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BUS-498 (PROJECT)

PROJECT REPORT ON:

“THE HOUSING FINANCE INDUSTRY OF BANGLADESH & THE OPERATIONAL ANALYSIS OF DELTA BRAC HOUSING FINANCE CORPORATION (DBH) LTD FOCUSING ON MARKETING, CREDIT RISK MANAGEMENT, COMPETITION, RECOVERY & THE MORTGAGE FINANCE BUSINESS STRATEGY”.

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LETTER OF TRANSMITTAL

August 20, 2005

Dr. Md. Saleh Uddin
Professor & Chairperson
Department of Business Administration (BBA)
East-West University, Dhaka, Bangladesh.

Subject: Submission of the Project Report.

Sir,

It is my immense pleasure to submit the Project report titled "The Housing Finance Industry of Bangladesh & the operational analysis of Delta BRAC Housing Finance Corporation (DBH) Ltd focusing on Marketing, Credit Risk Management, Competition, recovery & the Mortgage finance business strategy", assigned by you as a partial requirement of the Graduation program.

As a part of the completion of the BBA program, it has been a privilege to work at the Delta BRAC Housing Finance Corporation Limited, for the purpose of this project report. The primary focus of the report is to critically evaluate the Housing Finance industry of the country and the evaluation of the functional operations of Delta Brac Housing Finance Corporation (DBH) along with Marketing, Management, Recovery, Customer Service, Operational Process of Loan Sanctioning and the credit risk management strategy of the organization.

It took me twelve great weeks to prepare the report and I have tried to gather as much information as possible within this limited time period. Although the stipulated time is not enough to have an in depth knowledge about the real corporate world, this report gave me much insight in the risk management tactics and of -----, specially in the field of corporate finance.

I would like to thank you for giving me the opportunity to prepare this report under your sincere guidance and cooperation.

Should you have any further query, I am always here to answer you.

Sincerely,



Md. Mostafiduzzaman
ID no: 1997-2-10-027
Department of Business Administration
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ACKNOWLEDGEMENT

My heartiest gratitude to Mr. Ishtiaq H. Chowdhury, Head of Operations Delta Brac Housing Finance Corporation, for his valuable support and assistance in the preparation of the project report.

I would like to convey special thanks to Mr. S.H. Aslam Habib, Head of Finance and Company Secretary, A. Farjad Ahmed, Head of Credit and Mr. Tanvir Ahmed, Manager Human Resources, for their cooperation in collecting and processing the required information. My appreciation to the other workforces of the organization who helped me in various ways in this very important academic program.

Finally I would like to place my acknowledgment towards the kind guidance and cooperation of our Chairman of Business Administration, EastWest University, Dr. Salehuddin Ahmed.

EXECUTIVE SUMMARY

As a part of the completion of the BBA program, I was assigned by DR. Md. Saleh Uddin, Professor & Chairperson, Bachelor of Business Administration, East West University the project titled ***“THE HOUSING FINANCE INDUSTRY OF BANGLADESH & THE OPERATIONAL ANALYSIS OF DELTA BRAC HOUSING FINANCE CORPORATION (DBH) LTD FOCUSING ON MARKETING, CREDIT RISK MANAGEMENT, COMPETITION, RECOVERY & THE MORTGAGE FINANCE BUSINESS STRATEGY”***.

It has been a privilege and great opportunity to work at the Delta BRAC Housing Finance Corporation Limited, for the purpose of this project report. The primary focus of the report is to critically evaluate the Housing Finance industry of the country and the evaluation of the functional operations of Delta Brac Housing Finance Corporation (DBH) along with Marketing, Management, Recovery, Customer Service, Operational Process of Loan Sanctioning and the credit risk management strategy of the organization.

In this report I have tried to critically evaluate the Housing Finance Sector of the Country, The Housing Stocks, the Industry analysis along with the functional areas of Delta Brac Housing Finance Corporation (DBH) including Marketing Strategy, Credit Risk Management Strategy, Competition, Customer Service, Recovery and the Total Mortgage Finance business of the country. Although the stipulated time is not enough to have an in depth knowledge about the real corporate world, this report gave me much insight in the risk management tactics --, especially in the field of corporate finance.

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Delta BRAC Housing Finance Corporation Limited, widely known as DBH, is engaged in providing credit loan facilities in the housing sector of Bangladesh. **Today in building a better life for the people of Bangladesh, who need the benefits of a home for a healthy and productive life.** DBH is the pioneer housing finance institution in the country. It is a public limited company and a financial institution licensed by Bangladesh Bank. The primary objectives of DBH are to channel resources into providing finance for people's basic need for shelter, enhance housing stock of the country, promote affordable home ownership and pioneer the concept of a viable private sector housing finance system in Bangladesh.

With an intention to solve the perpetual problem of the individual household who demand credit for real estate; DBH has started its operation back in 1998. DBH is the pioneer in providing housing finance facilities in the private sector in Bangladesh. The idea of setting up a housing finance company in the private sector was originally conceived in 1990 by the International Finance Corporation (IFC), the Housing Development Finance Corporation Ltd. (HDFC) and the Industrial Promotion and Development Company (IPDC) of Bangladesh Ltd.

Mainly the shareholders of the corporation, who includes the above institutions, conducted the feasibility study. These institutions investigated and consulted with foreign consulting firm commissioned by IPDC. The extensive investigation and market survey confirmed the viability of the project in 1997. However, due to unforeseen circumstances and also reservations expressed by the foreign participants, no appreciable progress was achieved towards realization of the project.

The introduction of the National Housing Policy 1993, Financial Institutions act 1993, better investment climate and the government's call for more private sector involvement in development activities have encouraged private investors to play a more active role in the financial services industry. In light of these changes there have been renewed interests from both IFC and HDFC regarding the establishment of a private housing finance company.

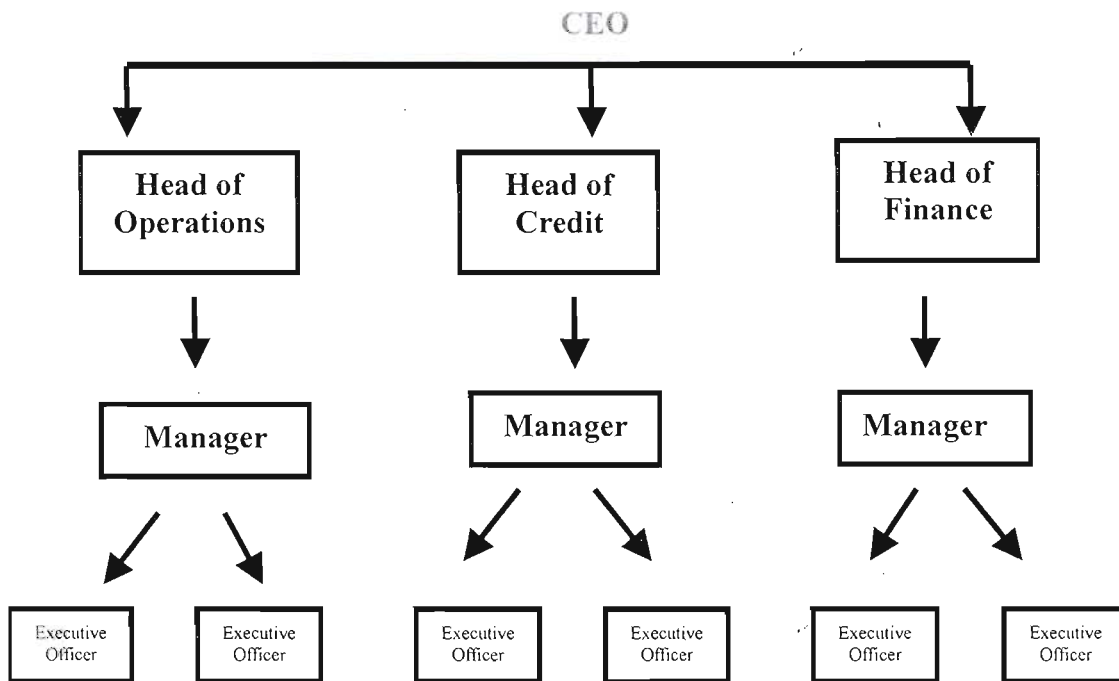
During the Euro money conference held in Dhaka, IFC and HDFC had far-reaching discussion regarding the potentials of the housing finance sector of Bangladesh with different banks and other financial institutions. In subsequent visits to Dhaka by officials of both companies, the HDFC and Delta Life Insurance Company (DLI) signed an agreement in May 1995 with regards to the commencement of the company. At the invitation of DLI, Bangladesh Rural Advancement Committee (BRAC) also joined as one of the local superstores of the company.

DBH was incorporated on May 11, 1996 as non-banking, non-listed public limited company. It received sanctions to commence business on July 15, 1996. It is a joint venture project serving a very niche market, targeting only the elite group of the country, with the corporate executives. DBH started its operation in 1998. During that

year it approved 100 loan cases. Recently statistics shows that this number rose to 7000 cases amounting 750 crores (Approx.) which indicates a 50% growth of the company in term of fund disbursements. Presently, DBH rather reviews the client profile and makes loans on the basis of credit worthiness of the applicants and personal guarantees.

THE COMPANY PROFILE

NAME OF THE ORGANIZATION	Delta BRAC Housing Finance Corporation Limited
CORPORATE HEADQUARTER	Landmark(9 th floor) ,12-14 Gulshan-2, Dhaka-1212, Bangladesh e-mail: dbh@deltabrac.com Web: http://www.deltabrac.com
BRANCH OFFICES	Motijheel, Dhanmondi and Chittagong
DATE OF INCORPORATION	May 11, 1997
COMMERCIAL PRODUCTION	June 1 , 1998
BUSINESS LINE	Providing Housing Finance, Deposit Schemes and Consulting Services
LISTING STATUS	listed Public Company
AUTHORIZED CAPITAL	TK.400 million
PAID UP CAPITAL	Tk. 200 million
SHAREHOLDERS	DELTA LIFE INSURANCE COMPANY LIMITED (DLIC) BRAC GREEN DELTA INSURANCE COMPANY LIMITED (GDIC) INTERNATIONAL FINANCE CORPORATION (IFC) HOUSING DEVELOPMENT FINANCE CORPORATION LIMITED (HDFC)
NUMBER OF EMPLOYEES	90



The organizational structure of DBH is comparatively tall, as it comprises of three levels. The top management includes the Chief Executive Officer and the head of Operations, Credit, Finance and Accounts, and Resource Management. The mid-level includes the managers and assistant managers of different departments that are responsible to carry out the decisions of the top management and also to supervise the functional level to ensure that the entire operation is conducted accordingly.

The decision-making system of the organization is more or less centralized. The corporate decisions are by and large made by the CEOs of the company with the participations of the managers of the concerned departments. The responsibilities of the managers are to implement the plans and policies of the company in the most effective manner in order to comply with the organization's goal. The functional level executives are the one are that accomplish the plans. The managers are also there to take feed back form the company personnel.

SHAREHOLDERS

Delta Brac Housing Finance Corporation Limited (DBH) is an international joint venture between three local promoters and two international partners.

