

An Assessment of the Nepal Housing Development Finance Company (NHDFC) Operating in Kathmandu Valley

Executive Summary

Tej Kumar Karki, Kathmandu, Nepal

Nepal is a rural dominant but rapidly urbanizing nation. In the late 80's the access to institutional housing finance was almost nil. There were only government and semi-government operated banks in the country which considered housing as an unproductive sector to finance. After 1991, with the emergence of new democratic government in Nepal, plenty of private commercial banks and finance companies emerged. Even then, housing finance was still a low priority for them as they had lot of clients for industrial and commercial purposes. In due course of time, especially from 1996 to 2000, commercial lenders reduced to a minimum due to various political crises and the emergence of the Maoist insurgency. Thus, as a survival option, private financial institutions switched over to home loan from 2001 onwards. Besides this couple of NGOs also emerged to provide informal lending in a successful way but they were insufficient in number and coverage.

In 1995, the Ministry of Housing and Physical Planning (MHPP) formulated a national housing policy. One good achievement of this policy is the enactment of the Apartment Ownership Act 1997 which was essential to encourage apartment housing in Nepal. In 1970s two sites and services schemes were implemented to address the housing issues in Nepal. However, these schemes also failed to ensure access to the targeted beneficiaries and low income families due to the intrusion of rich and influential people on the developed plots. To overcome these constraints more positive land development tools known as land pooling / land readjustment and guided land development programmes were started in the valley in 1988. Today 11 land pooling projects have been completed but still it is too little as compared to the total demand (Karki, 2004).

The Nepal Housing Development Finance Company (NHDFC) came at a time when no private financial institutions had entered into the land and housing market and it is the first company formed in Nepal exclusively for housing finance. It was established in 1990 under the Finance Company Act 1985. The Ministry of Physical Planning and Works (MPPW) took the initiative to establish NHDFC. It had set many objectives but today, its role has been confined only to providing home loan and receives fixed deposits. Current loan disbursement of NHDFC is 4.548 million US Dollars and since its inception (1990) a total of 6000 households have benefited from the scheme according to the Deputy Manager.

It is a paradox that banks and financial institutions are rushing to go for home loan in a nation having serious economic crisis led by Maoist insurgency. Increasing deposits and decreasing commercial lending demand in the financial institutions led this to happen which eventually appeared to be a boon to the housing finance sector in Nepal. In this context the traditional role of semi-public agency such as NHDFC is not sufficient to compete to the growing private financial institutions. Thus it should have the capacity to play dual role: commercial and social role. Commercial role: its rate of interest for home loan should be in par with the private financial institutions, restructure it's staffing, expenditures, and policy to make it more competitive. Social role: NHDFC should work on housing finance for low income people: group lending, micro-finance; funding for low cost building material production, training and research.

An Assessment of the Nepal Housing Development Finance Company (NHDFC) Operating in Kathmandu Valley

Tej Kumar Karki¹

Abstract:

In the early 1990s the access to housing finance was not satisfactory and financial institutions considered housing as an unproductive sector to finance. In such a situation, families themselves marshalled resources, acquired land, building materials and organized all the building construction activities. The houses were developed floor by floor, incrementally to improve their savings. To respond to such a situation, Nepal Housing Development Finance Company (NHDFC) was established under the Finance Company Act 1985. Its major objectives were: to improve the present housing delivery system, undertake new housing projects and provide housing credit. This paper makes an assessment of the NHDFC's experiences in terms of types of households served, number of houses produced, borrowing and repaying behaviour, difficulty in expanding loan. The paper begins with the description of the urbanization process, land and housing development trend, housing policy and programmes, experiences of NHDFC and, finally, concludes with the recommendations for further improvement in the housing finance system in Nepal.

1. INTRODUCTION

Nepal is a small land locked country in South Asia with a population of about 23 million. It is a rural dominant but rapidly urbanizing nation. The average annual growth rate of urban population is 6.65% as against the national population growth rate of 2.25 percent (Central Bureau of Statistics, 2001). Today, there are 58 municipalities, with 3.28 million urban population or 13.9 % of the national population).

