



UN-HABITAT



Expert Meeting on ERSO

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Presentation by

S. SRIDHAR

CEO, National Housing Bank, India

ADVANTAGE INDIA - An Overview



- Political Stable Democracy
- Robust Economy - Consistent GDP growth of over 8% p.a.
 - Real GDP 9.4 per cent from 9.0 per cent in 2005-06;
 - Averaged 7.6 per cent per annum during Tenth Five Year Plan period (the fastest pace of expansion in any Plan period)
- Manageable inflation (< 4% until recently)
- Comfortable foreign exchange reserves > US \$240 bn
- High rate of domestic savings (33%)
- Demographic Advantage - Median Age 24 (2005)
- Extreme focus on infrastructure
- Large unexplored consumer market - Fortune at the bottom of the pyramid
- Exploding market opportunities

URBANIZING INDIA



- Urban population likely to increase from 285 mn in 2001 (28% of total) to 600 mn by 2030 (~40% of total) CAGR 2.5%.
- India to be the most populous country in the world.
- Number of cities > 1mn + 35 in 2001 to 70 in 2025
- Mumbai and Delhi projected to be the 2nd and 3rd most populous cities in the world by 2015.
- Economic growth is in urban India - States of Tamil Nadu, Maharashtra, Gujarat most urbanized, also best investment destinations
- Contribution of urban sector to GDP ~55%

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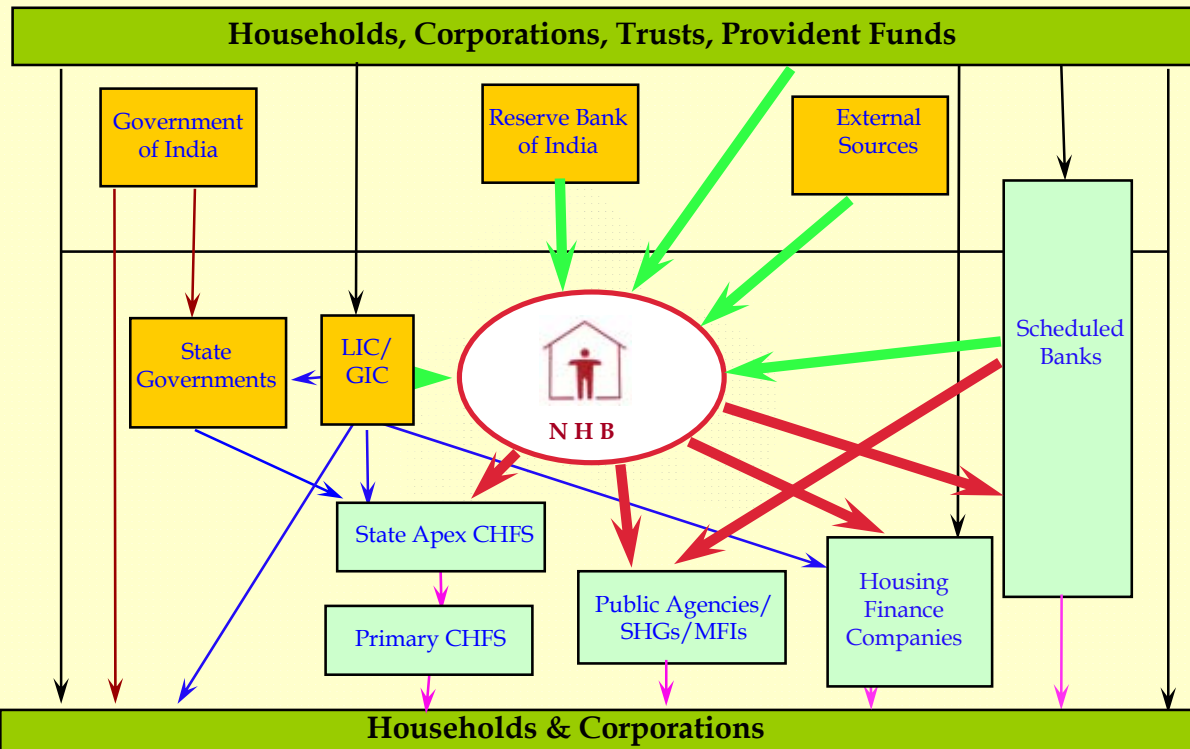
National Housing Bank (NHB)



