did not exist during project preparation and did not have any role in carrying out the project components other than fulfilling the required tranche conditions. While the Bank opened policy dialogue with NHB soon after its establishment, it was not closely tied with the project as was necessary. During the initial year or so when NHB was establishing its operational direction and plan, different Bank staff interacted separately with NHB and HDFC, emphasizing different areas of sector development agenda. This critical though temporary lack of cohesion in the Bank's sector dialogue, added to a somewhat competitive relationship that developed between HDFC and NHB, led to a difficulty for the Bank to establish an effective and consistent position for policy dialogue with NHB.

I. Project Documentation and Data

28. The project was a simple and straightforward one, but ambiguities existed on two key definitions. One, regarding the tranche conditions, was discussed above. Another concerned the definition of HDFC's mortgage lending eligible for Bank financing. A definition in Schedule 5 of the Loan Agreement limits it to that for residential units "meant for use by the applicant", apparently excluding construction loans that could lead to double financing of the same unit by the Bank. This restriction, which was not specified in the SAR, was overlooked by HDFC and its auditor. However, this did not affect the project implementation materially, as the total construction financing during the entire project period amounted to less than two additional months of eligible HDFC lending. The quarterly progress reports have been punctual and provided thorough and timely information on project implementation; most of the other necessary information not included in the progress reports was readily available from HDFC's management information system.

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(LOAN 2929-IN)

PART II : PROJECT REVIEW FROM THE BORROWER'S PERSPECTIVE

Introduction

1. Until the initiation of the HDFC project in 1988, IBRD's involvement in the housing sector in India was restricted to financing of urban development projects which concentrated on public sector development of urban land, infrastructure and provision of municipal services especially to the lower income groups. Though these projects were implemented effectively, the lack of an adequate housing finance system obviously limited implementation of IBRD's policies for the housing and housing finance sector (See SAR).

2. Housing finance at the time was in the initial stages of development and was mainly active through the directed credit system that helped the government divert financial resources to the sector. However, such a system operated at below market rates of interest and implicit subsidies to the beneficiaries. Loan recovery record of the primary lending agencies also left a lot to be done. This situation largely occurred due to the dominance of the public sector agencies as also an inadequate legal framework and regulatory mechanism.

3. Having seen the viability and success of a market related operation through HDFC, a few housing finance institutions (HFIs) had been set up, either by private developers or promoted by the commercial banks. Over a period, HDFC's lending programs and loan underwriting techniques have become the industry norm and its products have come to be increasingly cloned by its competitors. However, in terms of lending volumes, HDFC has remained the largest originator in the private sector. HDFC as part of its development role has co-promoted a few of the HFIs and has also assisted the government's efforts in developing policy issues on sound and practical lines.

4. The HDFC project served as an ideal vehicle for the Bank to initiate discussions with the Government of India on wide ranging policy issues on the housing and housing finance sector. As a result, the objectives for the project reflected IBRD's focus, not only on development of the institution, but also its thinking on the policy issues and sectoral development. The government's concern for the sector and its desire to bring about far-reaching changes and an orderly development was a major reason in its whole hearted support for the project.

5. Some of the major objectives for the project included:

(a) supporting HDFC's activities in a period of transition in the capital markets to demonstrate the viability of market oriented policies;

(b) expanding the benefits of market oriented housing finance to a wider geographical areas with a special emphasis on lending for middle and lower income beneficiaries;

(c) supporting the development of a regulatory framework to help in establishing financial and operating standards for the industry and promoting new resource mobilization products; and

(d) finalizing recommendations for insurance of mortgages and for adjudication of mortgage claims.

Project Performance

6. The IBRD loan and HDFC's operational and financial performance during the project period have demonstrated the success of market oriented housing finance in India. It would be appropriate to mention that HDFC's success in structuring the loan in its final form had a major impact on the viability of the project. These mechanisms could be adapted in the future through swap arrangements which would meet the foreign exchange requirement of projects which, in turn, could lend surplus rupee resources to HDFC. The long term support has enabled HDFC in experimenting with new resource products aimed at creating niches in the financial markets. Various bond issues, restructuring of interest rates on deposits to match market expectations and an initiative at securing the housing loan portfolio have been made possible due to the back up support available in the form of the IBRD loan. Subsequent to the IBRD loan, HDFC approached the equity market in early 1991 with an offering of Rs. 450 million. The issue was well received by the market in spite of depressed conditions. HDFC perceives the issue as an acceptance by the market of HDFC as a solid investment opportunity given its financial performance.

