

Housing Loan : A New Approach for Expansion

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Abstract

This paper investigates various operational and financial aspects of Bangladesh House Building Finance Corporation, dealing mostly with the upper income group of people. The overall performance of BHBFC is now more or less stagnant, which is expected to be worse in the years to come if the existing policy instruments continue. The process of restructuring of the BHBFC based on sound economic principles is moving very slowly, for which reason it is failing to cope with the huge demand for credit in the housing sector. The economy is growing, and with that the households' income and expectations to get better housing facilities and taste better life and livelihood are also rising. Besides, constitutional provisions and the presence of a Government-owned institution are fueling the housing demand of the households. This paper sums up the problems and disabilities of the

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BHBFC in meeting the large and growing demand for housing in the country and puts forth some recommendations for overcoing the disabilities through reforms of its loan accounting system and revamping its capital base.

1. Introduction

Housing or shelter is a basic human need like food and clothing. Housing or shelter provides inhabitants privacy, health and comfort. It promotes opportunities for employment. However, despite the GDP growth of about 6 percent in recent years the housing problem of the country remains as acute as ever.

Income inequality exists both in rural and urban areas, which is reflected in the standard of living of the people, including the type of their houses/residence in which they reside. The major types of structure of main houses numbering about 24.85 millions in 2001 were as follows- Jhupri (8.80%), Kutcha houses (74.38%), Semi-pukka houses (10.10%), and Pukka houses (6.72%) (Annex 1). Most of the houses were inherited from ancestors, but with population increasing at a rapid pace, the households' demand for more houses kept on increasing, too. Some of the households seek credit when the income of all members of the household is not sufficient to build a new house.

Since the scope of horizontal expansion has narrowed down to a great extent due to population pressure, migration, etc, the alternative is vertical expansion of the building structure in the form of flats/apartments, so that many households can be accommodated in a small building but with provisions of public utility services and neighborhood facilities. In most cases, individual households cannot afford to construct such a costly building with provisions for utility services. Therefore, they take recourse to real estate firms (owned as a private or public limited company) for building flats and apartment houses on a cost share basis. The builders provide all facilities and bear construction cost while the land owner provides only the land. The share of the land owners in flats and apartments varies between 30 and 70 percent, depending on the location of the building.

Some commercial banks together with some private sector housing institutions have started providing housing finance in recent times, but BHBFC is still the major source of housing credit for the middle and lower middle income group people. In fact, the BHBFC is the only specialized state-owned financial institution of its kind, which has been providing finance in the housing sector since 1952. The Corporation provides financial facilities for construction, repair/remodelling and extension of residential houses to help reduce the acute housing problem. At present the Corporation provides housing credit through its

22 field offices (13 regional Offices and 9 Zonal Offices). The Corporation's loan portfolios comprise of 6 categories of credit facilities, namely—

- (i) **General Loan:** This type of loan is given for the construction of a single/ multistoried residential house on a land/plot owned by a single person or jointly by husband and wife.
- (ii) **Group Loan:** This type of loan is given for the construction of flats by a group of borrowers on a plot owned jointly by the group.
- (iii) **Apartment/Flat Loan:** The apartment/flat loan is given for purchasing apartments/ flats under construction or newly constructed residential houses.
- (iv) **Extension Loan:** The loan is given for purpose of construction of the unconstructed portion of an approved plan of a residential house already built.
- (v) **Special Loan for Middle and Lower-Middle Income Group of People:** This loan is given for the construction of smaller size housing units. The repayment period of this loan is 20 years.
- (vi) **Five Years Special Term Loan:** Repayment period is a medium term one for 5 (five) years. If the potential loanees have the land/plot in the posh area or at the market centres or the members of the households have other attractive sources of income to repay the loan in due course, then they fall in this category. Household income however, must be enough to repay the loan installment timely.

This paper reviews and analyses some of the operational and financial aspects of the BHBFC. Section 2 discusses the position of BHBFC in loan disbursement, composition of outstanding loans, loan recovering status and classified loans, its profitability, cost of funds, debt equity ratio, capital structure, market share, and so on. Section 3 highlights the corporation's potentials as a lender in the housing market, while section 4 summarises the main findings and conclusions of the paper.

