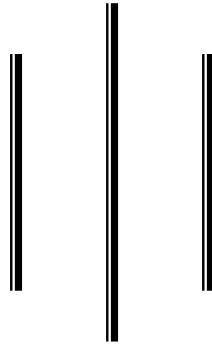


HOUSING FINANCE
SITUATION OF COMMERCIAL BANKS IN NEPAL
(WITH SPECIAL REFERANCE TO EVEREST BANK LTD.
AND KUMARI BANK LTD.).



A THESIS

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in Partial Fulfillment of the Requirements of the Degree of
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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for

Master's Degree of Business Studies (MBS)

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DECLARATION

I hereby declare that the work reported in this thesis entitled “Housing Finance Situation Of Commercial Banks in Nepal. A comparative study between Kumari Bank Ltd and Everest Bank Ltd” submitted to Post Graduate Campus, Faculty of Management, Biratnagar, Tribhuvan University, is my original work done in the form of partial fulfillment of the require for the Master of Business Studies under the supervision and guidance of Mr. Keshav Prasad Gadtaula Lecturer, Tribhuvan University.

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Date: August 2011

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The thesis entitled “Housing Finance Situation of Commercial Banks in Nepal (with special reference to Everest bank ltd and Kumari Bank Ltd.)” is the outcome of Trivuban University’s move to focus more on practical and out of class studies than traditional class room cum book oriented approach of studies, As per this move, we the students are to prepare the thesis report on suitable topic.

For this we need to collect data , statistics and other information’s related to topic from suitable organization thus ensuring that we pursue practical knowledge which we seldom get to learn in our books. Hence, by far this approach prepares us to comfort with circumstances that are the part of commercial works. In my part, field work report on situation on housing loan and total loan of commercial banks enable me to have better understanding and widen my knowledge about housing loan and other elements. Thus, this thesis report proved to of importance to me

During the course I worked with sincerely, honesty and obligingly as far as possible. but besides my continual efforts I also got unforgettable support from different people and parties. I am extremely grateful and overwhelmed by there support while completing my work.

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.....

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LIST OF ABBRIVIATION

AD	:Anno Domini
BS	:Bikram Sambat
NRB	:Nepal Rastra Bank
NIDC	:Nepal industrial development Commetee
HMG	:His Megesty Government
NABIL	:Nepal Arab Bank Limited
IFIC	:International Finance investment & Commercial
NIC Bank	:Npeal Industrial & Commercial Bank
JVB	: Joint Venture Bank
HBL	: Himalayan Bank Limited
ATM	: Automated teller machine
EBL	: Everest bank Limited
KBL	: Kumari Bank Limited
PNB	: Panjab National bank
EMI	: Equal Monthly Installment
TU	: Tribhuvan Univercity
CV	: Coefficient of variation
TT	:Tele Transfer
FY	: Fiscal Year
NHFDC	: Nepal Housing Development Finance Company
ELP	: Experimental Lending Programme
LBL	: Lumbini Bank Limited
PE	: Probable Error

CHAPTER - ONE

INTRODUCTION

1.1. Background of the study

Nepal is situated at southern part of the Asia. It occupies a small spot in the map of the world with an area of 147181 square kilometer. Its length is 885 km from east to west and average width is 193 km of north to south. It is a country of geographical diversity with its land expanding from the low Terai region at an altitude as low as merely 200 feet to Himalayan region of altitude above 24000 feet. Geographically, Nepal is divided into three regions; Mountain, Hill and Terai. Geographic distribution of population is uneven. The census of 2001 counted 7.3, 44.3 and 48.4 percent of the total population in the Mountain, Hill and the Terai regions respectively. Due to the harsh geographical and climatic conditions, its population of 23 millions has been living along the southern Terai and middle Hills. The population density is 157 per square kilometer. However, due to sparsely distributed fruits of development in rest of the country, the major populace inhabits in handful number of urban settlements.

