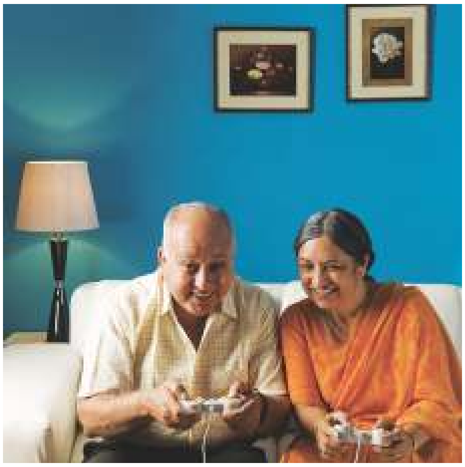
Annual Report **2010-11**



LIC HOUSING FINANCE LTD. स्वगृहाय अर्थसहाय:

With you, for your dream home.

Contents

Corporate Information

BOARD OF DIRECTORS

T. S. Vijayan	:	Chairman
D. K. Mehrotra	:	Managing Director
Y. B. Desai	:	Director
Dhananjay Mungale	:	Director
S. Ravi	:	Director
K. Narasimha Murthy	:	Director
B. N. Shukla	:	Director
A. S. Narayanamoorthy	:	Director
V. K. Sharma (from 01.12.2010)	:	Director & Chief Executive
R. R. Nair (upto 29.11.2010)	:	Director & Chief Executive

GENERAL MANAGER (TAXATION) & COMPANY SECRETARY

Nitin K. Jage

SENIOR EXECUTIVES

Shri V. Chandrasekaran	:	General Manager
Shri Nitin K. Jage	:	General Manager & Company Secretary
Shri. Rajeev Chaturvedi	:	General Manager
Shri. S. N. Mokashi	:	General Manager
Shri N.K. Mittal	:	General Manager
Shri Surinder Mohan	:	General Manager
Smt. Anjubala Purushottam	:	General Manager
Shri M. R. Ankolekar	:	General Manager
Shri G. D. Joshi	:	General Manager

REGIONAL MANAGERS

Mahendra Kumar	Northern Region
P. B. Roy	Eastern Region
Sanjaya Rastogi	Western Region
P. R. Shankara Raju	Southern Region
Ratikanta Singh	Central Region
R. Ramakrishnan	South Eastern Region
S. Krishna Kumar	South Central Region

(Details as on 28.04.2011)

AUDITORS

Joint Statutory Auditors:

M/s. Chokshi & Chokshi
M/s. Shah Gupta & Co.

BANKERS

Andhra Bank
Axis Bank Ltd.
Corporation Bank
HDFC Bank Ltd.
State Bank of India
Union Bank of India

REGISTERED & CORPORATE OFFICE

Bombay Life Building, 2nd Floor,
45/47, Veer Nariman Road,
Mumbai - 400 001.
Phones : 022- 2204 0006, 2204 9799
& 2204 9919 Fax : (022) 2204 9839.
email : lichousing@lichousing.com
website: www.lichousing.com.

REGISTRAR & SHARE TRANSFER AGENT

Sharex Dynamic (India) Pvt. Ltd.
Unit No.1, Luthra Industrial Premises,
Andheri Kurla Road, Safed Pool,
Andheri - East, Mumbai - 400 072.
Phones : 022 - 28515606, 28515644.
Fax : (022) 28512885.
email: sharexindia@vsnl.com
Website : sharexindia.com

APPEAL TO SHAREHOLDERS

The Ministry of Corporate Affairs has taken a "Green Initiative in the Corporate Governance" by allowing paperless compliances by the companies through electronic mode. The Companies can now send various notices / documents to its shareholders through electronic mode to the registered e-mail addresses of shareholders. To support this green initiative of the Government in full measure, members are requested to register their e-mail addresses at lichsggogreen@sharexindia.com, in respect of electronic holdings with the Depository through their concerned Depository Participants.

Profile & Progress........ At A Glance.........