2. Overall Status of BHBFC's Operations

With the entry of commercial banks and financial institutions, the mortgage finance market in Bangladesh is rapidly growing in size and getting much more competitive in nature. The commercial banks, both in the public and private

sector, have either established or are in the process of setting up in-house mortgage finance departments. Due to the recent entry of banks and financial institutions in the housing finance market, BHBFC's position in the market has changed from a monopoly to a competitor. This section presents an overview of the present status of the Corporation's operational activities and financial position.

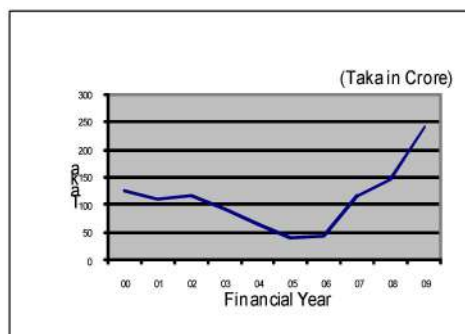
2.1 Loan Disbursement

The Corporation has sanctioned Tk. 3,819.41 crore and disbursed Tk. 3,350.11 crore as loan upto 30 June 2009 since inception. About 161,648 housing units have been constructed till now through housing loan of the Corporation. Notwithstanding the ups and downs of the Corporation's loan volume due to liquidity problem, it has been striving hard to maintain loan disbursement activities.

The loan disbursement profile of the corporation of the previous 10 years are presented in Table 1.

Table 1 : Loan Disbursement. (Taka in crore)

Financial Year	Amount Disbursed
2008-2009*	242.61
2007-2008	146.92
2006-2007	115.78
2005-2006	43.23
2004-2005	40.69
2003-2004	65.27
2002-2003	93.26
2001-2002	116.14
2000-2001	110.51
1999-2000	127.52



* Provisional data

It is seen from the data that the Corporation has experienced a frequent rise and fall in loan disbursement throughout the present decade. Though the loan disbursement amounts have increased at an accelerated rate since 2006-2007, the corporation finds it difficult to maintain this disbursement trend because of fund constraints. During the years of the nineties of the last century the Corporation experienced similar ups and downs in loan disbursement.

Area-wise Sanctioning of Loan: An analysis of the area-wise loan sanctioning reveals that the most of the loan cases were sanctioned in Dhaka and Chittagong

Table 2 : Geographical Focus on Loan Distribution (Tk. in crore)

Financial year	Loan Sanctioned			Total	% of Total Sanctioned Amount
	Amount: Metropolitan Areas				
	Dhaka	Chittagong	Sub-Total		
1	2	3	4=2+3	5	6 = 4/5
2008-2009	160.24	21.36	181.60	236.58	76.76
2007-2008	156.10	26.90	183.00	226.06	80.96
2006-2007	96.65	18.57	115.22	150.09	76.77

Metropolitan areas. The loan sanctioning data of previous three years are shown in Table 2.

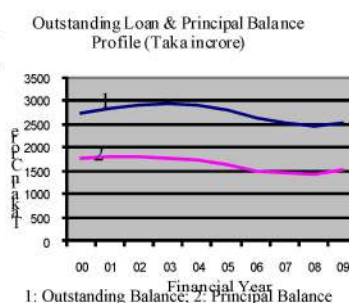
It is observed that more than three-fourth of the sanctioned amount is concentrated in the two city areas only. This indicates that BHBFC extends loans to the rest of the country at a very limited scale.

2.2 Outstanding Loan and its Composition

The outstanding loan of the Corporation stood at Tk.2509.41 crore as at 30 June,

Table 3 : Composition of Outstanding Loan. (Tk. in crore)

Financial Year	Outstanding Balance	Principal Balance	Ratio (%) (Col.3 to Col. 2)
1	2	3	4
2008-2009*	2509.41	1517.45	60.47
2007-2008	2439.65	1414.27	58.35
2006-2007	2516.44	1433.65	56.97
2005-2006	2626.86	1497.73	57.02
2004-2005	2784.61	1625.37	58.37
2003-2004	2894.48	1732.82	59.87
2002-2003	2921.08	1795.95	61.48
2001-2002	2885.46	1815.72	62.93
2000-2001	2808.17	1800.67	64.12
1999-2000	2723.70	1780.15	65.36



* Provisional data

2009. The amount was Tk. 2439.65 crore in 2007-2008. The movement pattern of the outstanding loan balance and principal balance in the outstanding loan during the past 10 years is presented in Table 3.