- Setup under an Act of Parliament (1988)
- Apex financial institution for housing
- Wholly owned subsidiary of the Central Bank (Reserve Bank of India)
- Functions on business principles with due regard to public interest
- Headquarter Delhi. Offices in Mumbai, Hyderabad, Kolkata, Chennai, Bangaluru
- High Powered Board of Directors numbering 12, including
 - a Deputy Governor of RBI;
 - Permanent Secretary to Govt. of India, Ministry of Housing & UPA;
 - Independent Experts
- Chairman & CEO - a professional banker
- Lean, Wholesale finance organization

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HOUSING FINANCE MARKET



LIC : Life Insurance Corporation of India GIC : General Insurance Corporation of India CHFS : Co-operative Housing Finance Societies

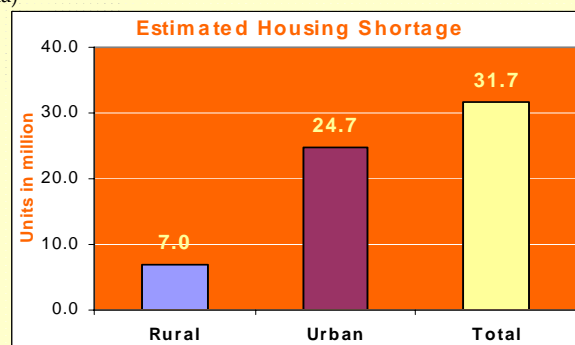
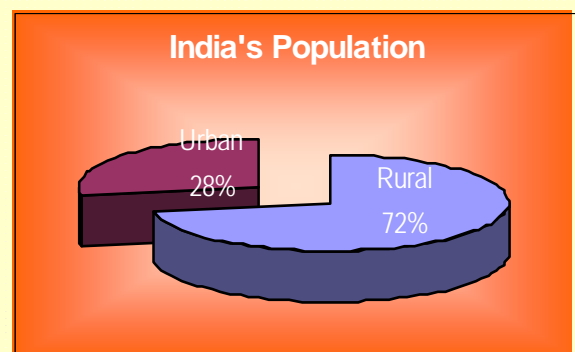
HOUSING - AN OVERVIEW



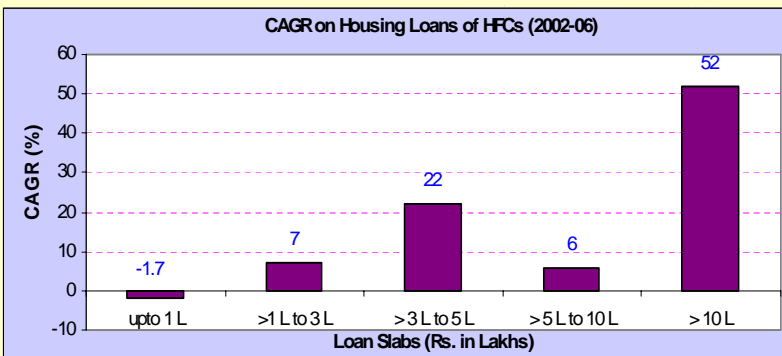
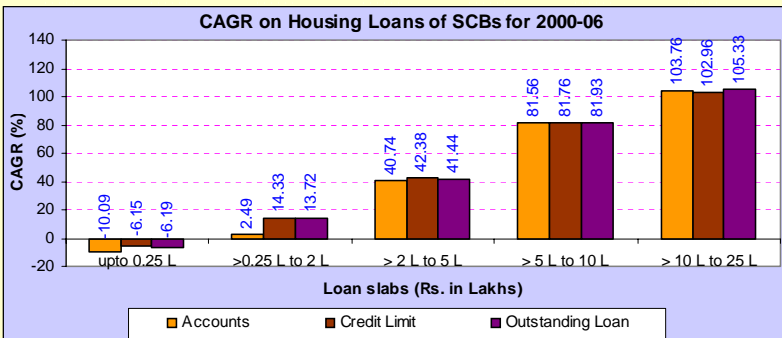
- India's population**
 (2nd highest in the world)
 Total : 1,027 m (2001 Census)
 Urban : 285 m (28%)
 Rural : 742 m (72%)
- Home Ownership by Households (2001)**
 Total : 86.6%
 Urban : 66.8%
 Rural : 94.3%
- Estimated Housing Units Shortage**
 Total : 31.7 m
 Urban : 24.7 m
 Rural : 7.0 m
- High percentage of household savings invested in housing**