7. One of the requirements of IBRD was that the loan would finance HDFC's lending only to the extent of 30% whereas the balance of 70% was to be funded through domestic resource mobilization. HDFC has met with this requirement by intensifying its household deposit mobilization and, as mentioned earlier, through bond issues, domestic term loans and ongoing deposit schemes. HDFC aims to expand its retail deposit base by activating an agents network throughout the country. Consequent to HDFC's success in home lending at market rates of interest and deposit mobilization offering an alternative investment option in terms of safety and yield, over 250 companies have been registered as housing finance companies. Of these, 16 companies have been approved by the National Housing Bank (NHB) for acceptance of public deposits and its own refinance program. The lending rates of interest for the HFCs, now, also incorporate an element of cross subsidy across income ranges as reflected by lower rates for the smaller loans.

8. HDFC's lending activities have increased manifold during the project period as evidenced by approvals of housing loans which increased to Rs. 6138 million in 1991 as compared to Rs. 2375 million in 1987. Disbursements during the same period increased from Rs. 1755 million to Rs. 6685 million. The branch network expanded from 15 to 25 and a greater number of second level towns and cities were covered under the outreach program. As a result, housing loan approvals (in terms of number of units) increased from 46023 in 1987 to 115906 in 1991. Total assets have gone up from Rs. 6148 million in March 1987 to Rs. 20092 million in March 1991.

9. During the project period, HDFC increased the maximum term on individual housing loans to 20 years and also launched new lending instruments. These included the Step Up Repayment Facility (SURF). Telescopic Loan Plan (TLP) and the Home Extension Loans (HEL). These measures have been specifically targeted at meeting the needs of the low income borrowers by softening the repayment liability in the initial years. Moreover, the SURF and TLP also give weighage to the expected increase in the applicant's income in the future. During the project period, over 30% of the disbursements were to beneficiaries below the median income as compared to the project requirement of 15%.

10. On the other hand, the average loan size has increased consistently, which could be explained by the following factors:

(a) A characteristic change in the property market wherein documented prices relate more closely with actual transaction costs resulting in higher loan eligibility;

(b) Maximum loan limits increased from Rs. 150,000 to Rs. 500,000 resulting in higher loans for the higher income groups, whose earlier eligibility was restricted due to the limits and not repayment capacity;

(c) Introduction of new products such as SURF and TLP offering higher loans and longer repayment terms;

(d) At the same time, property costs have gone up without a corresponding increase in the average area of the units.

11. The National Housing Bank (NHB) has become operative since 1988 and currently functions in an apex regulatory and promotional role. The NHB has formulated guidelines for promotion of housing finance companies, acceptance of public deposits, refinance program, retail deposit mobilization, etc. Besides approving companies for the purposes of refinance, NHB also has commenced regular supervision of the assisted companies, wherein HDFC's operations were subject to an inspection in the current year.

12. Besides the Home Loan Account (HLA) scheme, a retail deposit scheme, implemented through the commercial banks and the housing finance companies, NHB has raised funds through bond issues and the USAID housing guaranty program. In an effort to move towards market borrowing, the NHB is interested in promoting a mutual fund and raising funds from the provident and pension funds. It has also taken an initiative in suggesting simplification of the legal framework with a view to speedy foreclosure of defaulting loans to facilitate initiation of a secondary mortgage market.

13. The activities of the NHB, so far, have concentrated on funding programs, and, of late, on recommendations to the government in developing the sector in an orderly and viable manner. It is to be expected that as the NHB moves to a market oriented resource mobilization strategy, the availability and the cost of funds would more closely relate to market realities. This in turn, would have a direct impact on the functioning of a few housing finance institutions which depend on NHB refinance for a major part of their funding requirements.

14. In 1986, the government set up a committee comprising senior members of the government and the housing finance system to draft necessary legislation for putting in effect a system of mortgage insurance. The report of the committee was submitted in 1987. The government has not yet taken a final decision in implementing the mortgage insurance system since speedy and effective foreclosure is seen by NHB/GOI as a pre-requisite for the success of this system and as mentioned earlier, has now suggested changes in the foreclosure laws.