- ❖ Provides loans for homes, construction activities, corporate housing schemes.
- ❖ Around 89% of the loan portfolio derived from the retail segment and the rest from large corporate clients.
- ❖ Rated 'AAA' by CRISIL for the 10th consecutive time in 2010-11; Fixed Deposit scheme rated as FAAA/stable by CRISIL.
- ❖ Promoted by world's premier financial institution, LIC of India, incorporated as Company in June 1989.
- ❖ Registered & Corporate Office at Mumbai with 7 Regional Offices, 13 Back Offices, 183 Marketing Offices and 1 Customer Service Points.
- ❖ Apart from wide marketing network comprising Direct Selling Agents (DSAs), Home Loan Agents (HLAs) and Customer Relationship Associates (CRAs), a wholly owned subsidiary also started distributing the company's product.
- ❖ Representative overseas presence in Dubai and Kuwait.
- ❖ Listed on the Bombay Stock Exchange Limited, National Stock Exchange of India Limited and was the first Indian housing finance company to be listed overseas i.e., on Luxembourg Stock Exchange.
- ❖ Has been a profit making and dividend paying company since 1990 – its first year of operation.
- ❖ The concept of a life insurance linked mortgage product was first introduced in the country by LIC Housing Finance.
- ❖ LIC Housing Finance was a participant in the pilot issue of mortgage backed securities launched in August 2000 by National Housing Bank.
- ❖ 'Fix-O-Floaty' – the scheme which offered fixed interest rate for three years and floating thereafter was re-modeled into Advantage – 5 plan in order to withstand the pricing competition unleashed by other market players incorporating market sentiments and offering flexibility to the customer.
- ❖ Launched a unique interest rate scheme, 'MINI 5' to cater to housing finance needs of the priority sector population residing in Tier II and Tier III cities.
- ❖ Competitive Advantage for LIC Housing Finance lies in

  Strong parentage and Brand Recall,

  Transparent systems and procedure &

  Competitive Interest Rates
- ❖ More than 12 lakh satisfied customers across the country since inception.
- ❖ Reported 34.06% increase in disbursals in 2010-11.
- ❖ Reduced net NPA to a record low of 0.03 percent in 2010-11.
- ❖ Enhanced PAT 47.16% to Rs.974.49 crore in 2010-11.
- ❖ Recommended increased dividend over previous year i.e., from 150% to 175%.

स्वगृहाय अर्थसहायः

Vision

To be the best housing finance company in the country.

Mission

Provide secured housing finance at an affordable cost, maximizing shareholders' value with higher customer sensitivity.

Values

Transformation to a knowledge organisation

The Company is committed to the growing use and sharing of knowledge as a driver of business success. All decisions are based on merit and a respect for sound Judgement.

Sense of ownership

At the Company, we believe that superior performance comes from a feeling of ownership. And ownership comes from aggressive delegation and empowerment.

Quality and autonomy in Operations

The Company is committed to an aggressive delegation in decision-making whereby relevant initiatives can be taken closest to the customer.

Fair and transparent business practices

Ethics and transparency form the basis of the business of LIC Housing Finance. On the macro-level, the Company complies with all the laws of the lands in which it operates, on the micro-level the Company respects the dignity of every individual.

Management Discussion and Analysis Report

MACRO-ECONOMIC & MONETARY DEVELOPMENTS IN 2010-11.

GLOBAL ECONOMIC CONDITIONS

Global economic activity in the second half of 2010 turned out to be stronger than expected. However, the uneven pace of growth across regions and uncertainty about the durability of recovery in the advanced economies persist. The positive sentiments arising from the growth momentum in major advanced economies was neutralised by the persistence of high unemployment and downside risks from weak housing markets. The combination of these developments resulted in additional policy stimulus. While in the US, the second dose of quantitative easing (QE2) was followed up with extension of fiscal stimulus, other advanced economies faced a difficult choice between delaying fiscal exit to support growth and early exit to contain the sovereign debt concerns. The risk of sovereign debt crisis spreading from the Euro-zone periphery has resurfaced in recent months.

Emerging Market Economies (EMEs), which had recovered ahead of the advanced economies, exhibited robust growth momentum driven by domestic demand. Inflation and overheating risks have, however, prompted monetary tightening at varied pace. Commodity prices also firmed up, largely reflecting easy liquidity conditions in advanced economies, as well as growing demand pressures in EMEs.