2. LAND AND HOUSING DEVELOPMENT TREND

There is no recent data on the housing situation of Nepal. The 1991 Nepal National Housing Survey reveals that the rural areas accounted 90% of the total housing stock of Nepal. The total housing stock available at the survey were 3 million and out of it, only 0.30 million were urban. The 50.5 % of the total housing stock were temporary type and 41.2% were semi permanent; the quality and strength of the 90% of the housing stock was poor. The 24 % of the urban households lived in rental accommodation and 7.3% on squatter settlements. The nation's half of the households were found deprived of satisfactory access to water supply, sanitation and electricity.

There are no public housing schemes in Nepal except the government staff quarters. The private sector² has been the major supplier of housing plots in Kathmandu Valley through the formal and informal process. The land business remained highly active for the period 1987-1994; land brokers and land development companies vigorously participated in the market. During this period, land plots for residential use were the main product of the market and there were virtually no house and housing units selling business.

¹ Mr. Tej Kumar Karki, an Urban Planner working in the Department of Urban Development,
Email: tkk@wlink.com.np

² The government sector's supply of housing plots is too inadequate to meet the market demand.

Unexpectedly, the valley experienced a steady decline in land price from 1995 to mid of 1999. As a result, plenty of land development companies³ went bankrupt and those who survived gradually abandoned the job. Only from 2000 onwards, the housing development activities took its momentum. Every day colourful advertisements appeared in the newspapers and brochures showing aerial view of the site, building design, floor plans, price lists and instalment modalities. Within the span of 4 years 12 private housing development projects have been completed in the valley. Bankers in the valley estimate that housing developers in the valley have already invested 133.7 million US Dollars in the business.

Table: 1 Recent trend of private housing development activities in Kathmandu Valley

S.N.	Housing Development Companies	Area	Type	No of housing units	Price in US Dollars ⁴	Project start time and completion period
1.	Grace Apartment	6.5	Apartment	56	48160-69565	2002/2003
2.	Oriental colony	22	Apartment	306	10033-20053	2001/2004
3.	Stupa Colony	2	Apartment	50	8013-11371	2000/2003
4.	Kathmandu Residency	14	Apartment	140	-	2000/2003
5.	Mount View Residency	76	Apartment/Twin/independent	205	13377-46127	2003
6.	Sunrise Homes	32	Apartment/Twin/independent	116	17163-50341	2002/2003
7.	Paradise Homes	3	Twin / independent	9	28762-30434	2001/2003
8.	Civil Homes	15	Twin / independent	45	29364-41471	2001/2003
9.	Comfort Housing	28	Independent	59	44080-70167	2001/2003
10.	Kusunti Housing	9.5	Row house	21	34782-36120	-
11.	Pacific Development	Crown 29	Independent	29	80267	2002/2004
12.	Road Show Housing	6.5	Independent	9	69565-100334	/2002

Source: Shrestha, D. 2004

3. HOUSING FINANCE SITUATION

In the late 80's the access to institutional housing finance was almost nil. There were only government and semi-government operated banks in the country. These banks used to consider housing as an unproductive sector to finance. In this situation, the families themselves used to acquire land, marshal resources, procure building materials and organize the construction activities. Accomplishing all these activities used to be a very costly, tedious and time consuming task to the majority of the households. As a result, they used to take years to improve their savings; house construction process was incremental, floor by floor and unfinished. The other form of acquiring housing finance was to sell or mortgage jewellery or take informal lending at high rate of interest say 20% to 40% per annum. Similar was the situation for the housing developers. It is estimated that the land purchase occupies 50% to 60% of the total housing expenditure in Nepal.

After 1991, with the emergence of new democratic government in Nepal, plenty of private commercial banks and finance companies emerged. Even then, housing finance was still a low priority for them as they had lot of clients for industrial and commercial purposes. However, this situation did not last longer. In due course of time, especially from 1996 to 2000, commercial lenders reduced to a minimum due to various political crises and the emergence of the Maoist insurgency: the tourism, industrial and other economic activities

³ The land development companies referred in the literature deals with the housing plot business only and the housing development companies deals with the plot plus house or housing units business: or a complete product business.