15. It needs to be appreciated that the Indian housing finance system is still in a stage of early development and policy initiatives would be implemented only after a detailed consideration of all aspects. Hence, the performance of the project should not be considered only in terms of absolute achievement of the objectives but considering the process which has already been set in motion. Framing and implementation of policies and strategies should be analyzed as an ongoing process rather than just a desired end result.

Current Status and Sector Development

16. In the last few months, the Indian financial system has witnessed volatile interest rates, partly due to scarcity of resources at times and partly due to the liberalization commenced by the government in the financial system. Inter bank call money rate, which was earlier subject to a ceiling of 10%, was completely deregulated and a partial deregulation was brought about in the commercial bank lending rates subject to a minimum lending rate. Banks can now charge interest rates freely above the prescribed minimum.

17. On the other hand, the Reserve Bank of India has consistently followed a tight monetary policy and regularly revised the minimum lending rates (from 15% in September 1990 to 20% in October 1991). The upward revisions in the minimum lending rates has to some extent limited the resources available to the corporate sector.

18. It is at such a time that the housing finance system is sought to be integrated into the financial system. HFIs which have to rely on market mechanisms to raise resources for lending would be adversely affected in the short run. Moreover, given the inverted interest rate curve, investors have moved from the longer end of the market to the shorter term investments. This has created a paucity of matching long term resources for HFIs. Even though HFIs may be willing to borrow short, affordability of the funds has become a major criteria. With the lending rates on housing loans going up in tune with the general rates, demand for individual loans could decline. These developments however, have not considerably affected HFIs promoted by the insurance companies which are funded by the parent companies at below market rates of interest.

19. Considering HDFC's performance during the project period, which reflect its inherent potential, the current situation in the financial markets and the expectation of HDFC meeting its past commitments would require continued long term funding support. Though HDFC has now embarked on an intense campaign for garnering retail deposits and for securing its housing loan portfolio, affordability on domestic resources and non availability of external sources would remain a major area of concern. The proposal for securitization of housing loans and issue of mortgage backed securities is at an advanced stage of implementation. However, considering the unfamiliarity of the market and

investors with an instrument of this nature, acceptability may involve a considerable time lag.

Conclusion

20. The Bank's focus through this project was to gain acceptance in the Indian markets for a market driven housing finance mechanism. Given the commonality in the Bank's and HDFC's approach, the Bank was supportive of the project right from its conception in early 1987. The government also evinced a keen interest in the project given its policy objective of fostering an orderly development of the system and its beneficial fallout for the sector in general.

21. The project was conceived as a three year project in which time it was expected to place HDFC in a position that would afford it a greater acceptability and access in the capital markets. However, given the recent developments in the money market and the capital market it is difficult for HDFC to have an access to larger resources at an affordable cost. HDFC feels that a three year project period is not conducive to a sustained institutional development program. A longer term perspective would be much more viable for the sector and the institution, as is evident in the Bank's approach to the Development Finance institutions (DFIs).

22. The development of any sector necessitates the presence of strong and viable institutions and an enabling policy framework. Policy initiatives cannot be sustained in the face of slackening implementation and it is for this purpose that the Bank should consider continued support for specific institutions. HDFC, during the project period, has witnessed a growth in approvals at an average rate of 36% per annum. Though HDFC may consciously prune its growth targets, it would have to honor its commitments on past approvals. It is, hence, essential that strong institutions be in place to keep up the pace of sectoral development.

23. HDFC enjoyed a smooth working relationship with the Bank throughout the project period given that there was no conflict of objectives and approach between the two institutions. More important, it resulted in an effective implementation of the project.

PROJECT COMPLETION REPORT

INDIA

HOUSING DEVELOPMENT FINANCE CORPORATION PROJECT
(LOAN 2929-IN)

PART III : STATISTICAL INFORMATION

Table 1. Related Projects
(Multi-component Urban Development Projects in India with Focus on Shelter)