INDIAN ECONOMY: DEVELOPMENTS AND OUTLOOK

OUTPUT

The robust GDP growth in the first half of 2010-11 suggests that the economy has returned to its earlier high growth path. Satisfactory kharif production and higher rabi sowing point to stronger contribution of the agriculture sector to overall GDP growth in 2010-11. Industrial production has exhibited near double digit growth but the significant volatility adds uncertainty to the outlook. Lead indicators of the services sector show sustained buoyancy. In certain sectors, particularly non-cereal food items, however, the supply response to market signals in the form of higher prices has been weak, thereby exerting upward pressures on inflation. Core infrastructure sector has grown slower than both the overall GDP and the industrial sector, suggesting that it remains a constraint to higher growth. Capacity utilisation levels have generally remained steady.

AGGREGATE DEMAND

Growth in private consumption expenditure, after remaining subdued over several quarters, exhibited significant acceleration in the first half of 2010-11. As per trends in the growth of gross fixed capital formation, the recovery in investment demand that had started in the last quarter of the previous year, has consolidated and remained strong. Fiscal trends during the year to date suggest that the fiscal deficit could remain within the budgeted level, but high growth in capital expenditure would add to the overall growth momentum from private demand. Lead indicators of private demand, such as corporate sales, capital expenditure plans, non-oil imports and credit demand point to sustained momentum in growth. Weak demand conditions in advanced economies have not affected the domestic growth momentum much in 2010-11 so far, even though global uncertainty remains a downside risk to the growth process.

EXTERNAL SECTOR DEVELOPMENTS

As expected, the current account deficit widened significantly in the second quarter of the year. Even as exports expanded faster than imports, the trade deficit widened. From the current account perspective, the cushion to a widening trade deficit from net invisibles declined. While higher net capital inflows did not pose any immediate challenge, unlike in many other EMEs, because of the widening deficit in the current account, the shift in the composition of capital flows, particularly the sharp jump in portfolio inflows and significant decline in net FDI inflows raises questions about the sustainability of the external sector in the medium-term

MONETARY AND LIQUIDITY CONDITIONS

The liquidity conditions had started to tighten by mid-2010 reflecting the normalisation of monetary policy and large increase in Government's surplus balances with the Reserve Bank due to revenues generated through 3G/BWA spectrum auctions. While sustained deficit liquidity conditions were consistent with the anti-inflationary monetary policy stance of the Reserve Bank during the year, the magnitude of the deficit widened significantly in the terminal months of 2010 to the point of posing concerns for growth. The severe tightness in liquidity was caused by both frictional factors associated with unusually large surplus balances of the government and structural factors as reflected in stronger credit growth relative to deposit growth as well as higher demand for currency.

The growth in non-food credit has remained above the indicative trajectory of the Reserve Bank since October 2010, reflecting growing credit demand associated with robust economic growth. Flow of financing from non-banking sources lagged behind the incremental flow of bank credit. Money supply growth, however, was slightly below the projected level on account of sluggish deposit growth as well as some moderation in money multiplier resulting from higher growth in currency.

FINANCIAL MARKETS

The global financial markets continued to reflect the uncertainty about sovereign debt sustainability and the changing growth outlook of advanced economies. Markets in EMEs, including India, were influenced more by the domestic growth outlook, normalisation of monetary policy, corporate earnings prospects and the portfolio capital inflows that entailed a potential source of pressure on exchange rate and asset prices. In India, reflecting the tight liquidity conditions, interest rates in the money market, particularly in CBLO, T-bill, CP and CD segments hardened significantly. Recognising the structural imbalance between deposit growth and credit growth as well as the underlying signals of the anti-inflationary monetary policy stance, banks raised their deposit rates to improve deposit mobilisation while also raising the lending rates, which could be expected to moderate the aggregate demand, going forward. Asset prices generally remained firm, notwithstanding some correction in equity prices that partly reflected expectations about monetary policy actions associated with the abrupt reversal in the inflation path. The pace of increase in housing prices varied across cities. The Reserve Bank has recently used macroprudential measures to restrain the role of excessive leverage in asset price build-up.