The local promoters comprises of the Delta Life Insurance Company Limited and Green Delta Life Insurance Company Limited, two very solid organizations in the insurance sector run by a group of professionals with excellent reputation in the market place, along with Brac, one of the most successful and most self-sufficient (80% Self-Funded) NGOs – provide a presence throughout Bangladesh and a deep understanding of its economy.

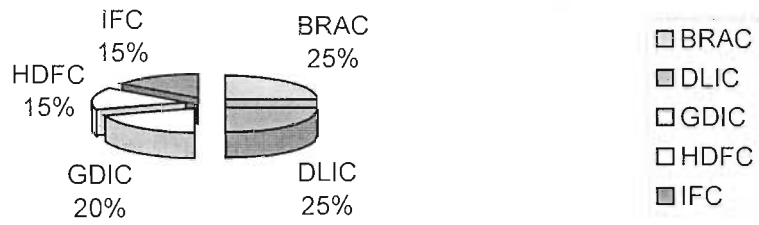
The Board of Directors of DBH comprises eminent personalities who are representatives of these shareholders.

DLIC	Established in 1986, it is the largest and fastest growing local private sector life insurance company in the country. Its total assets are approximately Tk.1.3 billion (Tk.130 crore).
BRAC	Established in 1972, it is the largest national rural development NGO in the world. Its total assets are approximately Tk. 8.8 billion (Tk. 880 crore).
GDIC	Established in 1986, it is the leading and most profitable general insurer in the country. Its total assets are approximately Tk. 500 million (Tk. 50 crore.)
IFC	The private sector arm of the World Bank Group.
HDFC	This is India's largest and most successful housing finance company. HDFC has provided loans to more than 1 million households since its inception in 1977. Its total assets are approximately US\$ 2.25 billion.

The international partners consist of – HDFC, a pioneer in the area of housing finance in India and the most successful financial institution in the subcontinent, and IFC, private sector arm of the World Bank – bring to DBH technological and business expertise making the proper recommendations in relations to products, policies, systems and procedures.

Both local and foreign shareholders come together with an objective to channel resources into providing finance for peoples' basic need for shelter, enhance housing stock of the country and promote affordable home ownership.

Shareholders of DBH



VISION, MISSION AND BUSINESS STRATEGY

A catchy sentence stands out to be DBH's slogan for the year 2004-2005 "your dream-----". By this slogan they mean that they provide special facilities in satisfying the demand of the individuals in making their own home. Such as they offer the clients **free consulting services** when the customers could not frame a solution for themselves in selecting the appropriate apartment to purchase. A team of qualified and well experienced professional manages DBH. Its operation is guided by the two key words "Customer and Service" reflected by customer-friendly, prompt and transparent services, flexibility in operations and variety of products.

The mission of DBH is to be the dominant housing finance institution in this region. DBH aims high. It is committed to help working families discover the joys of owning a home of their own. The mission of the organization is to provide people shelters and ecologically sound habitation centers. This is a vast undertaking on a poor and disaster prone country like DBH and ours intends to make – whatever small contribution it can, in furthering this objective.

DBH is committed to finance all types of housing with special emphasis on middle and low-income housing. The company has started operating in different areas of Dhaka and Chittagong where housing crisis is the most acute. DBH co-operates with property development organizations and NGO's involved in provision of housing. It also assists in housing, habitation, planning, research and development.

The business strategy ----- emphasizes on *providing the best-personalized service in the business and that means doing the best in everything they do.*

The strategic intent hidden behind DBH's vision is to be the first choice of customers on the strength of personal service and world – class performance. The mission, vision and strategies at all level are dedicated towards the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride and company spirit.

The DBH personnel are found to be driven by the mission and vision statements and these statements govern the way they conduct their business. It highlights their desire to serve customers and gives them direction when they have to make service related decisions.

DBH's Primary Objective:

DBH is a specialized housing finance institution. DBH's primary objective is to provide long term housing finance efficiently and competently for construction and purchase of residential housing in Bangladesh. The company undertakes and carries out activities involving.

- Loans to individuals for acquiring and construction residential property, including business and professional premises only for the individual use of professionals.
- Loans to Corporate sector for acquiring residential units for their employees.

PRODUCTS AND SERVICES

DBH's products and services:

DBH's products/ services can be classified into three broad categories

- Loan Products
- Deposit Schemes
- Counseling Services

Loan Products: This is the revenue generating business of the firm. At present

DBH has the following loan product:

- Home loans
- Home extension loans
- Home improvement loans
- Plot purchase loan
- Non-residential premises loan
- DBH Family Loan
- Premium Housing Loan
- Loans to non-resident Bangladeshis (NRB)

Terms and conditions of housing loan

Rate of interest:

The current applicable rates of interest on the total loan sanctioned are as follows:

Loan Type	Interest (%) per annum
Normal Home Loans	14.00%
Premium Housing Loan	13.00%
ROI Method	ARHL (Variable rates)

Loan Amount:

The maximum loan offered currently by DBH is Tk. 40,00,000 (Tk.40 lacs) or 80% of the construction cost or 70% of the purchase price, whichever is lower. However, Loan amount can be more than 40 Lac depending on the Client's profile and repayment Capacity but LCR (Loan to Cost ratio) must be Maximum 80%. Loans are repayable by easy equated monthly installments (EMI) spread up to 15 years or Maximum up to 20 Years depending on the Client's **age factor** at affordable rate of interest depending on the market conditions. The primary security, considered as the first mortgage, will be the property financed. Repayment capacity of the immediate family will be the criteria for sanction of loans. An individual can get a maximum amount of loan depending on his credit worthiness.

**Term:**

Maximum term of the loan is 20 years depending on the Client's age factor. The term of the loan will not ordinarily extend beyond the age of retirement of the borrower or on his reaching 65 years of age, whichever is earlier. The minimum is 3 years, which means that the company will take 36 post dated cheques (PDC) from the client after the full disbursement of the loan is sanctioned to the client. During the period when only partial credit has been sanctioned to the client, the company will take interest. The loan may be sanctioned to the client at a time or by different installment depending on the contract terms and conditions.

Fees and Other Charges:

A processing fee of 0.5% of the loan amount plus 15% VAT is applicable at the time of loan application. On acceptance of the loan offer, an administrative fee/ Loan Servicing Fee of 1% of the loan sanctioned plus 15% VAT is payable. In case the client defaults in making any of his EMI due to insufficient fund or other reasons, the company will charge a late fee of 400, which is fixed, and a 2% extra charge per month. In case of Part prepayment or full prepayment 2% extra charge is payable provided the minimum amount should be TK. 100000 (One Lac) and only possible after the first 6 (Six) installments.

Repayment of Loan:

Repayment of DBH loan is by way of Equated Monthly Installments (EMI) comprising principal and interest. The amount of EMI depends on the ultimate loan sanctioned to the client.

Repayment Ahead of Loan Schedule/Early Prepayment:

Repayment Ahead of Schedule is only possible after the first 6 (Six) installments. The early prepayment can be divided into two categories, for i.e.

- Part Prepayment/ Partial Prepayment
- Full Prepayment

In case of Part Prepayment the minimum amount should be TK. 100000 (One Lac).

By Repayment Ahead of Loan Schedule client can enjoy interest waiver on the amount prepaid and also can reschedule Loan Term or Installment Size based on client's preferences.

Eligibility of the clients:

DBH gives more emphasis on repayment capacity of the clients and 1st mortgage of the property. Other criteria are as follows:

- Age
- Time to retirement
- Educational qualification

- ❑ Monthly income
- ❑ Other income and immovable property
- ❑ Progress of construction
- ❑ Loan against deposits
- ❑ Number of dependents
- ❑ Valuation of total assets
- ❑ Other obligations and liabilities of the client
- ❑ Savings Habit

Security:

Security for the loan is first Registered mortgage of the dwelling unit financed, by deposit of original title deeds and / or such other collateral security as may be necessary. Mortgage is created by the deposit of all original title deeds in the respect of the property.

Deposit Schemes

No business can perform well without adequate fund. Especially, financial institutions that mainly deal with money are in need of substantial amount of reserve. Due to their very nature, these institutions are highly levered. One of the most important sources of financing for these firms is the borrowed loans from different commercial banks and other financial institutions. DBH has a credit line of 88 million ----- . From different banks and other financial institutions. Though these are obvious sources of funds for a firm, the constraints associated with these sources are the different restrictive covenants that are imposed by the lenders of the fund. Apart from this, another most important consideration of the borrowers in this regard is the cost of borrowed fund. Usually the financial institutions, that provides or lends fund to these institutions, charges a high interest rate. This financial cost often becomes huge burden for the organization.

To overcome the problem of the extensive amount of financial cost, firms generally try to find other sources of funds to finance their projects. One of the most profitable source is the internal source. This is because the cost of internal funds is less than the cost of borrowed funds. Other than the retained earnings of the firm one most effective way to generate fund is to invite deposit from the individual households.

DBH, with an intention to reduce their financial leverage has introduced the concept of deposit scheme. DBH is the pioneer in launching the deposit scheme in the non-banking sector and also in the housing finance industry of the country. This is in fact a product diversification of DBH in the related market, which has extended the line of business of the organization. The deposit gives DBH the convenience of channeling funds from those who want to invest money (savers) to those who needs money (borrowers). DBH invites deposits from the households to raise its funds at a lower cost than that of the borrowed funds. DBH uses this deposit to provide loan at a higher rate and offer the depositors a lower rate of interest thereby make profit from the difference.

DBH offers loans for purchase/construction/extension/improvement of dwelling units/housing plots. To support the lending program, DBH accepts deposits from the public under the following deposit schemes:

- DBH Annual Income Deposits (AID)
- DBH Cumulative Deposits (CD)
- DHB Double Money Deposits (DMD)
- DHB Monthly Income Deposits (MID)
- Variable Rate Deposits (VRD)

The terms and conditions of the different deposit schemes are

Terms and conditions: Minimum deposit of TK. 10,000 and thereafter in multiple of TK. 1000.

Mode of acceptance: By “Account Payee” cheque / demand draft drawn in favor of Delta Brac Housing Finance Corporation Ltd. No cash deposit will be accepted.

Period: Deposit will be accepted from one year onwards as per the schemes. Minimum period is one year. Deposits cannot be en-cashed within one year as per rules of the Bangladesh Bank.

Rate of return: As stated in the tables below. Rates of return are subject to change with out notice and the rates prevalent on the date of deposit will apply. Return is paid monthly, annually or on maturity as per the schemes.

AID Return payable annual, Minimum deposit Tk. 1 lac.	
Period	Rate per annum
12-23	11.50%
24-35	11.75%
36-59	12%
60	12.25%

MID Return payable monthly, Minimum deposit Tk. 1 lac.	
Period	Rate of Return
12-23	11.48%
24-35	11.68%
36-47	12.01%
48-59	12.35%
60	12.68%

AID Return payable annual, minimum deposit Tk. 1lac.	
Period	Rate per annum
12-23	11.50%
24-35	11.75%
39-59	12%
60	12.25%

AID Return payable annual, minimum deposit Tk. 1lac.	
Period	Rate per annum
12-23	11.50%
24-35	11.75%
39-59	12%
60	12.25%

Transfer: Deposits with DBH are not transferable.