Project Title	Loan/Credit and Amount (US$ Million)	Approval - Closing (Bank Fiscal Year)
First Calcutta Urban Development	Cr. 427-IN: US$35.0	1973-79
First Madras Urban Development	Cr. 687-IN: US$24.0	1977-83
Second Calcutta Urban Development	Cr. 756-IN: US$87.0	1977-84
Second Madras Urban Development	Cr. 1082-IN: US$42.0	1980-88
Kanpur Urban Development	Cr. 1185-IN: US$25.0	1982-87
Madhya Pradesh Urban Development	Ln. 2329-IN: US$24.1	1983-91
Third Calcutta Urban Development	Cr. 1369-IN: US$147.0	1983-92
Bombay Urban Development	Cr. 1544-IN: US$138.0	1985 (on-going)
Uttar Pradesh Urban Development	Cr. 1780-IN: US$130.0 Ln. 2797-IN: US$20.0	1987 (on-going)
Tamil Nadu Urban Development	Cr. 1923-IN: US$300.2	1988 (on-going)

Table 2. Project Timetable

STEPS	DATES PLANNED	REVISED	ACTUAL
Identification (EPS)			Jun 26, 86
Preparation Mission	----	----	Mar 1, 87
Second EPS	Apr 87		Apr 29, 87
Preappraisal Mission	Jun 87		Jun 16, 87
Final EPS	Jun 87	Aug 87	Sep 4, 87
Appraisal Mission	Aug 87	Sep 87	Oct 10, 87
Loan Negotiations	Feb 88	Feb 88	Feb 2, 88
Board Approval	Apr 88	Apr 88	Mar 31, 88
Loan Signing	May 88	May 88	Apr 21, 88
Loan Effectiveness	May 88	May 88	May 18, 88
Loan Closing	Sep 30, 91		Feb 13, 91

Table 3. Cumulative Loan Disbursement
(US$ Million)

Up to	Original (SAR) Estimate	Actual	% of Total
June 30, 1988	25.0	0.0	0.0%
Sep 30, 1988	46.4	38.2	15.2
Dec 31, 1988	64.0	54.0	21.6
Mar 31, 1989	82.2	83.9	33.2
Jun 30, 1989	101.0	103.3	41.3
Sep 30, 1989	120.4	125.1	50.4
Dec 31, 1989	140.5	142.8	56.3
Mar 31, 1990	161.2	150.4	60.2
Jun 30, 1990	182.5	195.5	78.2
Sep 30, 1990	204.4	215.9	86.4
Dec 31, 1990	226.9	236.7	94.7
Mar 31, 1991	250.0	250.0	100.0%

Table 4. Project Cost and Financing

Category	SAR Estimate	Actual	Bank Loan	SAR Estimate	Actual	Bank Loan
	----- US$ million		------	------ Rs million		-------
Mortgage Loans	839.0	849.8	248.4	11,153	14,054	4,108
Consultancy & Training	0.7	0.4	0.4	9	6	6
Equipment	1.1	1.2	1.2	14	18	18
Total	840.8	851.4	250.0	11,176	14,078	4,132

Table 5. Analysis of HDFC's Lending
FY 1987-91

A. Disbursements, Rs million

FY	1987	1988	1989[a]	1990	1991	Increase %/Year
Individual Loans	1,191	1,507	1,383	2,653	3,487	33.2%
Line of Credit [b]	210	272	391	958	1,497	68.9%
Corporate Housing [c]	269	368	479	809	1,112	46.0%
Construction Finance	85	206	300	473	589	67.6%
TOTAL	1,755	2,353	2,553	4,893	6,685	38.9%

B. Approvals, Rs million

FY	1987	1988	1989	1990	1991	Increase %/Year
Ordinary Loans	1,446	1,879	1,602	2,373	2,901	20.4%
Graduated Payment	NA	NA	NA	523	693	32.5%
Telescopic Plan [d]	NA	NA	NA	274	425	55.1%
Home Extension & Improvement	NA	NA	NA	58	198	239.3%
Line of Credit	380	468	751	1,492	1,840	52.2%
Corporate Housing	430	467	564	762	1,283	33.8%
Construction Finance	119	236	416	549	799	66.2%
TOTAL	2,375	3,050	3,333	6,030	8,138	38.9%

Note: (a) Fiscal 1989 was a 9-month period, from July 1, 1988 to March 31, 1989.

(b) Individual home ownership loans provided on the basis of Line of Credit pre-approved through employers.

(c) Loans to corporations for construction of employee housing.

(d) Repayment plan with graduated payment and flexible terms up to 20 years.