INFLATION SITUATION

WPI inflation had witnessed modest softening during August-November 2010 after remaining in double digits for five consecutive months. In December 2010, however, renewed price pressures surfaced, driven by factors that were largely unanticipated. Food inflation exhibited a strong bound, led by onion and other vegetables, largely due to unseasonal rains and supply chain frictions. The Reserve Bank has already recognised the upside risks to inflation from higher global commodity prices, but this hardening happened sooner than anticipated. The pace of moderation in WPI inflation over a few months prior to December 2010 was also weak due to persistent elevated levels of food and fuel inflation, which are largely insensitive to anti-inflationary monetary policy measures. The expected significant softening of food inflation after a normal monsoon did not materialise, reflecting the impact of growing structural imbalances in certain sectors, particularly non-cereal food items. While the high growth in per capita income and the shift in the composition of demand have led to stronger growth in demand for items such as vegetables, fruits, pulses, eggs and meat, the supply response has generally lagged behind. The impact of this imbalance on food inflation has been magnified by rigidities in the supply chain management. Non-food manufactured inflation, which is a broad indicator of generalised and demand side price pressures, has remained stable in the range of 5.1 to 5.9 per cent so far in the year. Besides the expected better supply response in non-food manufactured items to price signals and the pressure of imports, normalisation of the policy rate would have contributed to this trend. High month-over-month (annualised) inflation in recent months as also the rising price index of the non-food manufactured group, however, suggest the combined impact of both input costs and demand pressures. The factors underlying the inflation process pose a major challenge for monetary policy since the impact of anti-inflationary monetary policy measures on inflation expectations and core inflation could be weakened considerably by structural factors, particularly in an environment of firming global commodity prices.

GROWTH AND INFLATION OUTLOOK

The return to the high growth path in 2010-11 materialised despite an uncertain global environment. Though the overall global outlook suggests some moderation in growth in both advanced and emerging economies in 2011, downside risks to India's growth momentum have receded considerably. The inflation outlook, which is being conditioned by both demand side and supply side factors, suggests slow paced moderation in inflation, with the possibility of rigidity at above the comfort level in the near-term. Recognising the need to firmly anchor inflationary expectations and contain inflation, the Reserve Bank has raised policy rates six times since the beginning of March 2010. As a result, along with the impact of the shift in the LAF mode from reverse repo to repo, the effective increase in policy rate has been 300 basis points.

Going forward, the Reserve Bank's monetary policy measures would have to be guided by not only the anti-inflationary thrust that is necessary in an environment of persistent high inflation, but also their expected effectiveness in a condition of entrenched supply side pressures on inflation. Oil prices moving permanently to a higher trading range looks more probable now. Moreover, sectoral imbalances in several non-cereal food items that reflect weak supply side adjustments in response to rising demand could persist in the near-term, and higher policy rates may not ensure the desirable degree of demand adjustment, even with the usual transmission lags, given the nature of the items in which the imbalances are growing. Aggregate demand side pressures on inflation, however, would have to be contained in a forward looking manner. Recent trends in sales growth and earnings of corporates point to their improving pricing power. MGNREGS, in turn, has the potential to raise the wage bargaining power even in the unorganised sector, particularly in the agriculture and construction sectors, besides raising rural demand at a faster pace relative to production of cereals and non-cereal food items. The demand side risks are also visible in the growing size of the current account deficit, and high inflation differential is a potential factor for eroding export competitiveness.

Thus, given the fact that elevated inflation and current account deficit are the two major macroeconomic concerns at the current juncture, demand management measures need to acquire centre stage in the near-term, with structural measures in the medium-run addressing sectoral imbalances and export competitiveness. The anti-inflationary focus of monetary policy would have to continue, recognising though the limits of monetary policy in dealing with structural pressures on inflation, and the need for forward looking response to demand side pressures. Since a lower inflation regime is essential for sustainable high growth, containing inflation becomes the dominant policy objective in the current environment.