Liquidity: deposits can be en-cashed anytime after the minimum period of one year. In case of bulk deposit (more than TK. 1 crore), notice of minimum 1 (one) month in advance must be given for premature withdrawal. Return will be paid at 2% less than the rate applicable for the period completed. The depositor can also take loan against deposit at 2% above the deposit rate up to 80% of the deposit at any time, except in Monthly Income Deposit / AID in which case it is 50% and above depending on the period completed.

Quick Loan Facility:

The depositor can borrow 50% up to 80% depending on Management decision, of his total Deposit as **Quick Loan** facility without premature encashment of his deposit. For any emergency purposes the client can avail this facility and he/ or she will get the pay order within 15 Minutes after forwarding the application. In such cases the interest rate on the Loan amount would be 2% higher than the deposit rate.

Renewal: The deposit will cease to accrue interest from the date of maturity unless renewed. Renewal will be at the then prevailing rate of return.

General: Deposit with DBH is not transferable. DBH reserves the right to change, amend, add, or delete the terms and conditions of the scheme without any notice or reject the application with out assigning any reason.

Property Counseling Services

DBH is also the pioneer in introducing the idea of providing **free property counseling service** in the housing finance sector of the country. Selecting an apartment is not an easy job for an individual, as a large number of factors are contingent upon it. DBH guides its clients in this respect. Making decision about purchasing an apartment is also time consuming and troublesome. DBH offers property-consulting services by understanding the client's need and helping in selecting the appropriate property for the client. This consulting service is freely available for all individuals, regardless of the DBH clients. The client may also avail the fast, easy and hassle-free DBH housing loan to buy the property. But availing such services does not require being a DBH client.

In order to provide such service DBH maintains a rich data base which provides information regarding

- Various on going projects of the reputed developers in Dhaka & Chittagong city.
- Apartments at the desired location
- Price range and sizes of the apartments

Considering the required location, size and budget of the client DBH helps the client to choose his desired apartment. The advantages that a client gets from such services are:

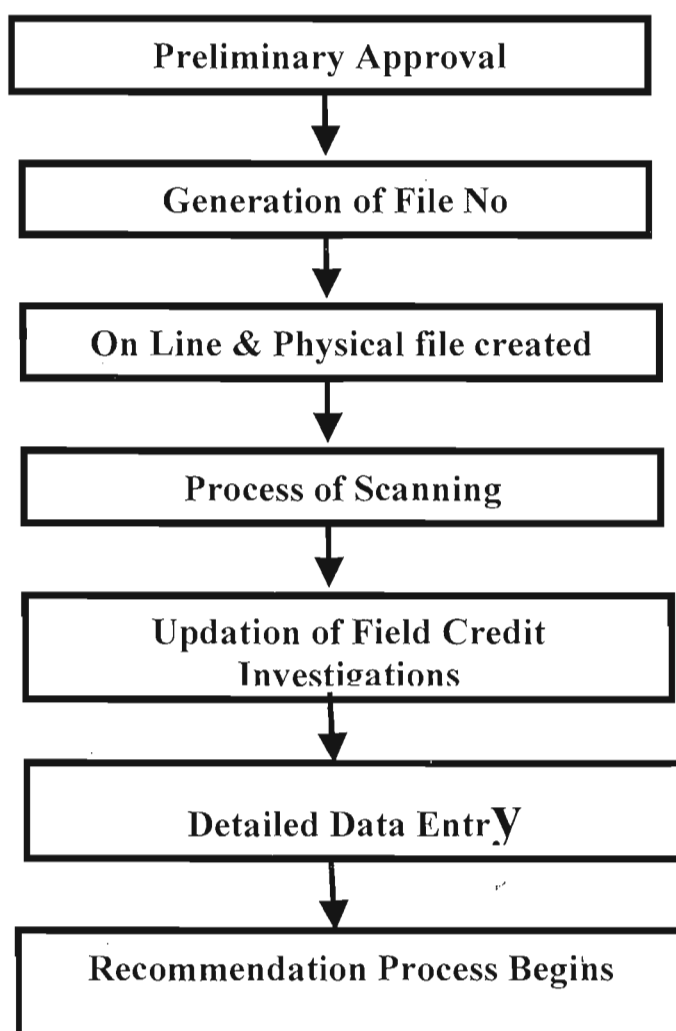
- Availability of quality information
- Expert opinion for your decision
- Legal and technical approval
- Easy to plan the budget
- No extra fees for the service

FUNCTIONAL AREA OF LOAN PROCESSING

This functional area is looked after by the operation activities of DBH. This involves processing of loan applications. The process starts with receipt of a loan application, processing of the Credit, Legal and Technical aspects, culminating in the disbursement of a loan and monitoring timely repayment.

These three aspects of loan processing, i.e. Credit, Legal and Technical form the main functional area of the operation of DBH.

The Loan Sanctioning Process/ System



CREDIT APPRAISAL

Loan appraisal is a process of evaluating the credit worthiness of an individual customer, technical evaluation of the property being financed and a legal scrutiny of the title of the property to check whether the title is clear and marketable and that

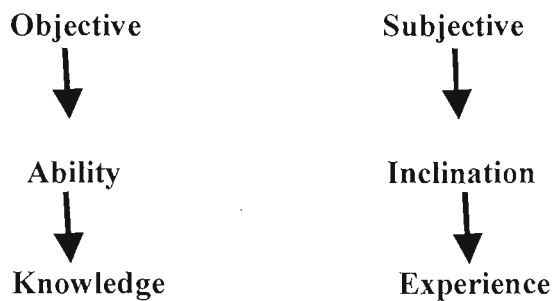
mortgage can be created on such property. The appraiser evaluates the creditworthiness through certain lending norms and policies. Assessing the repayment capacity of the borrower is vital for sanctioning loan.

Loan appraisers carry out the function of appraisal. The appraisers conduct a personal interview with the applicant or through correspondent. However, an applicant need not be interviewed, if the loan application submitted by him is duly completed in all respects. Adopting such an option will fasten the loan sanctioning process.

The credit appraiser's job includes interviewing the applicant, processing of a loan application and analyzing the repayment capacity of the borrower, recommending and taking approval from the authority for a loan. On approval of a loan a offer letter is sent to the individual, mentioning the terms and conditions of the loan offer.

Subjectivity in Credit Appraisal:

Credit appraisal process includes an objective and a subjective appraisal of the repayment capacity of an individual applicant. While objective appraisal involves scrutiny of the various documents submitted for determining the ability to pay, subjective appraisal would require judging the intention or the inclination of the applicant to pay.



The individual's attitude to the loan, his willingness and co-operation with the appraiser in disclosing facts, providing information readily are also indicative about his commitment to the financial obligation he is incurring.

Capacity Ratios:

INCOME INSTALMENT RATIO

- (**I I R**)

LOAN TO COST RATIO

- (**L C R**)

DEBT RATIO

- **FIXED OBLIGATION TO INCOME RATIO**
(**FOIR**)

RATIO	FORMULA	BAROMETER
Income to Installment ratio (IIR)	$IIR = \frac{\text{Equated Monthly Installments}}{\text{Gross Monthly Income}}$	35-40%
Fixed Obligation Income Ratio – FOIR	$FOIR = \frac{\text{E.M.I. + Other Monthly obligations}}{\text{Gross Monthly Income}}$	40-45%
Loan to Cost Ratio- LCR	$LCR = \frac{\text{Amount of Loan}}{\text{Cost of Property}}$	70-80%

Ratio Justifications:

Applicants Gross Income	TK. 100	
Less		% of income
Average Tax Rate	TK.20	20%
Statutory Deductions	TK.10	10%
Housing Loan Outflow	TK.35	35%
Other Liability Outflows	TK. 5	5%
Household Expenses	TK.20	20%
Savings	TK. 10	<u>10%</u>
		100%

Documentary Requirements:

An individual could be a sole proprietor, partner in a firm or a director in a Private Limited Company. Individual may also be Employed and earning income from a part time business or Self-employed, earning from business and income from professional practice. The following documents are needed for appraisal.

In case of an employed person:

- Appointment letter
- Salary slips
- Bank statements

- ❑ In case of self-employed person
- ❑ Details of business
- ❑ Audit reports
- ❑ Self prepared management accounts
- ❑ Balance Sheet and Profit & Loss Accounts of the business / profession
- ❑ Individual income-tax returns for the last three years.

LEGAL APPRAISAL

Prior to Loan Sanction:

Legal appraisal at the second phase requires a bit more hard work. Here the role of a Legal appraiser is that of a facilitator. He must put his entire endeavor to minimize the time generally taken after issue of Offer Letter till the final disbursement of the loan. The Legal appraiser scrutinizes the documents and other relevant papers submitted by the applicant.

This generally includes the followings:

- Scrutiny of Offer Letter
- File information/remarks

Application Acceptance:

The applicant may not also be familiar or aware of the significance/sources of these documents. The credit appraiser does the legal appraisal at the first stage. They inform the prospective clients:

- The significance of the documents being called for
- Sources-from where the documents can be obtained
- Explain the details of various documents required.

Scrutiny of Offer Letter:

This process entails the following duties:

- Reading the offer Letter carefully to see the loan amount rate of interest repayment term and EMI. Sometimes “Special Conditions” are also attached to the offer Letter, which generally require the applicant to assign insurance policies, nomination of Group Insurance, to make his/her spouse a “Co-borrower” etc.
- Checking the acceptance comp of the Offer Letter, for signature’s of the applicant (and Co-applicant) in taken of acceptance of the terms and conditions of the loan offer. The offer is to be accepted within ‘30’ days of the date offer and administrative fees have to be paid.
- After accepting the offer, borrower pays the administrative fees/ Loan Servicing Fees as mentioned in the offer Letter. The cashier generally makes suitable endorsement to that effect, on the acceptance copy of the Offer Letter.
- The person making the loan application and accepting the loan offer must be the same. This can be checked by comparing his signature in

the loan application form, agreement for sale and other such papers available in the file.

- Checking whether the borrower has been offered facilities of Balloon Payment. Also checking to ensure receipt of relevant securities pledged assigned in favor of DBH, etc.

Documentation

Since DBH consider the property, which it finances as security against the loan amount, it has to collect all the legal documents before disbursement. This enables DBH to establish legal grounds in case of default. In case of plot purchase, the necessary documents are:

- Ownership deed of land
- Baya deed of 21 years
- Recent survey report
- Cadestral
- Revised settlement
- Certified mutation parcha
- Duplicate Carbon Receipt (DCR)
- Up to date NEC (only for private plots)
- Up to date land tax receipt
- Permission from the lessor to mortgage (only for Govt. plot)
- Approved plan & approval letter by Rajuk/ Authority

Detailed estimate of the cost of construction prepared by a qualified engineer at current market value

File Information/Remarks:

- Check the inside cover of the Loan File, the Loan Appraisal Form and also the interview-sheet to find out whether there are special remarks.
- Verify the details filled in the Loan Application. This would help in establishing the identity of the Borrower's and the property to be acquired with DBH's financial assistance.
- Identify the type of security to be taken for the loan i.e. whether Prime, Alternate or Collateral security.
- Verify the documents already available in the file.