Table 5 Continued

C. Approvals, Number of Units

FY	1987	1988	1989	1990	1991	Increase %/Year
Ordinary Loans	28,074	31,691	23,408	33,908	34,775	5.9%
Graduated Payment	NA	NA	NA	5,312	6,222	17.1%
Telescopic Plan	NA	NA	NA	2,535	3,629	43.2%
Home Extension & Improvement	NA	NA	NA	1,187	3,709	212.5%
Line of Credit	7,832	6,819	13,084	35,445	29,575	42.5%
Corporate Housing	6,415	9,271	5,878	9,040	17,596	30.9%
Construction Finance	3,702	7,375	8,002	8,534	20,400	57.6%
TOTAL	46,023	55,156	50,372	95,961	115,906	27.9%

D. Approvals by Borrower's Household Income

FY	1987	1988	1989	1990	1991
Total Applicable Loans (e)					
Number of Units	34,489	31,301	29,286	51,982	65,931
Loans, Rs Million	1,876	1,800	2,166	3,990	5,499
Urban Median Income Rs/Month	1,700	1,860	2,000	2,110	2,450
Borrowers below Median Income					
Number of Units	11,968	13,023	10,182	19,282	27,926
% of Total	34.7%	41.6%	34.8%	37.1%	42.4%
Loans, Rs Million	424	465	578	969	1,623
% of Total	22.6%	25.8%	26.7%	24.3%	29.5%

Note: (e) Incomes of borrowers classified only for the individual loans and corporate loans, not including the Line of Credit program or the construction financing.

Table 6. HDFC: Cash Flow Summary, FY 1987-91

	1987	1988	1989	1990	1991
SOURCES					
Operating Income	120	171	172	307	388
Non-Cash Charges	27	37	35	83	118
Less: Taxes	27	40	27	60	90
Share Capital and Premium	98	2	0	0	448
Net Internal Funds	217	170	180	330	864
Net Increases in:					
Certificate of Deposit	877	801	549	383	622
Other Deposits	19	21	38	75	121
Total Deposits	896	822	587	458	743
Bonds	150	400	147	434	374
Term Loans from:					
Commercial Banks	207	311	328	402	235
NHB	0	0	0	0	1,587
Other Domestic	100	115	200	281	426
Total Domestic Loans	307	426	528	683	2,248
Total Domestic Borrowing	1,353	1,648	1,262	1,576	3,334
Foreign Loans from:					
IBRD	0	0	1,250	1,113	1,769
IFC	0	5	0	0	725
USAID	300	180	0	490	0
KfW	0	0	0	0	20
Total Foreign Loans	300	185	1,250	1,603	2,514
Repayment of Housing Loans	431	646	652	1,124	1,633
Total, All Sources	2,301	2,649	3,344	4,633	8,375
USES					
Housing Loans Disbursed	1,755	2,353	2,552	4,893	6,685
Shelter Assistance Fund	0	0	1	3	4
Repayment of:					
Domestic Term Loans	28	73	67	83	320
Foreign Loans	3	3	3	5	5
Increases in:					
Fixed Assets	108	68	39	146	97
Investment and Other Current Assets	389	117	654	-537	1,207
Dividend	19	34	28	40	57
TOTAL USES	2,301	2,649	3,344	4,633	8,375

Table 7. HDFC: Summary Balance Sheets, FY 1987-1991

	at 6/30 1987	at 6/30 1988	at 3/31 1989	at 3/31 1990	at 3/31 1991	Growth %/Year
ASSETS						
Housing Loans	4,842	6,549	8,449	12,218	17,269	40.4%
Investments	646	779	1,354	1,141	1,447	24.0%
Net Current Assets	548	531	610	286	1,187	22.9%
Net Fixed Assets	144	201	225	335	387	30.2%
Less Provision for Contingencies	33	58	76	124	197	61.0%
Total Assets	6,146	8,002	10,562	13,856	20,093	37.1%
SHARE HOLDERS' EQUITY						
Share Capital	198	200	200	200	447	24.3%
Retained Earnings	233	330	446	650	1,086	50.8%
Total Equity	431	530	646	850	1,534	40.3%
BORROWING						
Deposits	3,422	4,244	4,832	5,289	6,032	16.3%
Bonds	450	850	997	1,431	1,805	44.8%
Term Loans from						
Commercial Banks	627	903	1,197	1,536	1,679	30.0%
NHB	0	0	0	0	1,577	N/A
Other Domestic Institutions	366	443	611	872	1,079	36.6%
Subtotal	994	1,346	1,808	2,408	4,335	49.0%
Foreign Loans from:						
IBRD			1,250	2,363	4,133	
IFC	11	13	10	5	725	
USAID	840	1,020	1,020	1,510	1,510	
KfW					20	
Subtotal	851	1,033	2,280	3,878	6,388	72.5%
Total Debt	5,717	7,473	9,916	13,006	18,559	36.9%