(source RBI's statement on macroeconomic & monetary development – 24.01.2011)

HOUSING FINANCE INDUSTRY STRUCTURE & DEVELOPMENT

India's housing finance industry comprises banks and housing finance companies. Disbursements have improved in the financial year 2010-11 as compared to lukewarm previous financial year. Given India's rapid population growth, increasing urbanisation and rising affordability the housing finance market will continue to grow. However, given increasing competition in the sector from banks, Housing Finance Companies which have access to low cost funds, better operational and credit cost control, and better service quality will continue to grow.

As the year 2010 has ended, the real estate sector at large seemed to have witnessed significant recovery during the year. Improved demand for housing space during 2010 was witnessed across most residential markets mainly driven by economic recovery and positive market sentiments, which also resulted in improvement in supply during the year with the launch of new residential projects.

The values across most micro-markets witnessed a strong upward movement when compared to prices last year. Capital values in select micro markets in the high end segment appreciated by over 30% annually in comparison to the mid segment markets which witnessed appreciation between 8% to 14% in these cities. After witnessing a slowdown in demand and construction activity for most part of 2009, Mumbai's residential sector witnessed an improvement in demand in 2010. When compared to values a year ago, Mumbai has witnessed the strongest recovery (in the range of 5% to 15%, as per Cushman & Wakefield India report) in most mid range macro markets. The strongest gains were witnessed in Far North micro market of Andheri (W), Malad, Goregaon due to large end user and investor demand for mid range housing segment. Despite the buoyant demand and strengthening economic sentiments, values are expected to correct in most micro markets especially Central Mumbai, North and Far North Mumbai owing to large upcoming supply. The rental market during the year also witnessed significant fluctuations.

According to Cushman & Wakefield India, among the major markets, NCR witnessed strong signs of recovery when compared to markets like Bangalore and Hyderabad which followed a relatively steady recovery pattern. In 2011, the overall residential market across major cities of India is expected to continue to witness growth in demand. Despite the increasing demand and improving market sentiments, the large available supply is expected to keep a check on the capital values across cities. Bangalore, Chennai and Hyderabad which are largely driven by end user demand supported by growing IT/ ITES and automobile sector are expected to remain strong in 2011 whereas markets which have witnessed strong recovery with capital values reaching high prices points and significant supply, market like Gurgaon, Mumbai and Pune are likely to see some correction in the coming year.

Regulatory pressures are likely to impact small developers due to tough financing in the future which may result in dumping stocks by them at lower price and therefore putting little pressure on big developers too.

CRISIL Research estimates housing finance disbursements to have grown by 16 percent in 2010-11 to Rs.1,67,200 crore as compared with Rs.1,44,100 crore in 2009-10. The following factors have supported a healthy growth in 2010-11:

a) Aggressive interest rate schemes launched by public sector banks led to intense competition in the industry thereby benefiting the consumer;

b) Increase in balance transfer cases: Lower interest rates also increased the incidence of balance transfer cases in 2010-11, thereby contributing significantly towards disbursement growth.

c) Rise in average ticket size: The second half of 2010-11 saw property prices rise in major markets (mainly Mumbai and Delhi), alongwith new project launches with larger area by many builders. This led to an overall increase of 8% to 9% in average ticket size of loans and contributed towards value growth in 2010-11.

Housing constitutes over 70% of the real estate sector and is amongst the three basic necessities of life viz. food, clothing and shelter. However, it is largely ignored.

With increase in urbanisation and improving affordability, the demand for mortgage loans will continue to grow at a healthy pace. Further, steady prices and continuation of tax concessions to self-occupied residential home borrowers, are contributors to the growth of the industry. The average age of borrowers has declined over the years, while the number of double-income households has grown significantly which enabled them to borrow higher loan amount due to higher repaying capacity.

Looking ahead:

It is estimated that the housing finance industry will be able to maintain a higher growth in fresh origination of residential home loans over next three to five years mainly due to increased affordability of the borrowers i.e. mainly due to demand for affordable housing projects.