(Source : Census, 2001/RGI, India)

(Source : MHUPA)



Housing Finance - Some Key Characteristics



Source: BSR, RBI & T&P, NHB Reports

During 2000-06

CAGR No. of Accounts - 12.3%

CAGR Outstanding Housing Loan - 46.4%

➤ Housing Finance Market is "Value Driven rather than Volume Driven"

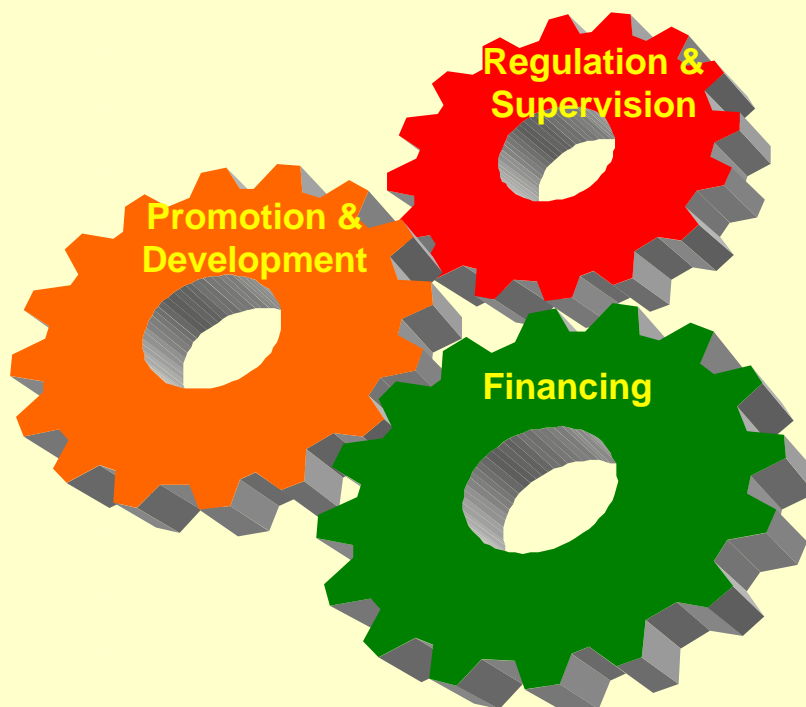
➤ Increased emphasis on loan categories above Rs. 5 Lakhs – Trend Continuing

➤ Large portion of low income households remained unserved and underserved

➤ Need to develop New Financial Architecture for Affordable Housing

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NHB's ACTIVITIES



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REGULATORY ROLE



- Regulation & Supervision of Housing Finance Companies (HFCs)
 - Registration
 - Surveillance through On-site & Off-site Mechanisms
 - Coordinating with Other Regulators
 - Consumer Interface

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FINANCIAL HIGHLIGHTS



Rs. in million

| Year ended 30 th June | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------------------------------|---------|---------|---------|---------|---------|
| Capital | 4,500 | 4,500 | 4,500 | 4,500 | 4,500 |
| Reserves | 10,886 | 12,068 | 12,020 | 12,877 | 13,891 |
| Net Owned Fund | 15,386 | 16,568 | 16,440 | 17,295 | 18,305 |
| Disbursements | 27,828 | 32,974 | 80,887 | 59,965 | 56,716 |
| Loans & Advances | 68,834 | 82,840 | 124,757 | 162,410 | 193,636 |
| Total Assets | 102,896 | 131,075 | 186,966 | 195,888 | 215,014 |
| Gross NPAs | 305 | 289 | 277 | 274 | 271 |
| Net NPAs | Nil | Nil | Nil | Nil | Nil |
| Profit After Tax | 1,207 | 1,181 | 440 | 864 | 1,143 |
| CRAR (%) | 28.0 | 30.1 | 22.5 | 22.3 | 22.6 |