Appraisal of Prime Security:

Prime security for the loan is a Registered Mortgage of the dwelling unit to be financed. Following steps are normally involved in creation of this security:

Mortgage:

The type of mortgage, which DBH normally accepts, is Registered Mortgage by way of deposit of Title Deeds. It is, therefore, necessary that all original Title Deeds pertaining to dwelling unit should be collected.

However, the legal department may accept certified true copies of the Title Deeds if the originals are still with the Sub-register or have been lost or destroyed. A brief scrutiny of the documents should be carried out immediately and in case the documents are not as per the Checklist the Borrower should be immediately informed about the same.

The Legal Appraisal involves the scrutiny of each of the following document:

- Scrutiny of Title deeds
- Scrutiny of Title Report & Clearance Certificate.
- Scrutiny of Permissions & Approvals.
- Proof of Own Contribution.

The Legal and Technical processes which involve scrutiny of title documents and evaluation of the technical aspects of title property are carried out simultaneously with the Credit processes. On completion of the required legal formalities, submission of original title documents, etc. and a recommendation for disbursement by the Technical Section, the loan is disbursed to the applicants.

3.1.3 TECHNICAL APPRAISAL**Application Acceptance:**

The supporting documents in respect of the property for which the applicant seeks the financial assistance, would vary from case, depending on transaction of sale, location of unit etc. In addition, to facilitate 'Technical Appraisal' following documents need to be verified, depending on the property being acquired:

Self construction Cases:

- Title documents of the land on which construction is proposed
- Detailed floor plans, layout plans, sectional plans etc. approved by local authority.
- Construction permission issued by the competent authority.
- Detailed break-up of cost estimate in respect of the property issued by patching Architect, Consulting Engineer etc.

Flats Purchase:

- Detailed floor plans, layout plans, sectional plans etc. approved by local authority
- Construction permission issued by the competent authority
- Agreement for sale in respect of property/unit being financed

Purchase of flat from a development authority:

- Copy of allotment letter
- Copy of Conveyance/Lease Deed from concerned authority
- Copy of permission from concerned authority, to mortgage the land/property in favor of DBH

- Copy of lay out and Floor plans
- Demand Letters and cost Certificate.

In the above categories of cases, if the property is complete and ready for occupation, an “Occupation Certificate” issued from the concerned local authority can also be verified and the loan application can be accepted, on the verification of above papers (a list of pending papers could be furnished to the applicant, for complying with the requirements).

Field Credit Investigation:

Field Credit Investigation is one of the most important parts of credit appraisal. It refers to a site visit on the business place of the applicant or on the applicant’s office. A business case cannot be sanctioned until ‘Field Credit Investigation’ is done. It substantiates information given by an applicant in his loan application. It also helps obtain additional relevant information about an applicant to determine his ‘Creditworthiness’ through inquires/discussions.

INFORMATION TECHNOLOGY DEPARTMENT

The technology used by DBH is the copyrights of HDFC. Under a management contract HDFC has provided the technical support of their own to DBH. The entire operation of the loan appraisal and disbursement process is executed with the help of different software. The most are used by DBH are the

ILPS—

This is the software used by the appraisal department to assess the loan application form. The software maintains a database of the client’s profile and all credit, Legal and Technical information regarding particular file or Client.

LAC--

A centralised server serves this software. The network helps the entire employee to access the same raw data from the central server. To some extent, employees are restricted to access some data without prior approval of higher authority.

ACCOUNTS AND FINANCE DEPARTMENT:

This is the department that makes the final disbursement of the loan. When the application of the client is approved this department prepares a cheque for the client and make arrangements with the bank for the allocation. The loan may be a single payment or in installments, depending on the clients credit worthiness. Repayment of the EMI begins from the month following the total disbursement of the loan sanctioned. Another most important function of this department is to follow up the delinquent clients and monitor and manage the credit risk. The entire operation of this department is done with the help of two software the LAC and the RPS.

FUNCTIONAL AREA OF LOAN PROCESSING

LOAN APPLICANT

APPRAISAL

TECHNICAL

LEGAL

ACCOUNTS AND FINANCE

- Loan disbursement
- Instalment collection
- Record keeping
- Preparing financial statements
- Monitoring / Follow up
- Customer service

IT

OPERATION

PERFORMANCE HIGHLIGHTS OF DBH

Credit Lines

DBH's main bankers are Prime Bank Ltd., ANZ Grindlays Bank, Pubali Bank Ltd., Dhaka Bank Ltd., and one Bank Ltd. In order to forge closer relationship with the banks financing partners, DBH has made another step forward by signing a loan agreement with Southeast Bank – one of the leading private commercial banks in the country. South East Bank will provide a term finance of Tk. 10 cores to DBH to further on-lend to its valued clients as Housing Loans.

Funds Employed

DBH commenced operation in 1997 with initial paid up capital of Tk. 20,00,00,000 (Tk. 20 Cores). DBH is highly efficient in managing the funds it employs. This is reflected in the projection of employed funds in fiscal years 1997-98, 1998-99, 1999-2000 & 2000-2001.

Table – 2.1 Funds Employed

Fund Employed	(Tk. in million)		
	2002-2003	2003-2004	2004-05
Share Capital	200	200	200
Borrowing	251	757	1184
Total Assets	215	1065	1744
Loans Outstanding	109	827	1458

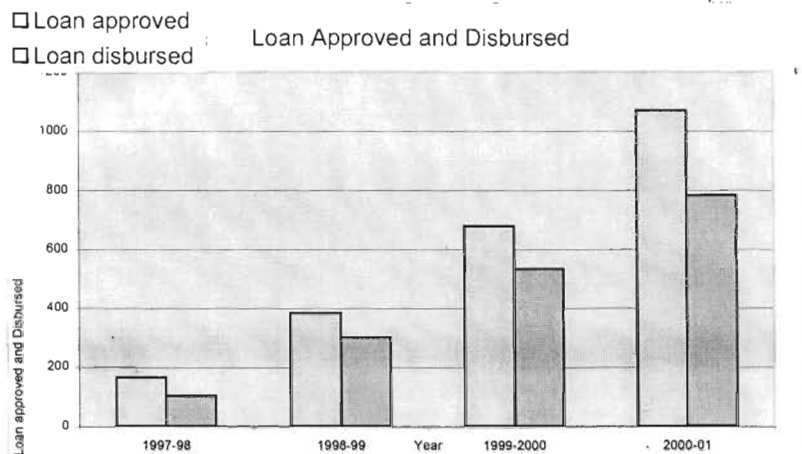
2.3 Loan Performance

Loan Approved and Disbursed:

DBH is increasing their customer base day by day. This is the result of the hassle free prompt customer service delivered by the DBH employees. This can be understood from the increasing trend of the 'Loan Approved and Disbursed' account of DBH. Loan approval during the year 2004-2005 shows a 58% growth whereas loan disbursement shows a 52% growth.

Table – 2.2 Loan Approved and Disbursed

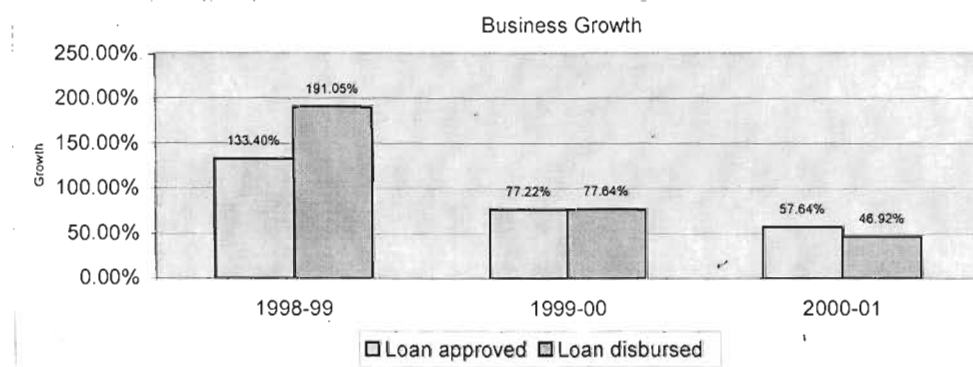
	(Tk. in million)			
	2001-2002	2002-2003	2003-2004	2004-2005
Loan approved	164	383	678	1069.39
Loan disbursed	103	300	533	782.8



Business Growth:

Table – 2.3 Business Growth Trend back in 1998 up to 2001

Business Growth			
	1998-99	1999-00	2000-01
Loan approved	133.40%	77.22%	57.64%
Loan disbursed	191.05%	77.64%	46.92%

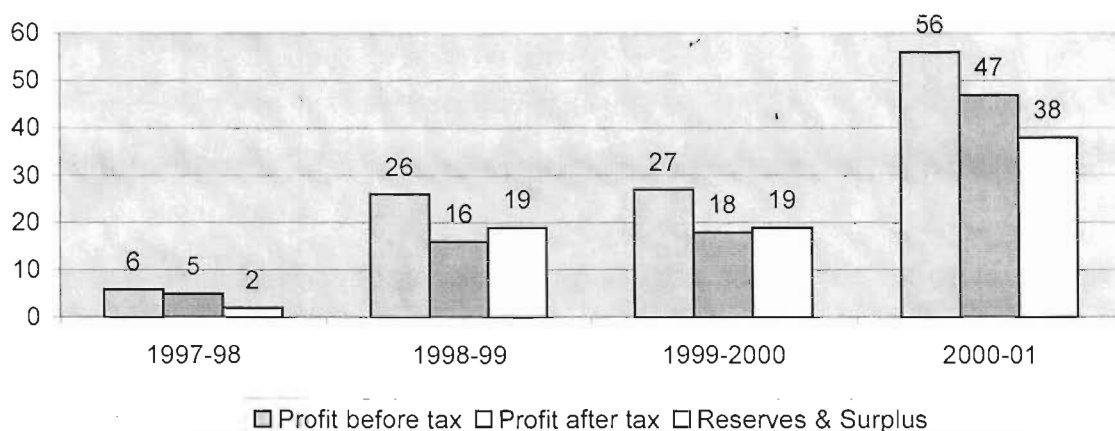


Profits and Reserves

DBH has been able to expand within a very short span of four years. Distinct operational procedures and ‘customer service’ has helped DBH to earn a large amount of after tax profit and build up huge reserves over three years of operations.

Table-2.4 Profit and Reserves

Profit and Reserves	(Tk. in million)			
	2001-2002	2002-2003	2003-2004	2004-2005
Profit before tax	6	26	27	56
Profit after tax	5	16	18	47
Reserves & Surplus	2	19	19	38



Repayments and Non-Performing Loans:

During the year under review, Tk.86.45 million was received by way of repayment of principal on loans through monthly installments and redemption ahead of schedule, as compared to Tk. 28.28 million received the last year. DBH's recovery performance continued to be excellent. The Company has less than 1% no-performing loans defined as loan installments overdue more than 6 months, as on June 30, 2005.