When the recession hit the real estate sector in 2008, it also saw the emergence of a new buzz word 'AFFORDABILITY'. This was to be the key for the revival of the real estate sector especially in the residential sector. This was because it was felt that demand for affordable homes was recession proof and would lead to faster turnaround of stock.

The spurt in sales immediately after the recession when prices reached an 'affordable' level, should serve as a good indication to urge builders on, in this direction.

Here is a message for some developers-the more affordability you make it, the more you will sell, and the more you will gain in profits. It is a straight business equation that benefits every one - the developers - with increased sales and profits, the common man - with a more reasonably priced home, and the government with the satisfaction that more of its citizens are getting better homes.

The satisfactory monsoons this year indicate happier times for the people and this festive season, especially, appears to be marked with great optimism. This is a good time for the Government, the developers and the common man to form a healthy triangle to enable a healthy growth of this sector. It is an opportune moment for the buyers to go house hunting as the developers are more generous at this time, with their offer of goodies including heavy discounts, attractive freebies, and financial incentives.

The onset of the festivities is therefore the most auspicious moment to put 'affordability' back to where it belong – right in the middle of all action. Any sudden rise in prices will only serve to derail the recovery process of the sector which is still looming under a financial crisis. Certain 'Stray Sales' have created panic among the common man leading to a fear that property prices may have risen to unaffordable levels. Even the RBI expressed concern over the overheating of property prices in Mumbai and Delhi in its report on the macro – economy and monetary developments in 2009-10.

This is the moment when the term 'affordability' could be launched once again with renewed vigor since the developers are keen to 'SELL' and the buyer is keen to 'BUY'.

In India, festival has been closely associated with taking important decision and the auspicious occasion of Gudi Padwa is one such time. In Maharashtra, Gudi Padwa is day chosen to start any thing new or make an important investment, especially in property, gold and silver. It also marks the end of one harvest and the beginning of a new one, signifying the start of the festive period, is ripe as people want to buy during auspicious times. Many developers take the opportunity to announce new projects on this occasion and also offer attractive schemes.

Gudi Padwa is considered an auspicious day as it signifies new beginning and is usually earmarked for major purchase decisions hence many builders target this festival to launch their projects in keeping with the local sentiments during this period. This year, the festival of Gudi Padwa (celebrated on 4th April, 2011) is well timed, in terms of policy decisions by the national and state government falling soon after the end of the financial year. This may be a catalyst for some end users to reconsider their purchase decisions. There is widespread optimism about this festival marking the turning point for realty to make gains based on end user demand.

Demand also comes up with attractive offers during festivals, which give further boost to this sentiment. Even though buyers are in the wait and watch mode, festival such as Gudi Padwa could prove to be the turning point as there are many bookings around this festival. Indians are traditional by nature and even younger buyers who are influenced by the older generation do believe in this being a good time to buy. There are new launches of projects as everyone considers this an auspicious time to buy. A lot of developers tend to offer sops, freebies or discounts to prospective buyers, booking a property around this time.

There is no doubt that the second homes wave is here to stay. The ever growing size of homes buyers in the country is poised to drive the phenomenon well into the future. In fact, there is now an established trend of home buyers looking at options beyond the ordinary for their second home purchasers both by geography as well as by residence formats. Looking ahead, it is anticipated that the depth and size of the second home market would improve further owing to the sophistication of buyers as well as pro-activeness of developers to meet burgeoning demand for such products across the country.

Affordable housing and integrated township projects should be given infrastructure status. By providing this status, these projects will have a better access to funds.

It is about time the Government introduced a single window clearance system coupled with a rationalized tax system. At present, statutory approvals have to be obtained through multiple procedures leading to delays at every approval level, thereby translating to further increase in prices. Surplus tracts of land that have been lying defunct for several years within the city need to be released to capable builders and developers at reasonable or subsidized rates to enable them to build affordable houses – since the land cost inevitably forms a major part of the expenses for a builder.

Incentives in the form of subsidized tax rates should be offered to builders who serve to build a social fabric of 'affordability'. Simultaneously, it is important for the Government to introduce a monitoring system to ensure that the incentives offered to the builder are in the same way passed on to the 'end user'.