AAA ratings for all m/lt debts
CARE, CRISIL, ICRA and FITCH

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FOCUS AREAS



- OBJECTIVE : Financial Inclusion in Housing
- Seek to develop and expand housing finance system to address housing shortage
- Focus on catalyzing institutional credit for the unserved and underserved
 - Market Development
 - Rural Housing
 - Urban Renewal
 - Capacity Building and Technical Assistance

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Housing Microfinance : Role of NHB



- NHB's focus - **Unserved and Underserved**
- Housing as the next stage of financial inclusion
 - Productive, income generating housing
 - Savings-induced housing
 - Incremental housing
 - Rental cum ownership housing
- Partnership approach - Banks, Regional Rural Banks, MFIs, CBOs, Cooperative Institutions, Corporates
 - Refinance, co-finance, risk sharing, capacity building, portfolio securitization, equity support to Rural Housing Finance Companies

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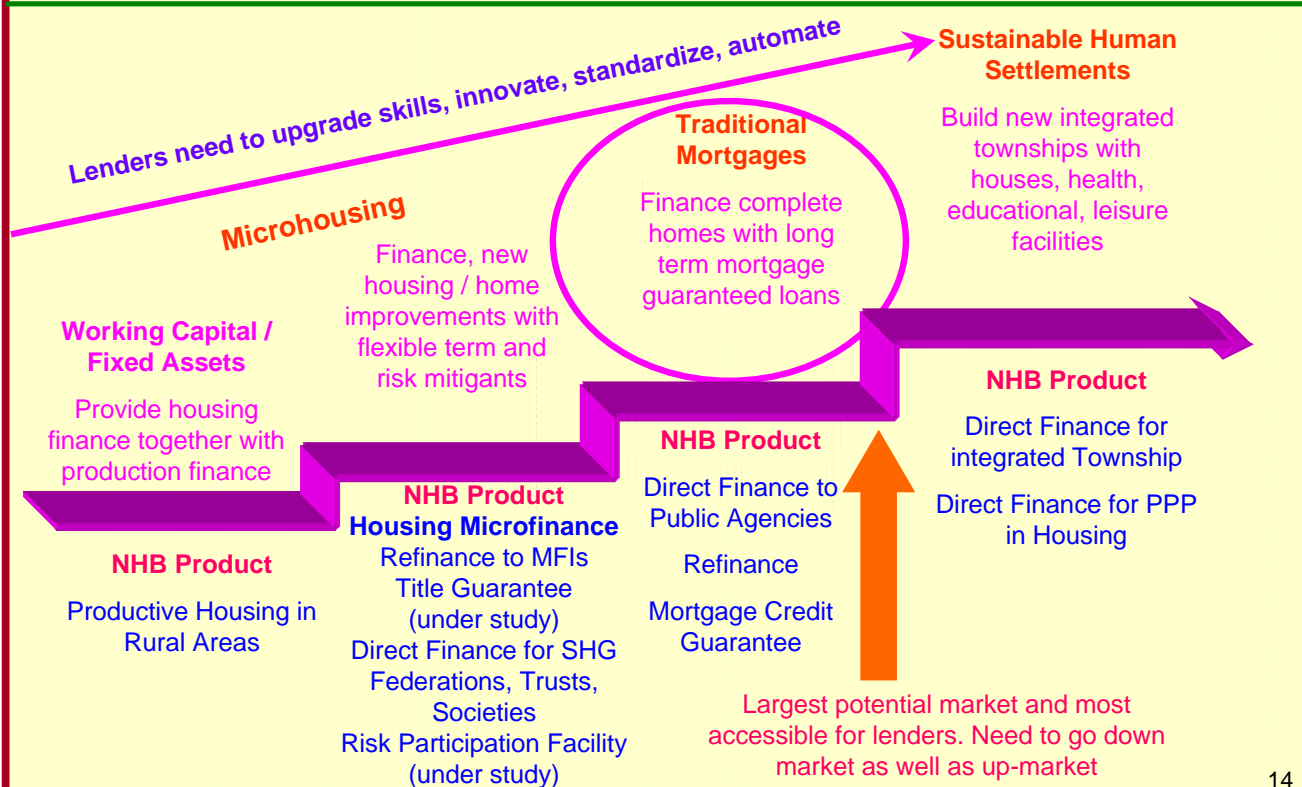
NHB's Strategies Towards Financial Inclusion