The data presented in Table 3 reveals that the outstanding loan balance started decreasing since 2003-2004 and continued upto 2007-2008. The trend took a

reverse turn in 2008-2009 due to a major increase in loan disbursement since 2006-2007.

The amount of principal loan balance in outstanding loan also had decreased persistently throughout the decade till 2007-2008. The decline in the ratio of principal balance to the outstanding loan indicates that the Corporation's performing loan asset has decreased and non-performing loan (NPL) asset increased till 2007-2008.

2.3 Loan Recovery

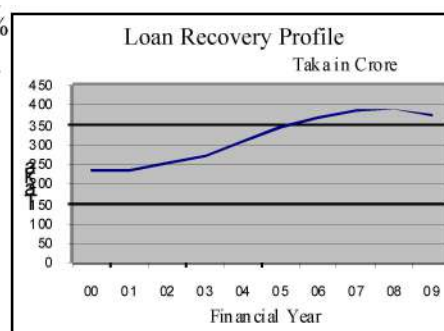
The very long term loan repayment period (15 and 20 years) unveils a unique type of experience to the Corporation in its loan recovery activities. In many cases repayment of a loan involves two generations. Although this problem could be resolved by reducing repayment period and/or by imposing some policy restrictions on the aged loan applicants, but in view of the increase demand and to mitigate the housing problems and to the social perspectives the Corporation is pursuing its traditional loaning system.

Despite very long term repayment period (sometimes which has been increased upto 32 years through rescheduling) and multiplicity of problems associated with the recovery activities the Corporation has been consistently improving its recovery performance both in terms of quantity and quality. The continuous improvement of loan recovery performance becomes evident from the data presented in Table 4.

Table 4 : Year-wise Loan Recovery (Taka in crore).

Financial Year	Amount of Recovery	Recovery %
2008-2009*	372.97	74.94
2007-2008	388.95	72.18
2006-2007	387.16	67.90
2005-2006	368.96	58.48
2004-2005	341.83	53.99
2003-2004	304.76	49.55
2002-2003	272.02	44.82
2001-2002	250.23	41.32
2000-2001	233.71	40.11
1999-2000	232.97	46.34

* Provisional data.

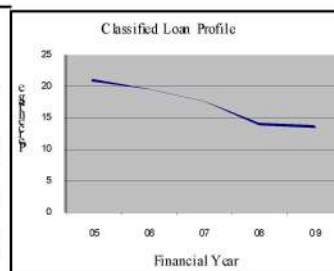


2.4 Loan Classification Status

The Loan Classification system was introduced for the first time in the Corporation in 1999-2000. The Classification policy of the Corporation was developed by the Ministry of Finance unlike other Banks and Development Financial Institutions for which policy was given by the Bangladesh Bank. During the year 1999-2000 the percentage and amount of classified loan were 31% and Tk. 844.34 crore, respectively, but in subsequent years the classification scenario improved persistently and the percentage of classified loan decreased to 13.51 percent in 2008-2009 from 21.02 percent in 2004-05 (Table 5).

Table 5 : Loan Classification Status (Taka in crore)

Financial Year	Un- classified Loan		Classified Loan	
	Amount	%	Amount	%
2008-2009*	2134.93	86.49	333.57	13.51
2007-2008	2099.32	86.05	340.33	13.95
2006-2007	2073.01	82.38	443.43	17.62
2005-2004	2111.57	80.38	515.29	19.62
2004-2005	2199.16	78.98	585.45	21.02



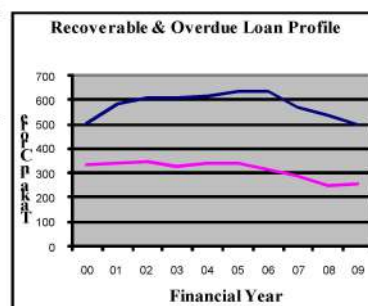
*Provisional data.

The extent of achievement of the Corporation in reducing its loan classification rate in recent years is praise-worthy relative to the success levels of other state-owned Banks and Financial Institutions.