⁴ [1 US Dollars= 74.75 Nepalese Rupees (Nrs) at 22 June 2004]

were badly affected. On the other hand, bank's deposits were increasing due to the concentration of people in towns and the increasing remittances from employees working abroad. Thus, financial institutions were in search of safe area for lending. First, these institutions started lending for car purchase on instalment basis and eventually switched over to home loan from 2001 because the valley was experiencing a rapid growth on housing and apartment business; spurred by the insurgency driven rural to urban migration.

By now, a total of 7 commercial banks are actively involved and it is learnt that all the remaining banks and finance companies of Kathmandu Valley have already developed a policy to provide home loan. There are altogether 18 commercial banks and 37 financial companies operating in Kathmandu Valley. The lending is on regular monthly instalment for the period of five to 18 years period and the rate of interest ranges from 8.5 to 9.5 %. By now, a total of 53.5 million US Dollars have already been invested by banks and financial institutions for home loan according to the Deputy Manager of the Kumari Bank (Nepal, 2004).

Table: 2 List of banks active in home loan

Commercial banks	Home loan started year	No of households served	Investment in million US Dollars	Rate of interest	Maximum period of instalment
1. Everest bank	2001	927	7.7	9-9.75%	15 years
2. Standard Chartered Bank	2002	390	6.68	8-9%	18 years
3. Kumari Bank	2002	170	6.68	-	-
4. Bank of Kathmandu	2003	75	1.54	-	-
5. Laxmi Bank	2003	40	1.07	-	-
6. Nepal Bangladesh Bank	2003	12	0.40	11%	12 years
7. Himalayan Bank	2004	100	-	8.5-9.5%	15 years
Total		1714	24.07		

Source: Nepal, 2004

Another institution called Nepal Provident Fund started its home loan programme from 2000 for government employees. It provides for home purchase, construction and extension on instalment basis with an interest of 11.5 percent per annum and for a maximum period of 20 years. Likewise, there is another institution called Nepal Housing Development Finance Company which will be described below in detail.

Informal Women Saving and Credit Programmes

An NGO called Lumanti begun its Women saving and credit programmes in the squatter communities of Kathmandu Valley in 1996. By January 2001, it formed 91 savings and credit groups in the community by involving a total number of 1,665 women savers. On an average 18 women members form one women saving and credit group. At least one woman from each household is encouraged to join savings and credit group. Most women save on a monthly basis; however, there is some weekly and daily savings too. These saving groups provide loans to its member for housing improvements, health matters, emergencies and educational costs. These women manage their funds themselves, with some accounting support from the NGO.

A separate saving scheme exclusively for house improvements has also been initiated by these groups in 2000 and, it is in operation in seven squatter communities. The loan term is for one year with an annual interest rate of 18%. The average loan size is Rs 30,000 per family. Now, to make all these informal saving and credit groups to formal institution,

cooperatives are formed at three places. These cooperatives function as autonomous, member-controlled bodies.

Interest free Home Loan by INGO

The Habitat for Humanity, an American INGO started its interest free home loan to poor people of Nepal from December 1999. It provides home making loan to those poor people who have their own piece of land. A total of 225 houses have been built in Nepal through this assistance. About 100 houses were built in Tikapur municipality where 40% of the home makers were the backward community. The houses built were of 360 sq. ft of plinth area. The loan amount provided to each household ranged from Rs 60,000 to 100,000 rupees. They had normally monthly repayment which was about Rs 550 per month. However, in some cases, stages of repayment were made 3 monthly and 6 monthly as per their earning and repaying capability.

4. HOUSING POLICY AND PROGRAMMES

The new constitution of 1990 provided broad guidelines for housing policies. It states that “shelter is a basic necessity for all and government will work toward setting the conditions so that over time this need is satisfied for all families”. Based on these broader policies, the Eighth Plan document (1992-1997) established the target to make available land for 25000 low income families, develop 1000 serviced plots in the urban areas, avail access to housing finance and improve the old urban housing stock to benefit 15,000 families. Likewise the programme components mentioned in the document were: development of 10-15 family model compact settlement, involve private sector for four towns to make group housing and apartment. Provide housing credit to 2000 people. However, the government’s annual plans and programs reflected too little to materialize the intention of the policy. There are couple of reasons. The annual plans do not strictly confirm to the five year plans and policies; the political changes shift the priority focus; the policy makers themselves twist the focus for personal interest; the annual budget allocation limitations also cut the programme; the higher level authority makes no critical review of the achievements of the target and no body is penalized for not conforming to the target. This problem has to do more with the nation’s institutional, political, cultural behaviour and attitude and less with the housing policy and plans itself. Without integrating the policy with the annual budgeting, it is most likely that housing policy may remain as wishful thinking.