As a prudent measure the Company continued to build up its loan loss, contingency and general reserves, which aggregate to Tk. 19.36 million as on June 30, 2005, and amounts to 2.34% of the loan portfolio, compared to Tk. 14.90 million as on June 30, 1999.

Tax Holiday:

Government has recognized the importance of providing fiscal incentives for the development and growth of the nascent housing finance industry in Bangladesh. In an encouraging move for the development of the housing finance sector, the Government has finally given a tax holiday for 5 years effective from July 1, 2000 to Housing Finance Institutions. This measure will no doubt assist DBH to build up its reserves and financial base.

2.4 Financial Data Analysis

Some important ratios for DBH are analyzed here. The information is taken from Annual Reports of the last three years.

1. Profitability Ratios

	01-02	03-04	04-05
Gross Profit Margin = (Gross Profit/revenues)	0.28	0.29	0.66
Net Profit Margin = (Net profit/revenues)	0.24	0.17	0.35
Return on Investment = (Net Profit/Investment)	0.04	0.03	0.03

Rate of Return on Common Shareholders	0.23	0.09	0.08
---------------------------------------	------	------	------

2. Liquidity Ratios

Acid Test Ratio = (Cash and Cash equivalents/Current Liabilities)	0.79	1.89	8.36
Current Ratio = Current Assets/Current Liabilities	0.85	1.78	8.36

3. Asset Turnover Ratios

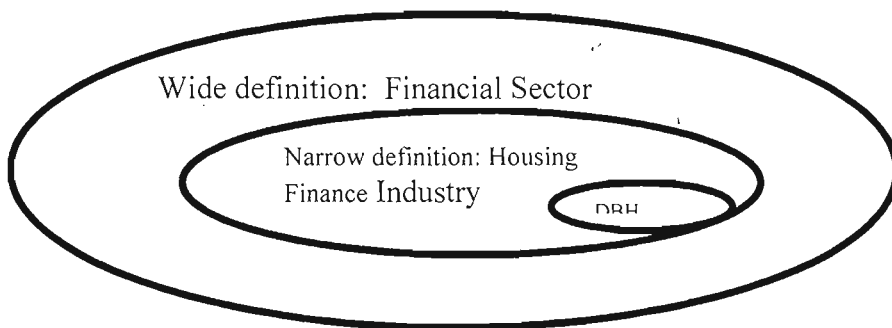
Accounts Receivable Ratios = Interest Revenues/Accounts Receivables	0.71	0.42	0.43
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4. Long-term Liquidity Ratios

Long-term debt ratio = (Total Long-term debt/Long-term debt plus Shareholders' equity)	0.59	0.47	0.23
Debt-Equity Ratio = Total Liabilities/Total equities plus total liabilities	0.6	0.4	0.05
Interest Coverage Ratio = Net Income before interest and taxes/Interest Expense	0.39	0.54	5.39

The industry where DBH belongs can be broadly defined as the financial sector of the country. More specifically DBH pertains to the housing finance industry includes in the non-banking financial industry of the country. The industry is at its embryonic growth stage where the growth rate is moderate and industry rivalry is comparatively low. The growth of the company is also sprouting. Among the few market players are the HBFC, IDLC and National Housing Finance and Investment (NHFIL), some of the highly renowned foreign banks like Standard Chartered Bank, HSBC, NCC Bank, Islami Bank, Dutch Bangla Bank etc.

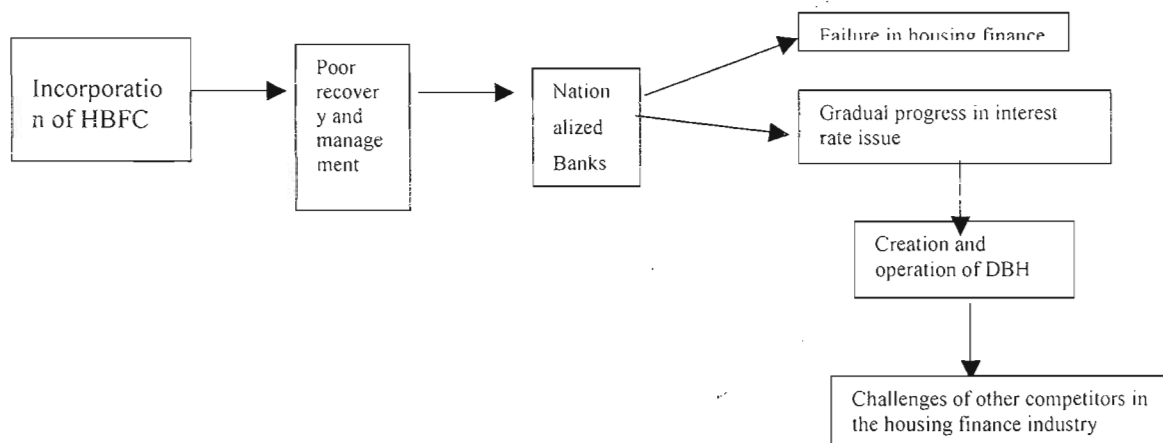
The industry is regulated by the Ministry of Housing and Public Works. The Ministry supervises the market players in setting their standards and norms. The principal concern of the ministry is to ensure apposite functioning and development of the housing sector of the country, take actions for an effectual and rich Research and Development and the improvement of the urban sector of the country. Respective department of the ministry, like the Department of Housing (DOH), Building Research Institutions (BRI) and the Urban Development Directorate (UDD), effectively carries out these functions.



The housing finance industry started its journey back in 1952 with only one government owned company the **House Building Finance Corporation (HBFC)**, and was highly subsidized by the government and backed-up by political parties. The organization served its customers for a period of 20 years. But despite this substantial period of time, the performance of HBFC was not up to the mark. The reasons behind this failure are the **poor recovery over the years, corruption, inefficient management and service standard and unplanned business development.**

To solve this persisting problem of HBFC, some nationalized banks started to provide similar services to meet the increased demand of the general public regarding the housing finance and thereby became the players in the same range of services. Over a decade they were very successful in solving the pricing or interest rate difficulty, an unsolved question of the HBFC, which was more or less an emotional issue. But the

failure was that these nationalized banks were also highly subsidized by the government, which ensured corruption and poor management of fund.



The chronology of the industry progress

It was in the year 1998 when DBH came into the scene as the pioneer in the private sector housing finance company in the country. It was the first ever non-banking financial organization that were not subject to government subsidy. The business growth was amazingly impressive. The key success factors that helped DBH in setting up the business are

- Macro environment analysis
- Industry analysis

The extraordinary performance of DBH has inspired other firms to enter into the market thereby enhancing competition in the industry. At present the number of the major market players of the housing finance industry are four, other than the different commercial banks that provide loans for housing purpose.

2.5 Competitors

DBH is one of the prominent housing financiers in Bangladesh. In the private sector Industrial Development Leasing Corporation (IDLC), National Housing Finance & Investments Ltd. is the main competitor of DBH. In the govt. sector House Building Finance Corporation (HBFC) is the biggest in the housing financing business. Besides, some commercial banks also give housing loans.

2.5.2 BANGLADESH HOUSE BUILDING FINANCE CORPORATION (HBFC)

Government patronized Bangladesh House building Finance Corporation (HBFC) still remains the single largest institutions for housing finance. Bangladesh House Building Finance Corporation (HBFC) disbursed house-building loan of Tk. 130.00 crores during 2001/2002, which was higher by Tk. 38.77 crores or 42.3 percent than Tk. 91.83 crores disbursed during the preceding year. But there after the problem started taking place, due to bad Loans as of 30th June 2005 Government has stopped giving fund to HBFC, which has eventually stopped their activities regarding Loan disbursement. As of 30th June 2005 the total delinquency of HBFC is TK. 32 Hundred Crores, which can be considered as Bad Loan according to the Ministry of Finance.

Interest Rate:

The rate of interest for loans up to Tk. 15.00 lac in the Dhaka and Chittagong Metropolitan city areas is 13%, and 15% beyond this. In all other parts of the country, the rate of interest is flat at 10% irrespective of ceilings.

Loan Period:

Repayment period for all HBFC loans is 15 years, though it may be relaxed for 20 years in the case of small size apartment schemes for the low and middle-income people.

Loan Amount:

It sets the ceiling on loans at Tk. 2.70 lac to 25.00 lac depending on the location.

2.5.3 INDUSTRIAL DEVELOPMENT LEASING CORPORATION (IDLC)

Industrial Development Leasing Company of Bangladesh Limited (IDLC) established in 1985 with the multinational collaboration of International and Local Financial Institutions led by International Finance Corporation (IFC), is the country's first and largest leasing company. Up till now it has maintained its position as leader in the industry.

Since late 90s IDLC started diversifying into other product as a part of its commitments to broadening the base of financial services and Housing Finance Scheme was introduced as one of such products. Today Housing Finance forms one of the core financing operations of IDLC.

IDLC Shareholder	
	%
Foreign Sponsor	45
Domestic Sponsor	27.6
General Public	27.4
	100

IDLC products:

IDLC's products can be classified into two broad categories

- Loan Products
- Deposit Schemes

Loan Products:

At present IDLC has the following loan product:

- Purchase of Apartment or House
- Renovation / Extension of House
- Renovation of Apartment
- Construction of House
- Purchase of Chamber / Office space
- Purchase of Corporate Office space
- Purchase of Shop / Display Center
- Construction of corporate Building
- Car Loan

Loan Amount:

An individual can get a maximum loan of Tk. 50 lac depending on his repayment capacity or 50% of the property Value (Property price + Registration cost + Vat) as loan depending on his repayment capacity.

Term:

Maximum term of the loan is 20 years. The term of the loan will not ordinarily extend beyond the age of retirement of the borrower or on his reaching 60 years of age, whichever is earlier.

Interest Rate:

The prevailing interest rate is 14.00% which is invariable regardless the loan amount.

Loan Processing Fees:

0.75% Plus Govt. VAT 15% at the time of Loan application and 1% plus Govt. VAT 15% at the time of loan disbursement.

Repayment of Loan:

Repayment of IDLC loan is by way of Equated Monthly Installments (EMI) comprising principal and interest.

Equated Monthly Installment on Tk. 10 lac with different terms would be:

Term (Year)	Monthly Installment (Taka)
3 years	35,390
5 years	24,770
7 years	20,430
10 years	17,090

Security:

- The property itself.
- Some body can also offer any other assets acceptable to IDLC security.

Eligibility:

- IDLC can assess an individual on the following criteria:
- Monthly income of applicant & Co-applicant.
- Age
- Qualification
- Value of immovable property
- No. Of family members and dependents
- Monthly expenses
- Other obligation
- Nature of job/business
- Saving habit

Other issues:

An individual can pay his loan partially or fully at any time before its maturity but his part payment of principal should not be less than Tk. 50,000/-

An individual has to take insurance coverage on the proposed property.