Table 6 : Composition of Recoverable Loan (Tk. in crore)

Financial Year	Amount		Overdue as % of Loan Recoverable
	Loan Recoverable	Loan Overdue	
1	2	3	4
2008-2009*	497.69	257.24	51.68
2007-2008	538.87	250.43	46.47
2006-2007	570.23	289.45	50.76
2005-2006	630.89	316.05	50.10
2004-2005	633.18	341.36	53.91
2003-2004	615.05	342.41	55.67
2002-2003	606.85	330.20	54.41
2001-2002	605.55	347.00	57.30
2000-2001	582.69	341.57	58.62
1999-2000	502.78	334.90	66.61

* Provisional data



2.5 Recoverable and Overdue Loan

The total recoverable amount of loan decreased since 2004-05 and stood at Tk. 497.69 crore at the end of the year 2008-2009. The overdue amount, too, declined and stood at Tk. 257.24 crore as at 30 June, 2009, although between 2007-08 and 2008-09 the overdue amount recorded a slight increase of Tk. 6.81 crore (Table 6).

It is observed from Table 6 that if the present declining trend of recoverable loan continues, the overdue of loan will also increase. The decrease of recoverable amount on the one side and the increase of overdue amount on the other indicate that the cash-flow vis-à-vis the liquidity situation of the Corporation may deteriorate. The trend may be reversed by increasing loan disbursement and regularizing the overdue loan accounts.

2.6 Profitability

The Corporation has been earning profit consistently over the years. Due to the introduction of loan classification system in the financial year 1999-2000 its net profit during the years 1999-2000 to 2001-2002 was lower than before, since it had to meet provision for classified loans. However, the Corporation never failed to earn operating profit in any of the years though loan classification system was introduced. It had been able to meet the provision in a shorter period, compared to other state-owned banks and financial institutions.

The amounts of incomes, expenditures and net profits of the Corporation for the last 5 years are shown in Table 7.

It is seen from the Table 7 that the net profit has increased at a higher pace than total income till 2007-2008. But both the total income and the net profit declined during the year 2008-2009. The reduction in interest income from fixed deposits

Table 7 : Income and Expenditure Scenario (Taka in crore)

Financial Year	Total Income	Total Expenditure	Net profit
1	2	3	4
2008-2009 *	219.37	91.95	137.00
2007-2008	225.64	95.24	165.03
2006-2007	213.07	94.14	135.36
2005-2006	205.43	95.22	124.10
2004-2005	200.69	97.59	113.55
2003-2004	186.46	100.16	92.33



* Provisional data. Net Profit : Before Tax

kept with other banks and financial institutions, lowering of interest rates on classified loans, and an increase in the interest amount against debenture were the major reasons behind such declines. Moreover, because of the simple interest calculation system, the collection of Interest During Construction Period (IDCP) throughout the loan repayment period without charging interest on it, and other benefits given to the borrowers, the effective interest rate becomes lower than the declared or nominal interest rate, which adversely affects the profitability and the long term capital base of the corporation.

2.7 Cost of Borrowing and Cost of Fund

The cost of borrowing and the cost of fund of the corporation have been increasing continuously over the years. The increases in the costs are shown in Table 8.

Table 8 : Cost of Borrowing and Cost of Fund: Scenario of the Last Decade

Financial year	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009*
Cost of Borrowing (%)	4.96	4.94	5.96	6.05	6.12	6.30	6.41	6.49	6.55	6.62
Cost of Fund (%)	5.31	5.28	6.22	6.32	6.41	6.64	6.83	7.07	7.48	7.80

* Provisional data.

The costs are increasing mainly due to the increase in the proportion of high interest bearing debentures in the total debenture balance.

The continuous increase in these costs has been reducing the interest margin of the Corporation. The interest margin in 2008-2009 in respect of nominal interest rates stood at 5.10%. In respect of effective interest rate the margin was only 2.92% in 2008-2009. The continuous decline in the interest margin indicates that the Corporation has to readdress its financing and funding policy to reverse the present trend.

2.8 Reserve Fund, Debt-Equity Ratio and Working Fund

Reserve Fund

The Corporation maintains five types of reserves, namely—general reserve, building reserve, tax-free reserve or special reserve, reserve for bad and doubtful debts, and reserve for redeemable debenture. The total amount of reserves was

Tk.1381.37 crore (provisional) in the year 2008-2009 as compared to Tk. 1208.12 crore in 2007-2008. The total reserve has been increasing over the years.