| Rural Housing | Urban Renewal | Market Development |
|--|--|---|
| <p>Customized Products</p> <ul style="list-style-type: none"> ◇ Supplementing Government Schemes ◇ Productive Housing (PHIRA) ◇ Financing SHGs - Partnership Approach ◇ Rural Industrial / Agro enterprise clusters ◇ Rural Housing Development Fund | <p>Customized Products</p> <ul style="list-style-type: none"> ◇ Supplementing Govt. Schemes e.g. NURM ◇ Financing SHGs - Partnership Approach ◇ Slum Redevelopment and upgradation ◇ Integrated Township Development Projects (PPP projects) ◇ Participation through NGOs/ ◇ MFIs/25A Cos. and Private Sector | <p>Risk Mitigation</p> <ul style="list-style-type: none"> ◇ Mortgage Credit Guarantee ◇ Title Indemnity ◇ Credit Guarantee Fund <p>RMBS</p> <ul style="list-style-type: none"> ◇ Credit Enhancement <p>Other Measures</p> <ul style="list-style-type: none"> ◇ Capacity building ◇ NHB Residex |
| <p>Endeavour is to provide Sustainable Market Based Housing Finance</p> | | |

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Value Chain in Housing Finance for the Poor



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ERSO Trust Fund ...



- **Objective**
 - Catalyze community based financing for the urban poor for housing, related infrastructure
 - Capacity building of local lenders and of UN-HABITAT to implement such financing
- **Scope**
 - Provision of seed capital
 - Support for innovative financing to catalyze, leverage domestic resources
 - Technical Assistance
 - Supporting new product development at pre-investment, pre-project and financing stages
 - Capacity building of local bodies
 - Information documentation and Experience sharing

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... ERSO Trust Fund



- **Products**
 - Loans to Individuals, DFIs, MFIs, housing cooperatives
 - Other innovative instruments
 - Equity, equity loans, credit enhancement
 - Technical Assistance to individuals, community groups, DFIs, MFIs

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NHB and UN-HABITAT



- NHB and UN-HABITAT joint project for developing a Revolving Fund for microfinance WATSAN activities
- Initially 1,250 units together related infrastructure envisaged at a cost of US\$375,000
- Parallel NHB financing of house upgradation, construction envisaged, estimated financing US\$1.5 mn.
- Leverage 4:1
- Scaling up feasible

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Housing Microfinance



- New initiative of NHB
- Loans up to 15 years extended for housing for urban and rural poor, up to Rs150,000 (US\$ 3,750) per unit through MFIs, housing cooperatives
- Cumulatively, Rs.424 mn (US\$ 10.5 mn) commitments covering 6,800 houses in different parts of the country – slum and other areas
- 100% recovery

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Some Possible Uses of ERSO for NHB's ongoing projects ...



- A. Credit Enhancement for Securitization of low income housing loans
 - ERSO funds can be used as a third party credit enhancement for MBS of low income housing loans, which will help to improve liquidity and profitability for the Originator and ensure deal viability. Third party credit enhancement is not easily available in the Indian market, particularly for low income loans
- B. First loss protection to NHB for purchase of low income housing loans
 - Whilst NHB would conduct own due diligence before purchase, the availability of ERSO first loss protection would enable a higher leverage ratio of 50- 70x.
- C. Risk participation along with NHB and others in a Risk Fund for housing the urban poor.
 - This will take the second loss after a small (2-5%) is taken by the primary lender.

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... Some Possible Uses of ERSO for NHB's ongoing projects



- D. NHB seeks to partially guarantee the market borrowings of MFIs, Community Based Organizations for housing the urban poor.
 - This will enable them to raise funds from the capital market. ERSO funds can be used to backstop NHB.
- E. Income of many microfinance borrowers is irregular and seasonal.
 - ERSO funds can be used to provide temporary add-on loans to ensure against housing loans becoming NPLs.
- F. ERSO can co-invest together with NHB in the equity of urban Housing Micro-Finance Companies (OR) Provide equity loans to CBOs to facilitate their investment.

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