Deposit Schemes:

IDLC's retail deposit schemes are as follows:

- IDLC Annual Profit Term Deposits
- IDLC Cumulative Term Deposits
- IDLC Monthly Earner Deposits

2.5.4 National Housing

National Housing is a unique savings and loans institution. It is promoted with an authorized capital of Tk. 200 crore and subscribed capital of Tk. 40. It is incorporated in August 1998 as a public limited company and licensed by Bangladesh Bank as a non-banking financial institution. National Housing is engaged in the core business of promoting savings and home ownership in Bangladesh.

National Housing Shareholders	
	%
Banks	20
Insurances Cos.	35
IPDC	5
Local Corporate	30
Non-res Bang. Investors	10
	100

Features of National Housing Mortgage Loan:

Application:

The step is to fill in a National Housing Home Loan application form to provide us with the relevant information about applicant and co-applicant. Normally, the spouse of the applicant should join as a co-applicant. The co-owners of the property must join as applicants. An individual can collect the application form from National Housing free of cost. If any client has any queries or require assistance in filling his Home Mortgage loan Application, any one of our many counselors at National Housing will be pleased to help him or her.

Individual can even apply to National Housing for loan before entering into agreement for purchase of apartment or house or before starting construction of his home.

Fees:

An application fee at 0.75% of the loan amount is payable at the time of submission of application form. On the event of non-approval of client's application, this fee will be refunded. On approval of clients proposed loan, an administration fee at 1.00% of the loan amount will be payable at the time of accepting our loan offer. In all cases 15% Govt. VAT is payable.

Security:

Primary security of clients loan will be by way of first mortgage of the property being financed by National Housing.

Special Feature of National Housing Home Mortgage Loan:

- Loan approval within a short period of time
- Regardless of profession and occupation, all are treated equally
- Friendly counseling
- Income tax relief on the interest you pay on your loan
- No commitment charge
- Early repayment in part or full without any additional charge or interest
- Loan approvals before starting construction of finalizing purchase of apartment or house.

Purpose of loan:

- National Housing Home Mortgage Loans are available for
- Purchase of houses or apartments
- Renovation, extensions or addition of existing houses or apartments
- Purchase of housing plots from approved land developers
- Construction of Houses

Amount of Loan:

Depending on Clients's repayment capability, client can avail a loan up to 70% of the construction cost or purchase price as assessed by us. Maximum loan limit is Tk. 30 lac.

Term of Loan:

The maximum repayment term is 20 years but not extending beyond the borrower's 65 birthday or retirement date.

Applicable Rate of Interest:

The current rate of interest applicable to individual loan is 14.00% calculated on annual rates. Rate of interest charged to individual loan is linked to the prevailing money market conditions and may vary during the repayment period of the loan.

Disbursement of Loan:

The loan can be disbursed at a time or in installments as per client's requirement depending on the status and progress of works of the project subject to investment of client's equity in full.

In case of disbursement of loan in installments, interest only on the disbursed amount is to be paid on monthly basis till full draw down. Repayment of loan through EMI will start on full disbursement.

Early Repayment:

Client can repay the loan in full before the end of the loan term. In such case client will pay only the principal outstanding at that point of time. Client will not have to pay any interest for the rest period of the loan term. Client may also repay the loan partly (minimum Tk. 50,000/-) at any point of the loan term and as many times as he wish. This repayment will be adjusted directly towards the principal outstanding at that point of time. After every prepayment, interest will be charged only on the outstanding loan amount. In every such instance, client's installment will be revised as per our policy and his suitability and he need not pay any additional charge for such prepayment.

National Housing Finance & Investments Ltd. is another force trying to capture the private housing finance sector. National housing Offers Home Mortgage Loan up to a maximum amount of Tk. 30 lac or 70% of the purchase price or construction cost whichever is lower. Home Mortgage loan of NHL is available for:

The current interest rate charged by national Housing is 14.00% & it is invariable regardless of the loan amount. The maximum repayment term is 20 years, but not extending beyond the borrower's 65th birthday. The loan is repaid by EMI & and it is the responsibility of the client to arrange Life Assurance to repay the loan in the event of his/her death. The total loan processing costs is 1.75% of the loan amount payable after the sanction & acceptance of loan by the applicant.

Repayment of Loan:

Client will repay the loan by Equated Monthly Installment (EMI) made up of principal and interest. EMI and fees on various loan amounts and terms will be of follows:

Amount (Taka)	Fees (Taka)	Years	EMI (Taka)
1 lac	1750	5/10/15	2530/1708/1477
5 lac	8750	5/10/15	12651/8541/7386
10 lac	17500	5/10/15	25303/17082/14772
15 lac	26250	5/10/15	37954/25662/22158
20 lac	35000	5/10/15	50605/34163/29543
25 lac	43750	5/10/15	63256/42704/36929
30 lac	52500	5/10/15	75908/51245/44315

Deposit Scheme:

NHL has deposit schemes to serve the customers in financing their housing purpose these:

- ❑ National Hosing Priority Account (NHPA)
- ❑ National Housing Bonds
- ❑ National Housing fixed Deposit Accounts
- ❑ National Housing Income Accounts

Through the interest rates of these deposits are more or less equivalent to the prevailing market rates, but policies behind these are not crystal clear. These are not serving customers to finance their housing purpose rather assisting National Housing to lower their cost of financing. The main drawback of National housing is that it goes for “Registered Mortgage” & the applicant has to bear the cost of registration. This increases the loan processing costs & makes the whole loan processing procedure lengthy. However, NHL is considered as a potential competitor of DBH for the near future. National Housing’s solid foundation is reflected in its distinguished shareholders as listed below:

Banks	Arab Bangladesh bank Ltd. IFIC bank ltd. United commercial Bank Ltd.
Insurance Companies	Eastern Insurance Co. Ltd Eastland Insurance company Jiban Bima Corporation National life Insurance Co. Ltd. Pragati Insurance Ltd. Reliance Insurance Ltd. Sadharon Bima Corporation.
Development Finance company	Industrial Promotion and Development Company of Bangladesh Limited (IPDC)
Local corporate/Business Groups	Bangladesh Lamps Limited Barak Travels (Pvt.) Ltd. HRC Bangladesh Limited Shaw Wallace Bangladesh Limited Square Pharmaceuticals Limited Unicorn Equities Limited.
Non-resident Bangladeshi Investors	Overseas Investors Forum (UK) Overseas Investors Forum (Zambia)

Credit / Legal/ Technical Appraisal Process

3.2 Key Issues in Loan Processing

This assessment of credit worthiness primarily is to determine 'financial capability' of the clients to service the loan, which is requested for. Determination of loan amount for sanctioning is an evaluation of various factors, both qualitative (number of dependents, past savings history) and quantitative (calculation of ratios). An assessment of the individual's repayment capacity is done which is an evaluation of income, age, educational qualifications, his assets, liabilities, savings history, family background, dependents, and sources of balance amount towards the dwelling unit.

The maximum loan that can be offered by offered by examining the sources of balance amount of funds to be put-in by the borrower towards acquisition/extension/improvement of the dwelling unit.

Repayment Capacity:

This can be assessed from the regularity of income, monthly deductions, household expenditure, net take-home salary and the monthly installment the applicant can pay.

At times, the applicant may indicate a much lower (to get a longer term than what he would normally be eligible for) or higher (to get a higher loan) equated monthly installment than what he can actually pay. Based on the appraiser's judgment, of the paying capacity of the individual EMI is fixed.

If however, the individual is unable to pay a higher EMI, the loan could be reduced. An applicant is normally expected to pay the loan interest dues in monthly installments in the region of 30% to 35% of his gross adjusted monthly income.

Income:

The income of the individual forms the main criteria in determining the loan amount he is eligible for as the repayment of the loan is to be made monthly, from the income earned. Income should always be commensurate with age, qualifications and experience of the individual. Income, the continuity and level of which is certain for the term of loan, has to be considered for appraisal.

Income has been categorized into two types, 'prime source' and 'others source.'

Prime Source

Prime source of income is income derived from the main occupation of the individual. In case of an employed individual, salary received from such employment and in case of an individual engaged in profession or business, income from such profession or business is considered as prime income of the applicant.

Other Sources

These are incomes derived by the applicant from any other source other than his primary occupation. This income is secondary to the main source and may not have the same regularity and dependability.

Business/Profession Income:

- The prime source of income of the business/profession along with copies of individual income tax returns for previous years certified by a chartered Accountant.
- A note on the nature of business/profession, type of organization is important for loan processing.

Co-Applicants:

The criteria for consideration of Co-applicant's income is broad based considering the social environment and system in Bangladesh, with specific reference to the prevalence of the joint family concept.

The applicant and co-applicant(s) are equally liable for repayment of the loan. Such individuals are therefore not required to be specifically categorized as applicants or co-applicants, depending on ownership or income criterion.

Co-applicants could be a) spouse b) brother c) sister d) father e) mother f) daughter g) son and other relations (uncle, aunt, niece, nephew, friend).

A co-applicant is one who is likely to stay together with the applicant for the duration of the loan, normally in the case of the spouse. When the spouse is employed/self-employed and joins as a co-applicant, the aggregated income could be considered for loan appraisal. This is irrespective of whether the spouse is a co-owner for the dwelling unit or not.

Ownership of the dwelling unit is a requirement for income consideration.

- In cases where a father and daughter, or mother and daughter, or brother and sister apply, the daughters-sisters income can be considered. And a joint loan given subject to her being co-owner of the unit (This ensuring 'loan servicing' interest subsequent to marriage).

Other relations could be considered as co-applicants by virtue of their being co-owners, but their incomes are not considered for appraisal purposes, given the likelihood of their not staying with the applicant during the duration of the loan.

Pension Income:

For retired individuals 100% of pension income can be considered for appraisal. This can be verified from the individual's bank pass books/bank statements and or obtaining of a certificate from the concerned authority.

Investment Income:

In the event of any emergency, investments are the most easily disposable assets. Such income can be considered in exceptional cases, to the extent of 50% only, when the investments have been consistently held for a period of time.

Agricultural Income:

As agricultural income is affected by various external factors as climate conditions, vagaries of monsoon, realization being generally annually or six monthly, only 50% of the last 3 years average income is considered. This is even so if this happens to be the prime source of income. The income will not be monthly, while the repayment of loan will be on a monthly basis.

Age:

The age of the applicant helps determine the term of the loan. A loan is generally given up to the age of retirement (for employed individuals) or up to the age of 65, (for self employed individuals) whichever is earlier. This is because a salaried individual's ability to service the loan after retirement is generally diminished.

Educational Qualification / employment:

A professionally qualified individual is likely to maintain the same or higher level of income, if his alternate employment prospects were to be considered. His repaying capacity is obviously higher than that of other applicant with no professional qualifications or commendable experience.

Important factors considered in relation to occupation are

- Number of years in service/business. These indicate reliability and continuity.
- Salary presently drawn and that drawn, in previous employment, particularly for job hoppers.

Deduction at source:

Under this facility, employers undertake to deduct the monthly installment (EMI) due to DBH from the individual's salary and remit it to DBH every month. This is a 'puls point' in the appraisal and helps consider individuals with a higher loan than they are normally eligible for, the credit recovery risk being reduced.