Debt-Equity Ratio

The amounts of debt and equity were Tk. 1769.07 crore and Tk. 1305.41 crore respectively in the year 2007-2008. The respective amounts reached Tk. 1683.49 crore and Tk. 1381.37 crore in 2008-2009. The debt-equity ratio of the Corporation was 2.83: 1 in 1999-2000 which has gradually declined to 1.22: 1 at the end of the year 2008-2009. The equity share in the capital of the Corporation has been increasing steadily over the years (Table 9).

Table 9 : Movement of Debt-Equity Ratio.

Financial year	1999- 2000	2000- 2001	2001- 2002	2002- 2003	2003- 2004	2004- 2005	2005- 2006	2006- 2007	2007- 2008	2008- 2009*
Debt-Equity Ratio	2.83:1	2.73:1	2.50:1	2.11:1	1.93:1	1.79:1	1.62:1	1.48:1	1.36:1	1.22:1

* Provisional data

The amounts of authorized and paid-up capital of the Corporation are only Tk. 110.00 crore and Tk. 97.29 crore, respectively. The amounts of authorized capital and paid-up capital are very much insufficient to continue the Corporation's normal business activities. On the other hand, the debt-equity ratio 1.22:1 i.e, only 45.04% equity in the total capital also shows the vulnerability of the Corporation's capital structure. Although the ratio of equity has been improving as the debt-equity ratio has decreased from 2.83:1 (26.11% equity) in 1999-2000 to 1.22:1 (45.04% equity) in 2007-2008, yet the equity remains at a very low level, considering the Corporation's very long term financing.

Working Fund

The working fund of the Corporation were Tk. 2432.00 crore in 2008-2009, Tk. 2370.80 crore in 2007-2008 and Tk. 2437.09 crore in 2006-2007. The yearly average working fund was Tk. 2423.24 crore during the past 10 years. The equity support of the working fund is only approximately 50%, which indicates that hindrances in long term financing in the absence of new fund will continue to restrict the Corporation's operational ability in future also.

2.9 Sources of Fund and Cost of Fund

Sources of Fund

The primary sources of the Corporation's fund is the paid-up capital contributed by the Government. Other than paid-up capital the major source of fund of the Corporation is collected by selling Government guaranteed debentures to the Bangladesh Bank and to other scheduled Commercial Banks and Financial Institutions.

Since inception, the Corporation sold debentures amounting to Tk. 1872.00 crore. The total balance of the debenture liabilities stood at Tk.1102.24 crore (Principal: Tk.1049.09 crore and Interest: Tk. 53.15 crore) at the end of the year 2008-2009. The Corporation has to pay a huge amount of taka as installments of debenture liabilities and government liabilities in each financial year. During the year 2008-2009 the Corporation paid a total of Tk. 225.51 crore as installments against the debenture liabilities (Principal: Tk. 114.58 crore and Interest Tk. 110.93).

The Corporation has sold its debentures to some 17 Organizations since its inception. The major buyers of the debentures are the Bangladesh Bank (Tk. 1210.25 crore), Agrani Bank Ltd.(Tk.242.15 crore), Sonali Bank Ltd.(Tk. 139.75 crore) and Janata Bank Ltd.(TK.70.00 crore). The debentures were sold at bank rates and were subsidized compared to the market rates prevailing at the time of selling. Only a small amount (Tk. 50.00 crores) of debentures was sold at 8.00 percent i.e. 2.0% above the bank rate in 1998. The interests rate of the debentures are 2.75%, 3.50%, 4.50%, 5.50%, 6.00% and 8.00% p.a.

The terms and conditions of repayment of the debentures are different as compared to the Corporation's credit norms. In case of the debenture installment repayment there is no in-built scope for deferring payment of charged interest unlike loan repayment norms of the Corporation. This difference in repayment conditionalities gives rise to a mis-matching situation of the Corporation's cash in-flow and cash out-flow.

The BHBFC could not sell any new debenture since 1998-1999. Although the Ministry of Finance has given a guarantee to the Corporation for selling debentures of Tk. 100.00 crore in April/2004, the debentures could not be sold.

The reasons for which the debentures could not be sold are low interest rate of the debenture and shorter repayment period as demanded by the buyer Banks. Besides, comparatively higher interest rates and variable repayment periods of Treasury Bonds of the Bangladesh Bank discourage the prospective buyers of the debentures of the Corporation.