The increase in population and their business and present Maoist insurgency in other part of the country has increased the perpetual influx of rural life to the city. Thus influencing the growing demand for better commercial complexes and housing projects in Kathmandu, and their city area has become the central point of commercial activities in Nepal. Thus the various needful factors like; development of planned cities, development of market places has come to be realized. The establishment and emergence of commercial complexes and residential housing has become vital. Because of increasing population and centralized of opportunities in Kathmandu valley more and more houses are built in every year.

With the view to twenty years development project of Kathmandu valley the proper management and implementation of systematic town planning can be under gone through the construction of housing apartments. Thus helping people gain better

opportunities at a single place consequently saving time, agricultural land and maintaining planned city development.

The Government has emphasized up on the promotion of housing sectors as an important medium for economic development, poverty alleviation and to up lift the living standard of the people. Similarly in order to strengthen the existing housing system by making the housing sector self- reliant the government will make people abide by law and play the role of catalyst and facilitate and promote the role of private sector. As per the Kathmandu valley town planning committee, the government has been encouraging the private sectors to carry out the construction of huge complexes along with government's mutual participation if required.

The commercial banks as corporate bodies i.e. Joining of two or more enterprises with the purpose of carrying out specific operation such as investment in trade, business and industry in the form of negotiation between various groups of industries on trades to achieve mutual exchange of goods and services. They are the modes of trading to achieve mutual exchange of goods and services for sharing competitive advantage by performing joint investment scheme between investors, financial and non-financial institution.

Due to the growth on banking sector in Nepal and huge competition, opportunity for investment are comparatively losses. The main function of commercial bank is to collect deposits from the depositors and to invest on profitable sectors by avoiding risks. These days, the commercial banks are moving towards the micro financing sectors like; Auto loan, Education loan, professional loan and housing loan etc, because of low risk and lack of proper and secured investing sectors. Housing finance is one of the important investing sectors of financial institution. These days, most of the commercial banks and other financial institutions are providing housing finance, which helps to develop the housing in Nepal.

1.1.1 History of the Banks

The concept of banking had developed from the very beginning of the economic activities. First of all, the arrangement was made to deposit and gold and valuables receipts were issued for such deposits. The depository would have their gold for safekeeping and in turn were given a receipt. Wherever receipt was presented the depositors would return back their gold and valuable offer receiving a small payment as fee.

The word “Bank” is orient in medieval age in 1171 A.D. The “Bank of Vanish” was the 1st bank, which established in Italy. Then after in 1401 AD “Bank of Barsilona” is established in Spain, but the credit of the development of modern banks goes to” The Bank of England “which was established in 1694 AD in London.”

Banking has crossed various phases to come to the modern form. Some sorts of banking activities have been carried out since the time immemorial. Traditional forms of banking were traced during the civilization of Greek, Rome and Mesopotamia. Merchants, gold smith and moneylenders are said to be the ancestors of modern banking.

With the gradual development of bank, its functions are increasing. It only dealt with the exchanges of money in its preliminary phase, but later it accepting deposit from public against interest and providing them in the form of loan to the needy persons was the basic function defined. But now a day, bank covers wide range of activities.

Banking institutions are indispensable for resource mobilization and all round development maintains economic confidence of various segments and extends credit to the people.

The main objective of the bank is collecting deposit from public in the form of saving and providing medium and short-term loan for the development of industry,

trade and business to the ones in need. The bank much return fund to their customers when they demand, so it always gives attention on liquidity position. This is the reason that the commercial banks do not generally provide long-term loan. The development of country's economy is impossible without expansion of banking function in both rural and urban areas of the country. Development of Trade and Industry is dependent upon the development of banking facilities so it said that the bank is backbone of economic development in modern society.

Generally the bank refers to commercial bank. Bank collect fund as a saving from public of country and invest in highly return yielding firm. It develops saving habits in people. Commercial bank plays vital role for development of a developing country. Bank provides internal resource for developing country's economy. It collects diversified capital from different parts of country through its own branches so commercial bank is the heart of trade, industry and business in modern age. Commercial banks earn optimal profit by mobilizing such saving resources properly.

In the Nepalese context, like other countries, goldsmiths, merchants and moneylenders were the ancient bankers of Nepal. Tejarath Adda established during the Prime Minister Ranodip Singh (1933B.S) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but provided loans to employees and public against the collateral.