Table 8. HDFC: Key Financial Ratios, FY 1987-91

Ratio	Covenant*	1987	1988	1989	1990	1991
Debt:Equity	<17.5	13.3	14.1	15.4	15.3	12.1
Interest Coverage	>1.20	1.26	1.26	1.25	1.27	1.25
Administrative Costs to total loans outstanding	<1.5%	1.11%	0.93%	0.90%	0.76%	0.73%
Arrears 1 year or older to total loans outstanding	<0.4%	0.01%	0.01%	0.01%	0.04%	0.06%
Contingency Provision to total loans outstanding	>0.4%	0.68%	0.90%	0.89%	1.01%	1.14%
After-Tax Income To Net Worth	N/A	26.8%	27.3%	32.9%	33.1%	25.0%
Average Cost of Debt Outstanding	N/A	11.6%	12.0%	12.5%	12.7%	12.7%
Average Interest Income on Housing Loans Outstanding	N/A	14.1%	14.0%	14.1%	14.1%	14.1%

Note:
* Minimum or maximum values required under the Loan Agreement.

Table 9. STATUS OF COVENANTS

Loan Agreement	Date	Description of Covenants	Status
Section 4.01	--	HDFC to carry out sound financial and administrative practices	O.K.
Section 4.02	--	HDFC to furnish to the Bank at the beginning of each fiscal year its branching and expansion plan	O.K.
Section 4.03	6/30/89	HDFC to submit to the Bank plans to broaden lending to lower income borrowers	O.K.
Section 5.01(b)	--	HDFC to have its accounts audited by an independent auditor and furnish the Bank with the financial statements and the audit report within 6 months of end of each fiscal year	O.K.
Section 5.01(c)	--	HDFC to maintain records of project expenditures and have the separate audit opinion included in the audit report	O.K.
Section 5.02	--	Consolidated debt of HDFC and its subsidiaries not to exceed 17.5 times the consolidated capital and surplus	O.K.
Section 5.03(a)	--	HDFC to maintain various financial performance standards (see the preceding Table 8)	O.K.
Section 5.06	--	HDFC to take steps satisfactory to the Bank to protect against foreign exchange risk	O.K.
Schedule 1 Para 3(b)	--	before withdrawal of Bank loan for housing loans over US$ 150 million: National Housing Bank to implement regulations of housing finance institutions and promote resource mobilization instruments for market-oriented finance; the Sitting Committee to agree upon and submit to GOI recommendations regarding mortgage insurance and mortgage adjudication	O.K. (See Part I, D and E.)
Schedule 1 Para 3(c)	--	HDFC shall make at least 50% of the Bank disbursement for housing loans as mortgage loans to beneficiaries with income below the urban median which is adjusted according to the consumer price index	O.K.

Table 10. Use of Bank Resources

A. Staff Input

Stage of Project Cycle	Staff-weeks HQ + Field
Through Appraisal	29.7
Appraisal through Board Approval	20.5
Board Approval through Effectiveness	3.2
Supervision	29.8
TOTAL	90.5

B. Missions

Stage of Project cycle	Month Year	No of persons	days in field	Specialty represented	Performance Rating	Type of Problems
Through Appraisal	Dec 86	2	4	Ec,L	na	
	Mar 87	3	8	Ec,F	na	
	Jun 87	3	16	Ec,F	na	
	Oct 87	3	16	Ec,F	na	
Appraisal through Effectiveness		None				
Supervision	Sep 88	1	15	F	1	
	Mar 89	1	4	Ec	1	
	Aug 89	4	7	Ec, F, P	1	D, T
	Mar 90	4	9	Ec, F	1	D, T
	Dec 90	2	8	Ec, F	1	D
					1	D
Completion	Oct 91	2	15	Ec, F	1	
		Total	102			

KEY TO SYMBOLS:

Specialty		Problems	
Ec	Economist	D	Development Objective
P	Urban Planner	T	Technical Assistance
F	Financial Analyst		