Uses of Fund

The funds thus available to the Corporation are mainly used for the purpose of catering credit to the public; to meet the liability obligations; and to meet the operational and establishment expenses. In spite of its profit generation each year, the capital base of the Corporation is not strong and there is a mis-match between its cash in-flow and cash out-flow. The Corporation is not empowered to collect any type of deposits. It lends money in a very limited scale from its recovered amount of loan after meeting all types of liability obligations and expenses.

Although recovery amount has been increasing each year, ups and downs in year-wise liability obligations compelled the Corporation to keep some of its fund aside as fixed deposits to different scheduled banks and financial institutions so that it can repay debenture installments on schedule as per contract. The fixed deposit amount has been shrinking rapidly in the recent years. The amount has decreased from Tk. 363.87 crore in 2007-2008 to Tk. 230.21 crore during the year 2008-2009.

2.10 Income-Tax Payment

The Corporation determines its profit/loss both on cash and accrual basis. The loan accounting system of the Corporation is unlike other Banks and Financial Institutions. The Corporation charges simple interest on its loan accounts and doesn't charge any interest on uncollected interest balance of the loan accounts. Besides, it follows an installment collection system whereby only a part of the total interest of a loan account that is charged during the first-half of the total repayment period is collected in the second-half of the repayment period. This type of average collection system gives rise to a 'deferred interest' amount which can not be collected on due time although it is accrued. The presence of deferred interest erodes the value of nominal interest rate and ultimately yields a lower effective interest rate.

In view of the 'Deferred Interest System' the Corporation has been allowed by the honourable High Court to pay its income-tax on net profit earned on cash basis. On average, the Corporation pays about Tk. 30 crore a year as income tax to the public exchequer.

2.11 Market Demand and Market Share

Market Demand: According to the 1991 census total shortage of housing units of the country was 31 lakhs units, of which 21.5 lakhs units were in the rural areas

and the rest 9.5 lakhs units were in urban areas. It is estimated that by the year 2010 the total shortage may be around 60-70 lakhs units.

Market Share: The market share of BHBFC in terms of outstanding loan balance in the housing sector loan is shown in Table 10.

Table 10 : BHBFC's Market Share (Tk. in crore)

Organizations	Total Outstanding Loan Balance		
	2003-2004	2004-2005	2005-2006
1	2	3	4
A. Specialized Housing Finance Institutions			
1. BHBFC	2890.00	2780.00	2680.00
2. DELTA-BRAC	340.00	440.00	550.00
3. National Housing Finance.	130.00	180.00	190.00
B. Bank			
1. Nationalized Commercial Banks	2360.00	2410.00	2570.00
2. Other Banks	2290.00	2620.00	3290.00
C. Other Financial Institutions			
	100.00	160.00	290.00
D. Micro-Credit Finance			
Organization:			
Grameen Bank	130.00	90.00	40.00
Total	8240.00	8680.00	9610.00

Source : Annual Report, Bangladesh Bank, 2006.

It is observed in Table 10 that the market share of the Corporation has been diminishing over the years (so in the Grameen Bank also). The market share of BHBFC in total outstanding loan stood at only 27.89% at the end of the year 2005-2006. However, its share amongst the state-owned Banks and Financial Institutions is still 51.05%.

Although the Corporation is maintaining its pivotal role and leadership in the market, private banks and financial institutions are steadily increasing their market share. As a result, BHBFC's position in the market has changed from a monopoly to a competitor.

2.12 Manpower

The total approved man-power of the Corporation was 725 persons as per the Organogram of 1994, but the total man-power has been decreasing continuously over the years. The number of employees was 616 in 1999-2000, which came down to only 450 personnels as of 30th June 2009. Out of these personnels only 272 were Officers.

The large decline in working man-power poses a serious threat in maintaining the Corporation's normal activities. Recently in May, 2009 the Ministry of Finance has approved a new Organogram comprising of 825 personnel. However, phase-wise new recruitment will take time and the present man-power crisis is likely to continue for several years in future.