The Government should extend the scope of 36(1)(vii) of the Income tax Act, 1961 to include housing finance institutions.

Further, the Housing Finance Companies should be relieved from anomaly inherent in section 43D read with rule 6EB of the Income tax Rules wherein the housing finance companies are being taxed without booking the income and also not allowed to claim as deduction when provision is required to be made in respect of bad loans.

Housing Finance Companies should be allowed to access long term External Commercial Borrowing (ECB) market, since these companies require long term funding sources at the lowest cost possible, to pass on to the ultimate borrowers.

Competition:

The Housing Finance Industry is one of the most keenly competitive segments of the Economy, with the Banking sector having a significant presence. However, Housing Finance Companies with a dedicated focus on the industry and better understanding of the underlying real estate markets stand on a better footing when it comes to understanding the needs of the customers as also assessing the risks in the industry.

With few signs of interest rates easing, high demand for loans and the likelihood of many infrastructure projects getting delayed due to tightening liquidity, banks may have to settle for lower profits and revenue growth. Furthermore the Government's pet agenda of financial inclusion and the entry of new banks will add to pressure on human resources too, which banks would find tough to handle.

High inflation is the biggest threat that HFCs and banks face. Prime lending rate is at 13.5%. While head line inflation is at around 8.31%. Lending rates are highest in a decade and higher than the rates that prevailed in the phase of pre-Lehman collapse when the cash reserve ratio was 9% and inflation at 13%. To curtail inflation if the RBI raises policy rates further, banks may be prompted to raise lending rates which may hurt loan demand.

ETIG (Economic Times Intelligence Group) data on 44 banks shows in the first nine months of 2010-11, the gross bad loans rose 23% to Rs.90,492 crore from a year earlier. To contain slippages of good assets to stressed assets would be a challenge.

Most Indian banks have net interest margins of 2.5% to 3.5%. However, the margin - a financial ratio that shows the profitability of a lender may be squeezed this fiscal as banks are unable to pass on high liability cost of borrowers. Banks have accepted liabilities at 10% at the year-end and with the base rates pegged at around 9.5%, margins would come under pressure as the cost of funds would rise and banks would have to increase their lending rates to prevent any erosion in their margins. Conversely, if interest rates moderate in the second half of this fiscal, it could again put pressure on their margins. Banks have raised high cost deposits at the end of fiscal 2010-11 which would be reprised immediately when lending rates are revised. Thus, when rates fall, cost of deposits continues to be high while interest earned on lending falls impacting margins.

Despite efficiency, interest rates have been one of the key differentiators. Every borrower, corporate or individual is sensitive to interest rates.

One of the key concerns emerging among developers is about banks getting a little more cautious about lending to the realty sector. Banks are reluctant to lend money to realty companies as RBI made it tougher for banks to provide high value loans to properties costing over Rs.75 lakh. The RBI had also raised the provision requirement for loans.

This move by RBI gives more space for HFCs to capitalize and consolidate its market share by providing loans at very competitive rate to enable the developers come up with affordable housing project and be part of the Government's objective of providing housing for all.

Opportunities:

The aspiration to own a home remains a basic concern for anyone and everyone. In fact, developers remain positive that it's this 'need-based concern' which would ultimately help them to tide over the present lull phase. And catering to this basic concern are several housing companies or banks that extend various loan schemes.

Unlike earlier, home loans today continue to be 45% cheaper than what they were in early 2001 according to an estimate. Because if statistics are referred to, the interest rates which now range between 9% to11%, are still much lower than what they were 10 years ago, at 16% to 17%. Buying or investing in a property would continue to remain a lucrative option. Besides building an asset, a buyer ends up reaping the benefits of investment made already. Moreover, with an organized finance sector and with the increase in transparency levels, it has become easier to create financing vehicle. Home loans are being offered by HFCs at 9% to 11% depending on the profile of a customer.

India is a country that is challenging the limits of aspirations and possibilities every day. If there is one sector that reflects the changing aspirations and growing needs of this new India, it is the residential sector. Strong economic growth has led to rising incomes, better availability of attractive home loan options, wide range of supply and growing aspirations. All these factors have made buying an attractive proposition.