The history of development of modern bank started from the establishment of "Nepal Bank Limited" in 1937 A.D (1994 B.S) with put forth effort of government and public, as a commercial bank with 10 million authorized capital. Then the government felt the requirement of central bank and established "Nepal Rastra Bank" in 1956 A.D (2013 B.S) as a central bank under NRB act 2012 B.S. It played leading role in development of banking in Nepal and also controlled the monetary culture in the country. Likewise, rising of banking function get popular and more complicated. Thus NRB suggested for the establishment of another

commercial bank and in 1966 A.D (2022 B.S) “Rastriya Banijya Bank” was established as a fully government owned commercial bank. Now it’s branches are diversified all over the country.

Apart from this, NIDC was established in 1959 A.D (2016 B.S) and Agricultural Development Bank established in 1967 A.D (2024 B.S). Other development bank and financial institutions were established and continued to establish after the economic liberalization policy adopted by the government.

Only in 1990 A.D after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of HMG’s to get permission to invest in banking sector from private and foreign investor under commercial bank act 1975 A.D (2031 B.S), different private banks are getting permission o established with the joint venture of other countries. Now a day, there are 30 commercial banks operating in Nepalese financial market.

Nepal Arab Bank Ltd. (NABIL) was the first joint venture bank established in 1984 A.D, joint ventured with United Arab Emirates Bank. Then two other banks, Nepal Indosuez Bank Ltd. (recently named Investment Bank) with Indosuez Bank of France and Nepal Grindlays Bank Ltd. (recently named Standard Chartered Bank Nepal Ltd.) with Grindlays Bank of London were established in 1986 A.D. Himalayan Bank Ltd. Joint ventured with Habib Bank of Pakistan and SBI Bank Ltd. With State Bank of India were established in 1993 A.D. Everest Bank Ltd. Joint ventured with Punjab National Bank, India (early it was joint ventured with United Bank of India, Calcutta), and Nepal Bangladesh Bank Ltd. With IFIC (International Finance Investment and Commercial) Bank of Bangladesh were established in 1993 A.D, Bank of Kathmandu joint ventured with SIAM Commercial Bank Public Co., Thailand was established in 1995 A.D and Nepal Bank of Ceylon joint ventured with Ceylon Bank of Sri-Lanka was established in 1997 A.D.

Besides this Lumbini bank Ltd. And NIC Bank Ltd. are also operating from 1997 A.D and Kumari Bank Ltd., Laxmi Bank Ltd. and Siddhartha Bank Ltd. are also operating as a new commercial bank in Nepali financial market.

1.1.2 Present Status of Banking Industry

A sound banking system depends partly on the control exercised by the central bank and to a large extent on trust of its customers or clients (the customers trust that his deposit will be looked after in the best possible way and the funds will be available whenever he wishes to withdraw his money). The banks have a major responsibility to be having like good citizen in a business with profitability as a major consideration.

Now a day there are 30 commercial banks working and lot of financial co-operatives are also operating. Besides commercial bank development banks are investing their performance in Nepali banking industry and they also have in important role for the growth of countries economic position. Agriculture development bank and Nepal industrial development bank are government owned bank. Other development banks like Nepal development bank Ltd malika bikas bank Ltd, udyam bikas bank Ltd nirdhan utthan bank Ltd rural micro finance development center and cottage and small industries development bank Ltd, and other some rural development banks are operating in nepalese banking industry. Now 87 development bank is established and 79 Financial Companies has commenced its service.

Commercial bank collect deposit form public in various forms and lend the same as investment. More over they also provide technical support administrative suggestion cheap remittance of funds safekeeping of valuables collection of bills cheque overdraft facilities to industries and commerce whenever banks lend money they must remember that the source of their fund is customers deposits therefore it is of almost importance that the subsequent leading should be of minimal risk. Banks have often been criticized for not lending more freely. But

higher risk of loss is the deterring factor on granting advances despite the availability of option of changing higher interest rate.