In 1995, the Ministry of Housing and Physical Planning (MHPP) formulated a national housing policy. The policy components were: 1) Production of new houses and upgrading of old houses; 2) Effective mobilization and allocation of economic resources; 3) Institutional reforms. Under these components whole lot of action packages are spelt by the policy. They are: 1) Low income government land development programme; 2) Promotion of public private partnership in land and housing development sector; 3) Reforms in the Acts and regulations; 4) Promotion of housing credits; 5) Development of building material technology; 6) Housing up-gradation Programme; 7) Planning and institutional coordination with the concerned agencies; 8) Human resource development and information dissemination. One good achievement of the policy is the preparation of the Apartment Ownership Act 1997 became effective in Nepal from 2003. It is good initiative to encourage apartment housing in Nepal.

In 1970s two sites and services schemes were implemented to address the housing issues in Nepal. However, these schemes also failed to ensure access to the targeted beneficiaries and low income families due to the intrusion of rich and influential people on the developed plots; lack of enough financial resources for acquiring land; lengthy procedure of land acquisition; and, opposition by the affected landowners. To overcome these constraints more positive land development tools known as land pooling / land readjustment and guided land development programmes were started in the valley in 1988. These tools have largely been satisfactory in providing urban services. Today 11 land pooling projects have been completed in the valley and, about 279 kilometres of guided land development roads have been opened in various municipal wards. Even then it is too little as compared to the total volume of land and housing plots in the valley (Karki, 2004). The Town Development Act 1988 provides the legal basis to carryout town planning schemes. It can designate town planning area in suitable locations and form town development committees; provide guidelines to carryout land pooling / land readjustment projects and guided land development programmes (GLD); freeze land for planning purpose and penalize to those who do not comply the rule.

5. NEPAL HOUSING DEVELOPMENT FINANCE COMPANY (NHDFC)

The Nepal Housing Development Finance Company (NHDFC) came at a time when no private financial institutions had entered into the land and housing market and it is the first company formed in Nepal exclusively for housing finance. It was established in 1990 under the Finance Company Act 1985. The Ministry of Physical Planning and Works (MPPW) took the initiative to establish NHDFC.

The main objectives set by this company were to: 1) mobilise housing finance as per the government's housing policy and approval of the central bank; 2) provide short and long term loan to the officials of the HMG, organized institution and any other individual for purchasing a housing plot, ready made house, house construction or for house improvement; and, 3) conduct housing projects and related services, training and other financial activities. However, its role has been confined only to the second objective. The share holders of the company were the Ministry of Physical Planning and Works (MPPW) with 10% share, National Insurance Company with 15%, other banks with 35% and the general people with 40%.

Table: 3 List of share holders of NHDFC

S.N.	Share Holders	Share in %
1.	MPPW	10
2.	National Insurance Company	15
3.	Nepal Bank Limited	10
4.	Agricultural Development Bank	10
5.	Rastriya Banijya Bank	10
6.	Nepal Arab Bank	5
7.	General people	40

NHDFC, Brochure

The company is executed by the execution committee and the committee members are each from MPPW, National Insurance Company, Agriculture Development Bank, Nepal Bank

Limited, Rastriya Banijya Bank and three from the general people. The committee appoints a General Manager for the execution of the task. Now, there are a total of 19 staffs.

At present, NHDFC is confined to carry out three major tasks. They are: taking fixed deposits, gradual housing saving programme and the home loan. It takes **fixed deposits** for a minimum period of one year and the rate of interest for fixed deposits ranges from 7.5% to 9.25%. Under the **gradual housing saving scheme**, every individual can deposit a minimum of Rs 1000 and its multiple amounts up to six years and they will get an annual interest of 7% on the principal. The fixed depositors under this scheme receive priority for the home loan.