3. BHBFC's Potentials

The total amount of outstanding loans and advances of the Corporation is decreasing each year. The amount of outstanding loan was Tk. 2624.34 crore in 1998-1999. It has gradually declined to Tk 2509.41 crore in 2008-2009. This declining trend of outstanding loans clearly indicates that the operational ability of the Corporation is eroding gradually and its future as a credit giving organization is under serious threat. Though the Corporation is continuing its credit activities, it is not being able to meet the huge demand for housing credit by the middle and lower-middle group of people, specially in rural areas. An analysis of the area-wise credit distribution pattern of the Corporation reveals that about 85%-90% of its yearly loan disbursement is concentrated in the Dhaka and Chittagong metropolitan areas and only a small part of total loan disbursement is made in the rest of the urban areas and in a few upazila sadar areas.

A look at the composition of outstanding loans and advances of the BHBFC shows that nearly 50% of the total outstanding amount belongs to the interest balance side of the loan accounts. The principal balance amount of the total outstanding loan has been gradually decreasing as yearly loan disbursement amount is not increasing sufficiently, compared to the pace of increase in yearly recovery amount. As a result, the Corporation's entity and status in future as a credit institution is at stake. Raising long term capital fund has remained an outstanding issue for the Corporation over the years. The fact remains that BHBFC is entirely dependent upon government support in terms of funding its lending operations through selling of subsidized debentures. The last issued debenture by BHBFC in 1998 at 2% above the market rate i.e at 8% was an indication that the market is not willing to support BHBFC paper at a subsidized rate. It is therefore strongly suggested that BHBFC should prepare itself for raising market based long term funds through securitization and issuing shares to the capital market and for collecting deposit. Besides, it should also pursue government for allocation of fund for BHBFC from national budget. Side by side, the terms and conditions related to conventional debentures/bonds having 15-20 years payback period needs to be modified. Long term debentures/bonds with 5-7 years repayment period and to be reissued after 5-7 years can also be introduced.

The BHBFC has a very strong mortgaged backed loan assets which can enable BHBFC to enter the capital market through issuing shares to the public. This will enable BHBFC gradually to obtain market based funding in long term. At present the Corporation has outstanding assets in regard to loans and advances amounting Tk 3064.86 crore. Lands related to loans and advances are mortgaged to BHBFC as an additional security. The average market value of total additional security is manifold higher than that of the amount of outstanding loans and advances related to loan accounts. So, it is possible for the Corporation to issue ordinary shares to the capital market.

At the initial stage of securitization BHBFC can raise fund through issuing shares to the tune of Tk. 200 crore to Tk.300 crore from the capital market. In view of the present level of profitability the Corporation can offer a dividend at a rate equivalent to the weighted average interest rate of lending. To make the shares more attractive the Corporation can ask Government for tax exemption/holiday or tax at a reduced rate to enable it to offer higher dividend to the buyers of shares.

4. Summary of Major Findings and Concluding Remarks

- The BHBFC has been contributing to the housing finance sector for nearly six decades. The major findings on the status of the Corporation's activities, as discussed in this paper, are presented below.
- The loan amount has been increasing in recent years, but the volume of loan disbursed is not sufficient to meet the country-wide demand.
- The average loan size has been increasing but the number of clientele per unit of loan amount is decreasing. The decrease in the number of clientele indicates that BHBFC's service has been shrinking in real terms over the periods.
- The BHBFC's loan disbursement is concentrated mainly in Dhaka and Chittagong Metropolitan areas and only partly in the city/town areas of old and new districts. Very little amount of loan is disbursed in Upazilla or rural areas. To serve the middle and lower-middle income group of people BHBFC should give more attention to increase its loan activities to non-metropolitan and rural areas.
- The amount of principal balance is now around 60 percent of the BHBFC's outstanding loans. The participation rate of principal balance in outstanding loan should be increased steadily to maintain the Corporation's financial viability and sustainability.