Liabilities and Obligations:

The extent of borrowings an applicant has made or proposes to make for housing or any other purposes will have an impact on his eligibility for a loan. The monthly outgoing towards servicing of all these other loans and their periods, will have a negative bearing on his maximum loan eligibility.

Number of Dependents:

The repaying capacity of an individual having a large number of dependents is obviously lesser than that of one having few or no dependents. Information such as their ages, occupation etc. is relevant to the appraisal. Individuals having four or more studying daughters, sisters of marriageable age, ailing parents and other family obligations would not have as good a loan servicing capacity as an individual with a lesser number of dependents.

Sources of Balance Funds:

Financial assistance is available up to a maximum of 80% of the cost of the dwelling unit. An individual is expected to invest a minimum of 20% towards the total cost from his own sources of funds (not borrowing's from other sources). This would ensure an equity participation interest in the dwelling unit being acquired by the individual.

Savings History:

This can be verified by a scrutiny of saving's bank passbooks. The trend of savings pattern can be verified over a period of time. The trend of deposits and withdrawals, specifically "lump sum" deposits and withdrawals are evaluated.

Family Background:

An applicant with a good socio-economic family background (e.g. family members are well qualified and well settled in life) is a relatively safer credit risk than one who has a poor family background (e.g. brothers unemployed, father running a small business with meager income).

3.3 Method of Loan Calculation**Repayment of Loan:**

Repayment of DBH's loan is by way of Equated Monthly Installments (EMI's) comprising principal and interest.

EMI is calculated on the basis of annual rests. Principal repayments made each month are credited at the end of DBH's financial year i.e. credit for principal and interest repayments made every month during the year are given only once during the year, at the end of each financial year, in June. These repayments are components of the Equated Monthly Installment which is due payable by the end of each month. Equated Monthly Installment (EMI)

Calculation of EMI:

EMI is $1/12^{\text{th}}$ Equated Annual Installment. The size of the monthly installment comprising principal and interest depends on the quantum of the loan, the interest rate applicable and the term of the loan.

EMI is calculated by using the formula:

$$\frac{Lr(1+r)^n \times 1}{\{(1+r)^n - 1\} \times 12}$$

where, L is the amount
r is the rate of interest
n is the term of the loan (in years)

Illustration:

Loan amount: Tk. 300000
Rate of Interest: 14.00% per annum
Term = 15 years/ 20 Years

$$\text{EMI} = \frac{300000 \times 1400 \times (1.1400)^{15} \times 1/12}{(1+1400)^{15} - 1}$$

$$= \text{Tk. 40710}$$

Effective Rate of Interest:

The individual gets credit for principal repayments made every month, once a year. If credit for this repayment were to be given every month, the principal and interest payments would be on monthly rests.

To arrive at effective rate of interest we need to use the EMI formula. EMI's comprise interest and principal repayments. Amortization of the loan by way of EMI is on the basis of annual rests. The interest is computed on the balance of principal outstanding at principal rate of interest on the total loan as on June 30th (DBH's financial year ending). The principal outstanding as on June 30 of the following year will be the sum of EMI's paid for the whole year, less the interest payable for that year, on the outstanding principal at the beginning of the relevant financial year reduced from the opening outstanding principal amount. If we consider a high market rate situation (Since DBH's ROI Principal is based on **ARHL**-Adjustable Rate Housing Loans/ Variable rate of Interest) such as, ROI 15.75%, Loan Term of 15 Years and considering 10,00000 TK. As Sanction amount the Cumulative Amortization calculation will be as follows;

Rate of Interest 15.75%
 Term 15
 Principal 1,000,000

Year	Open Balance	Annual Installment	Interest	Principal	Closing Balance	Cumulative Amortization
1	1,000,000	177,260	157,500	19,760	980,240	19,760
2	980,240	177,260	154,388	22,873	957,367	42,633
3	957,367	177,260	150,785	26,475	930,892	69,108
4	930,892	177,260	146,615	30,645	900,247	99,753
5	900,247	177,260	141,789	35,472	864,775	135,225
6	864,775	177,260	136,202	41,058	823,717	176,283
7	823,717	177,260	129,735	47,525	776,192	223,808
8	776,192	177,260	122,250	55,010	721,181	278,819
9	721,181	177,260	113,586	63,674	657,507	342,493
10	657,507	177,260	103,557	73,703	583,804	416,196
11	583,804	177,260	91,949	85,311	498,492	501,508
12	498,492	177,260	78,513	98,748	399,745	600,255
13	399,745	177,260	62,960	114,301	285,444	714,556
14	285,444	177,260	44,957	132,303	153,141	846,859
15	153,141	177,260	24,120	153,141	(0)	1,000,000
		2,658,907	110,594			

3.4 Internal Ratio Analysis

Income Installment Ratio (IIR):

While appraising a case, the factors that determine repayment capacity are first analyzed. The loan amount is subsequently determined on the basis that an applicant can ordinarily pay approximately 35% of his adjusted monthly income towards monthly repayment of loan, allowing for other expenses.

$$\text{IIR} = \frac{\text{Monthly installment payable per month} \times 100}{\text{Adjusted gross monthly income of applicant.}}$$

This is the ratio of the installments repayable per month to the income of the applicants. EMI divided by Adjusted Gross monthly Income (expressed as a percentage). The accepted range of IIR in DBH is 30 to 35%.

IIR Deviations:

A relaxation of IIR's upwards or downwards of the given range is allowed for in certain cases depending on the liabilities, dependents, ability or applicant to pay more than 25% of salary, etc. IIR are dependent on the appraisers judgment of the individual repayment capacity. The IIR is normally not below 25% as a lower IIR will reduce the repayment pace of recoveries and affect the deployment of funds elsewhere. There may be cases where the IIR recommended may be exceed or is less than the maximum or minimum acceptable limits, in which case, a justification for recommending such IIR has to be given.

Fixed Obligation to Income Ratio:

If an applicant is repaying other loans, in addition to DBH's loan, his total monthly repayment for all loans (including DBH's loans) is his fixed obligation.

Monthly obligations towards all loans taken, including the proposed DBH loan and the period of such obligation are one of the main criteria which determine a loan amount. Monthly contribution to society, provident fund and other contributory funds are not considered as a fixed obligation.

PART THREE: RECOVERY

The Project Life Cycle:

The life cycle of the project presented in this report involves some coordinated tasks performed sequentially and includes the following phases.

Opportunity study:

As the concerned area of the project is the recovery section of the organization, I had the opportunity to become introduced with the several problems in respect to the credit risk and the recovery policy of the company. Specially, the probability of default escalates with the increase in the customer size. As a lending company these are areas that should be treated seriously to minimize the risk. This inspired me to deal with the problem of "Credit Risk Management of DBH Finance Limited." It took three days to complete the opportunity study.

Feasibility Study:

The main problem of the feasibility study was the selection of the sample size from the population from the database. The second uncertainty was the choice of the appropriate client cases that will result in a representative sample. It took four days to perform the feasibility study.

Preparation of the project proposal:

The preparation of the project proposal required two days. The project proposal includes the theme of the work paper, the motivation behind selecting the subject matter, the methodology of the study, data and sample collected, the major findings of the work paper and the limitations.

Submission of the project proposal:

The project proposal was submitted to both the organizational and internal (academic) supervisor.

Data collection

The report required no primary data. All secondary data has been collected from the different software used by DBH for the purpose of the entire operation of the business. The different systems like Individual Loan Processing System (ILPS), which record the personal profile of the individual clients. Loan Account System (LAC) that keep record of the total transaction between the client and the company and Receipt Processing System (RPS), which demonstrate the receipt of the installment payment of the client by the company. In addition the file record of the company has been used to collect information about the client's personal details. The customer profile file maintained manually by the company has also been used for the purpose.

Data compilation and formatting

It took five days to compile the data to prepare it for the econometric test to run. The ordered probit model has been used to test the hypothesis. The main task was to -----

Preparation of the draft report

The draft report preparation took 14 days .

Submission of the draft report

The draft report was submitted to the placement and internship committee on the -----

Preparation of the final report

It took two weeks to prepare the final report under recommendation of the internal supervisor.

The SWOT analysis comprises of the analysis of the organizations internal Strengths and Weaknesses and the external Opportunities and Threats. Such an analysis gives the organization an insight of the effective way to use its resources to achieve the desired goal and to sustain in the competitive arena. This analysis promotes the company to identify its strategic positioning in the market and also to develop and implement policies to be in the leading position.

DBH's has been providing services in the financial sector for a period of Nine years. Though this time period is very insignificant for a company to position itself in the market, DBH managed to establish itself as the leading housing financial institution in the market through its unique strengths and competencies.

- DBH is the pioneer in the private sector housing finance that provides credit to the client for the purpose of purchase of flat and plots, construction and extension of the property and the construction of own building. Within a very short period of time of less than five years they have managed to become the market leader by saturating its operation in the housing finance sector.
- In Bangladesh, DBH has a wide range of customer base and is operating with 5 sales and service centers, all over the country. Compare to the other market players, DBH and its unparalleled branch network indicates that DBH exploited any opportunity that existed in the retail service sector.
- Currently DBH is considered to be the prominent business house in deposit. The deposit fund of DBH was 15 million in the last month, which was the highest during the first year of its operation in deposit.
- DBH is embodied with well-qualified, trained and dedicated human resource. There are provisions for executive training and workshops held in every three months for the purpose of developing an expert work force for the efficient operation of the business.

Weaknesses:

- The Human resources constrains can be considered as one of the most vital Weakness of DBH. As I have mentioned earlier only 90 employees run this huge Operations. There has been specific observation regarding job-over load from the employees in this regard.

Opportunities:

- The population of Bangladesh is constantly increasing at a rate of 2.3% per year. Evidence shows that housing demand for this growing population is rising at a higher rate. This gives the housing finance institutions the potentials to penetrate its market easily.

- Bangladesh as a huge investment potential encourages housing sector to come forward and partake in the economic development.
- More positive attitude of the Government towards privatization is another opportunity for the housing sector to flourish their business and contribute in the national economy.
- Though there are other players as well as followers in the market, DBH as the pioneer in the private sector housing has a different image for its quality services.

Threats:

- Since the other commercial banks specially some foreign banks like SCB, HSBC and Some Local Players like NCC, Islami Banks etc. are being aggressive in the Mortgage business the Market seems to face **high Competition** in near future.
- Since DBH is a **Non-banking Financial institution (NBFI)** it may face transactional disadvantages compare to banks regarding PDC, ROI and Service related issues which is definitely a great Threat for DBH to face in near future.

THE CREDIT RISK

Credit risk is most simply defined as the potential that a borrower will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize the risk-adjusted rate of return of a financial institution by maintaining credit risk exposure within acceptable parameters. Lending institutions need to manage the credit risk inherent in the individual credits or transactions. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any financial institution. Since exposure to credit risk continues to be the leading source of problems, lending institutions should now have a keen awareness of the need to identify measure, monitor and control credit risk as well as to determine that they are adequately compensated for risks incurred.