Table: 4 Rate of interest in fixed deposit scheme

	Fixed deposit period in years	Annual rate of interest in %
1.	1	7.50
2.	2	8.00
3.	3	8.50
4.	4	8.75
5.	5	9.00
6.	6	9.25

NHDFC, Brochure

Similarly, it provides **home loans** to the citizens of Kathmandu Valley for the maximum period of 15 years. The rate of interest they have to pay for the loan is 15% per annum. Repayment of the loan is on monthly instalment basis and rate of interest is charged on the diminishing principles. The loan is approved on the basis of the paying capacity of the client and, the land and building under construction is taken as collateral. From the period 1990 to 2000, the range of amount of loan disbursed per household was 4013 to 6688 US Dollars and from 2000 onwards the limit has been raised upto 20,066 US Dollars.

Current loan disbursement of NHDFC is 4.548 million US Dollars and since its inception (1990) a total of 6000 households have benefited from the scheme according to the Deputy Manager. The loan loss provision is below 5% (standard set by the national bank). There are very few defaulters and 90% of the lenders are regular on the monthly instalment. The majority of the lenders come for new house and second category belong to repair and third belong to house extension. The 70% of the home loan borrowers are the government employees.

The NHDFC, no doubt has provided loan to the low and middle income people of Kathmandu Valley since the range of loan amount per household was too small (from 4013 to 20,066 US Dollars) to attract high income people. However, without its competitive strength it can not carry on its noble goal. One school of thought says that despite the high rate of interest of 15%, people come to this institution because it is reliable than other finance companies due to the government's share in it; accessible to the low and middle income people who normally do not dare to enter and talk to the sophisticated private financial institutions.

Second school of thought is that because of the increasing trend of financial institutions to go for home loan with lower rate of interest (8.5 to 9.5 for home loan) as compared to NHDFC (15%), people would gradually move away from NHDFC to private institutions. There is also a chance of running away of its major clients (government employees) who could now get

home loan from the Nepal Provident Fund at a rate of interest of 11.5% which is lower than the NHDFC. It is also interesting to note that the government (MPPW, initiator of the institution) has neither reviewed NHDFC's performance nor made any policy change since its inception. This shows lack of priority from the government side and the attitude is let it run as long as it can.

6. CONCLUSION AND RECOMMENDATIONS

It is a paradox that banks and financial institutions are rushing to go for home loan in a nation having serious economic crisis led by Maoist insurgency. This is not happening because home loan scheme is highly profitable to the banks nor it is due to government's policy incentives for home loan. It is because home loan appeared to be the only survival option to the banks who have high deposits but very little demand for commercial lending. This survival option of commercial banks also appeared to be a boon to the housing finance sector in Nepal. However, it is yet to see what will be the response of the financial institutions after Nepal resumes its normal economic growth and expansion of the commercial lending: will these institutions continue housing finance or shift their policy? Generally, the well established lending sector does not revert back and, one can only hope for that.

In this context it is recommended that NHDFC should play dual role for its survival and social responsibility. They are commercial and social role. Commercial role: because of opening of more avenues for private home loan at lower rate of interest, the future of NHDFC is challenging. Although current status of NHDFC is satisfactory, there is more likely of its gradual death. For its survival it should move in par with the private financial institutions and there is no good reason to continue lending at higher rate of interest (15%). It is important that NHDFC review its staffing, expenditures, and policy to make it as competitive as the other financial institutions.

Social role: the most of the housing finance requirements of the middle and higher income people will be served by the growing competitive commercial banks and financial institutions. However, it is most likely that the low income people will not be served by these commercial institutions. Thus, it is the government monitored NHDFC which should work on housing finance for low income people: group lending, micro-finance; funding for low cost building material production, training and research. The government sector, especially the MPPW should give priority in these areas while enhancing the role of NHDFC. Lastly, the NHDFC should not confine its services only in Kathmandu Valley. It should gradually expand and replicate its programme to the other towns of Nepal too.

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