- The percentage of loan recovery has been increasing consistently over the last 10 years. The recovery rate was 74.94% in 2008-2009, as compared to 46.34% in 1999-2000.
- The classified loan amount has been decreasing continuously over the years, and the provision requirement against classified loans has always been regularly met. The classified loan percentage is to be reduced further to improve the quality of outstanding loans.
- The recoverable amount has been decreasing over the last four years till 2008-09, while the overdue loan in recoverable amount, after decreasing till 2007-2008, increased in 2008-2009. The decreasing trend of recoverable amount should be arrested by increasing loan disbursement. Otherwise the liquidity problem of the Corporation will be intensified further. The increasing trend of overdue loans also must be reversed to improve the quality of recoverable loans.
- The net profit of the Corporation increased persistently till 2007-2008 but fell in 2008-2009.
- The provisional weighted average interest rate and effective interest rate of the Corporation during the year 2008-2009 were 11.70% and 9.56% respectively. The effective interest rate decreases due to the unique loan accounting system involving deferred interest payment and the simple interest method that is being followed by the Corporation. To stop its capital erosion BHBFC should do away with the policy of deferment of interest collection and the simple interest method.
- Both the cost of borrowing and the cost of fund have been increasing over the years. The cost of borrowing increased from 4.96% in 1999-2000 to 6.62% in 2008-09, while the cost of fund increased from 5.31% to 7.80% during the same period. Due to the increase in the costs the interest margin is getting lower. In 2008-09, the nominal interest rate margin stood at 5.10% and the effective interest rate margin was 2.92%. This suggests that the Corporation should change its loan accounting system and diversify funding sources urgently.
- The total reserve fund of the Corporation has increased over the years, but considering that its business stretched over nearly six decades, the pace of growth of reserve fund has been very slow – insufficient to support long term financing. The loan accounting system of BHBFC involving deferred interest reduces the effective interest rate, weakening the pace of reserve accumulation, and ultimately eroding the capital base of the Corporation.

- The debt and equity ratio of the Corporation has declined significantly over the years – from 2.83: 1 in 1999-2000 to 1.22 : 1 at the end of the year 2008-2009. Yet, the equity remains at a very low level i.e. only 45.04% of total capital. The inadequate capital base of the Corporation needs to be strengthened as soon as possible
- The authorized and paid-up capital of the Corporation are very low, which makes it solely dependent on the selling of government guaranteed debentures to Bangladesh Bank and to other scheduled Banks and Financial Institutions. Since, however, the Banks and Financial Institutions are not willing to buy debentures bearing an interest rate below market rate or that of Bangladesh Bank's Treasury Bonds, the Corporation failed to sell any new debentures since 1998. In fact, the long maturity of the debentures, as high as 15-20 years, discourages the prospective buyers to purchase its debentures. As a result, the Corporation has been suffering from liquidity problem for many years. The prevailing situation suggests that the Corporation should diversify its sources of funding at earliest.
- The demand for housing credit is increasing each year. BHBFC together with other private and public sector Banks and Financial Institutions can meet only a very small part of the total demand that exists in the housing sector. The Corporation can expand its business enormously if it can arrange capital for long term financing.
- The corporation's recovery performance and classified loan status have improved greatly over the years, but its loan disbursement capability has not improved because it has failed to build a strong capital base of its own. In fact, the Corporation may be compelled to decrease its disbursement soon if it fails to generate new funds.
- As a net profit earning organization the Corporation is contributing a significant amount of income tax to the national exchequer.
- Although there exists a huge market demand for credit in the housing sector the liquidity crisis of the Corporation poses a serious and continuous threat to its ability to continue as a credit giving organization in the long run. To overcome this threat BHBFC should pursue all out efforts to diversify its sources of funding. Dependence on the conventional source alone may ultimately compel it to wind up its business.
- In the prevailing situation of capital shortage, the Corporation can go for issuing public share as it has a very strong mortgaged backed security or loan assets. Probably it is high time for offloading government shares of BHBFC

in the capital market like DESCO or issuance of public offerings of primary shares like Delta-Brack Housing Limited and National Housing Limited etc.

- It can also pursue other options like collecting deposits from the public by opening a window for deposit banking, and ask government to allocate funds from the national budget. Besides, it should modify its offer regarding selling debentures to suit the present trend of the market demand.
- Above all, BHBFC should change its loan accounting system to stop erosion of its capital base as soon as possible, give attention to diversify its loan operation in non-metropolitan and rural areas, and increase the number of beneficiary loanees.

Annex-1: Main House of Dwelling Households By Type of Structure -2001

(In Thousand)

Structure	Total		Urban		Rural	
	Number	%	Number	%	Number	%
Jhupri	2187	8.80	420	7.58	1767	9.15
Kutcha	18484	74.38	2611	47.15	15873	82.19
Semi-Pucka	2510	10.10	1288	23.26	1222	6.33
Pucka	1669	6.72	1219	22.01	450	2.33
Total	24850	100.00	5538	100.00	19312	100.00

Source : Population Census, 2001, BBS

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