Data / Sample

A sample of 100 applicants has been used to perform the study. The sample comprises of both the defaulters and the non-defaulters of the company. The data has been randomly selected from the entire population of the clients who have applied from and received full disbursement of the loan. The total population includes 2500 clients who have been sanctioned loan and who have started paying the equal monthly installments on a regular basis. These are the clients who have applied and received full disbursement of loan during the period 2003-2004 and have started paying EMI from the year 2005.

At first an amount of 500 clients have been selected randomly which is approximately 500 of the total population. Then for the purpose of selecting the sample the following decisive factors have been considered. After making a preliminary screening out process based on these factors, a sample of 100 clients have been selected. The time period of paying EMI has been restricted to a period of three years between 2002-2004, because of the non-availability of data in the subsequent years.

The screening process of the data goes as follows:

500 clients on a random basis which is 20%of the total population	500
Excluding those not fully disbursed	97
Excluding those who has a business transaction of less than three years	89
Excluding those who has not paid full amount of PEMI interest	62
Excluding those who are unemployed	56
Excluding those who are has made a prepayment/ rescheduled	96
Total	100

Data collection:

Using the different software used by the company, the data for the work paper has been collected.

Methodology:

The various hypotheses selected for the purpose of the analysis are that

H1: Income level and default risk---Those with a higher level of income has a greater tendency to default.

H2: IIR to default risk--- The more the installment to income ratio (IIR), the more is the default possibility

RECOVERY PROCEDURE OF DBH

DBH generally follows a four-step procedure to recover the loan outstanding of the client. This method of collecting the loan overdue from the client ensured a recovery rate of approximate 98% over the last few years of its operation. The steps undertaken by DBH when a client defaults are as follows:

1. FOLLOW UP OF THE CLIENT:

In this case the client is being remind and followed up continuously by the corporate personnel. The follow up procedure takes place in four distinctive phases:

Telephone calls: At the first step, company makes simple telephone calls to remind the client that his/her cheque has been bounced. If the cheque of the customer bounces for the first time, the company does not charge additional fees. The company policy is to charge an amount equal to Tk.400 plus 2% of the installment amount of the client. But if the client honors the cheque within the month in which it has been dishonored then the additional charge will be only Tk 400, and waiver will be given to the 2% late fee charge. In case the cheque has been bounced for insufficient fund or amount not arranged for by the client at the time the cheque was placed by the company to the respective bank, the company charges the entire late fee from the client. But in case when the cheque has been returned by the client's bank for any other reasons other than insufficient fund, like over writing , amount and figure differs, signature differs, etc. then the company do not charge any additional fees from the client. It takes a time period of 2-15 days to repay the overdue by the client after making the phone calls. The company maintains a record of followed up client such in the "Follow Up Module" system of the company. This is a part of the RPS system maintained by the company.

Letters: The second step of the client's follow up procedure is to send letter to the client. The company then follows up the client by making another phone call, to know whether the client has received the letter and whether he has made the arrangements to repay the dues.

Registered letters: In most cases the client does not receive the letter as he / she shifts to the new address or the apartment, which she has bought, by DBH loan. As a result, the client remains uninformed about his/her status. Under this circumstance the company make efforts to send registered letters to the client's new address.

Telegrams to residence and office: The final step of the client follow up procedure is to send telegrams at the client's residence and his office. The company sends at least three telegrams to remind him/her about the current status of his account. The entire process of the follow up procedure takes about 1-2 weeks to recover the overdue amount from the client.

2. SEEKING GUARANTORS HELP:

Failure to collect the overdue amount from the client by following the client follow up procedure leads the company to take the help of the guarantor of the client. The steps undertaken by the company in this respect are as follows:

Calling up guarantors: The first step of this process is to call the guarantors of the client and request him to convince the borrower to repay his dues.

Letter to the guarantor: If the company fails to reach the guarantor for some reason then, the company sends letter to the guarantor and requests him to take steps to clear the dues. In some cases the company may even send registered letters to the client's guarantor if necessary.

Calling up the family members and the referees: The final step of the phase is to call up the family persons of the client. In some cases the company also calls up the referees in order to collect the overdue loan amount of the client. The entire process may take a few days to recover the amount.

3. PERSONAL CONTACT WITH THE CLIENT:

Informing the client's employer: At this point the company takes action by writing to the client to pay his dues or else the company will inform it to the employer of the client. If the client does not respond, then the company sends letter to the client's employer about the status of the client and requests him in pursuing the client to make the necessary payments.

Personal visit to the client: The Company then pays personal visit to the client's residence and to the work place of the client to recover the dues. The company tries to negotiate with the client by rescheduling his installment payments.

Personal visit to the guarantor: As a final step of the recovery processes the company visits the personal guarantor of the client to recover the outstanding.

LEGAL ACTION

Failure to collect the dues from the client after taken all the actions mentioned above, the company goes for legal prosecution as the final step.

Issuing legal notice: The company issues a legal notice to the client regarding the obligation of the client to the company . In this respect the company reminds the cline to pay the dues within the stipulated time.

Filing suit: The company then file suit with the court against the amount that the client is liable to pay.

Out of court settlement: The Company always try to settle things out of court and thereby give the client a chance to pay is debt. At present the company has taken legal action against one of its customer and is pursuing to negotiate with the client to settle it outside the court.

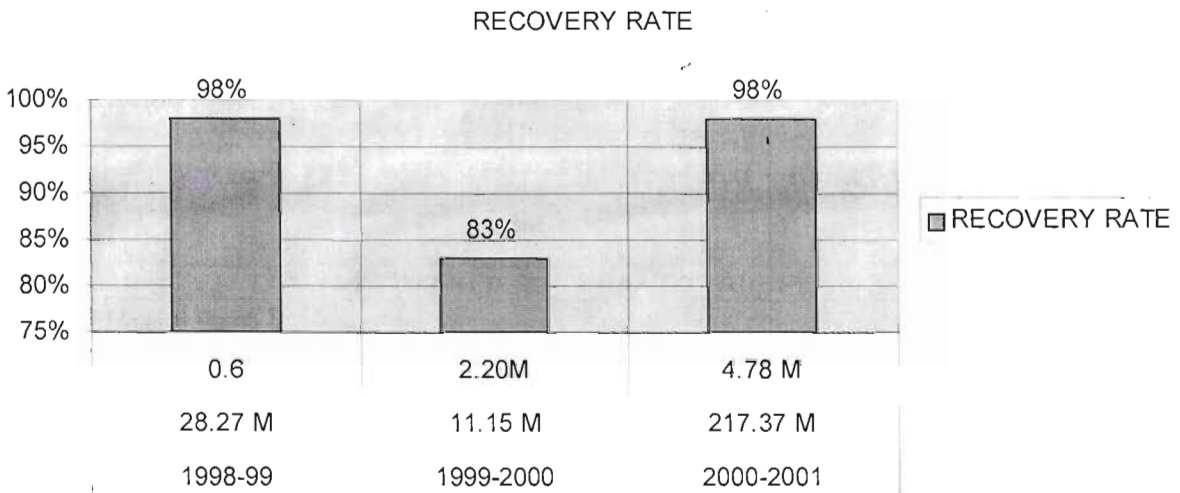
RECOVERY PERFORMANCE OF DBH

Theoretical framework-----

According to the Accounting Concept of recovery rate determination the performance of the DBH in the last three years are as follows:

Recovery Rate = Loan recovered / Loan recovered + Loan outstanding

YEAR	LOAN RECOVERED	LOAN OVERDUE	RECOVERY RATE
2002-2003	28.27 M	0.60	98%
2003-2004	11.15 M	2.20M	83%
2004-2005	217.37 M	4.78 M	98%



The trend shows that DBH is maintain a constant level of recovery rate over the years. The rate centers around 98% of the total loan disbursed during the year, except for the year 1999-2000 in which case the recovery rate declined.

Recovery Rate Practiced by DBH

In addition to the accounting concept DBH practices another method of determining the recovery rate. Where as Accounting Concept takes total loan outstanding and loan recovered as the parameters, DBH determines the recovery rate by using the number of clients as the variable. Instead of determining the recovery rate on an annual basis, the company follows a monthly loan recovery rate based on the number of clients of the defaulted during a particular month. According to this method the recovery rate is the excess of the number of defaulters over the defaulters who paid during the month.

1. Beginning Balance of the number of defaulters	xxx
2. Plus: Addition during the month	xxx
3. Total number of defaulters	xxx
4. Less: Total number of the defaulters clients that cleared the outstanding	xxx
5. Total number of clients remained outstanding	xxx
Recovery rate = Total number of clients repaid (line 4) / Total (line 3)	xxx

Illustration

Month Ending 30 June 2002

EMI

P E M I

	1 Month		>1.1 Month
Balance as on 1st June 2002	325	Balance as on 1st June 2002	20
<u>Addition during the month:</u>		<u>Addition during the month:</u>	
New Bounced	85		
No PDC	0	Received From 1 month	-
Received From >1.1 month	35		
Total number of defaulters	445	<u>Reduction during the month:</u>	
		Transfer to 1.Month	-
<u>Reduction during the month:</u>	40	Full Recovery during the month	(6)
Transfer to >1.1 Month			
Full Recovery during the month	203		
End Balance as on 22 June 02	202		14
Recovery Rate: = 202 / 445 =46%			

Findings and some suggestions for DBH:

1. ROI policy:

The ROI Policy of DBH is **ARHL-Adjustable Rate Housing Loans**. Depending on the Money Market Conditions DBH preserves the right to increase or decrease the Interest rate of their Housing Loans. But they might face problems regarding retention of their existing customers in this policy. **In a high rate scenario, existing customers of DBH might transfer their Loans to the other Organization where they will get lesser ROI.**

As a matter of fact the ARHL Policy may not be very good one as per as the retention of existing client is concern. In this connection they can implement both **Fixed and Floating** rates as per the client's preferences. This will not only ensure the retention of existing clients but will also ensure variety of product lines which will give the Company room to turn-around to face the high Competition with the Commercial Banks.

2.Promotional Activities:

To increase the Asset Portfolio, DBH should come up with extensive promotional activities for the vendors like the **Developers** who provide ready business referrals to the Company. Such as DBH can introduce a membership card for the very good and well-reputed developers and by this they can make these good developers as the part of DBH Family. In other wards, they can go for corporate tie-up sort of arrangement to face the highly competitive Market scenario, which is ahead of them.

DBH can also introduce coupons for it's existing customers. They might give a coupon after every loan sanction. The idea is if that existing client go for other loans from DBH they will get a certain discounts for i.e. lower ROI, Lower Processing Fees etc etc.

3.Improve the Advertisement/ Branding Initiatives:

DBH should employ a good advertising agency, which can come with the eye-catching advertisements. Besides delivering reminding advertisement, they should select appropriate message and choose the best media vehicle to convey the message to the target audiences or market.

Since, tough days are ahead, DBH should come up with very strong Brand image to establish amongst its target customers such as the developers, very good Corporate and for its retail customers to face huge competitions against the Commercial Banks.

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