With the increasing in number of commercial banks competition among them have also become more complex. Doing business with tradition banks used to be so cumbersome that customers had to spend a lot of effort and time in trying to understand the functioning of the bank rather than receiving prompt service. Now the commercial banks (mainly joint venture banks) are trying to introduce and establish themselves differently by providing special services and attractive schemes. In 1995 AD, Himalayan bank ltd introduced tele-banking service. It gives the new life for banking sector by providing a niche in the competitive financial market.

Like wise, most of other JVB are providing new schemes like insurance to depositors, which is an extra bonus to encourage them to deposit their surplus in such banks. Credit card system is another attractive feature of joint venture banks i.e. NABIL credit card (Master Card, Dinner Card) visa of NGB, credit card of HBL introduced cumulative deposit scheme (CDS) and facilities for the Nepalese living in gulf countries for transfer of their saving arrangements with exchange houses in UAE, Bahrain and Kuwait.

Similarly standard charter bank, NABIL and Everest banks and many more banks are providing ATM (automated teller machine) facilities and through this facility the customer can easily withdraw and deposit their money at any time. The bank of Katmandu has just introduced the mobile banking services

Table 1.1: Lists of Licensed registered Commercial Banks

S.N	Commercial Banks	Established Date (B.S)	Operation Date (B.S)	Branch	Head Office
1	Nepal Bank Ltd.	1957	1957	116	Kathmandu
2	Rastriya Banijya	1965	1965	120	Kathmandu
3	NABIL Bank	1984	1984	49	Kathmandu
4	Standard Chartered	1985	1985	16	Kathmandu
5	Himalayan Bank	1992	1992	38	Kathmandu
6	Nepal SBI Bank	1993	1993	43	Kathmandu
7	Nepal Bangladesh Bank Ltd.	1993	1993	17	Kathmandu
8	Everest Bank Ltd.	1994	1994	43	Kathmandu
9	Bank of Kathmandu	1994	1994	43	Kathmandu
11	Agricultural Bank	1968	1968	10reg	Kathmandu
12	Lumbuni Bank Ltd.	1998	1998	17	Narayangadh
13	Nepal Industrial & Commercial Bank	1998	1998	4	Biratnagar
14	Machhapuchhre	2000	2000	40	Pokhara
15	Kumari Bank Ltd.	1999	1999	29	Kathmandu
16	Laxmi Bank Ltd.	2001	2001	20	Birgunj
17	Siddhartha Bank	2001	2001	40	Kathmandu
18	Prime Bank	2007	2007	24	Kathmandu
19	Sunrise bank	2008	2008	44	Kathmandu
20	Global Bank	2007	2007	29	Kathmandu
21	Kist Bank	2009	2009	22	Kathmandu
22	Bank of Asia	2008	2008	28	kathmandu
23	Development	2008	2008	21	kathmandu
24	NMB Bank	2008	2008	18	kathmandu
25	Janata Bank	2009	2009	13	kathmandu
26	Mega Bank	2011	2011	16	kathmandu
27	Commerz & Trust	2011	2011	13	kathmandu
28	Civil Bank	2011	2011	11	kathmandu
29	Nepal Credit &	1996	1996	17	kathmandu
30	Nepal Investment	2002	2002	41	kathmandu

Source:- NRB, "Banking and financial Statistics, 2011

1.1.3 Introduction of Commercial Bank

The commercial banks are those banks that pool together the savings of the community and arrange for their productive use. In the process of such intermediation, commercial bank plays funds raised from different sources into different assets with a prime objective of profit generation and administrative assistance. According to commercial Bank Act 2031,

Commercial banks are those banks which are established under this act to perform commercial function. The commercial banks pool together the savings of the community and arrange for their productive use. They supply financial needs of modern business.

The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confidence of various segments and extends credit to people.

These banks are established to improve people's economic welfare and facility, to provide loan to offer banking services to the people and the country. It provides internal resources for developing countries economic. It collects diversified capital from different parts of country through its own branches.

Commercial bank is a corporation which accepts demand deposits subject to check and makes short term loans to business enterprises, regardless of the scope of its other services. The main purpose of establishing RBB was to contribute to the development of banking system, particularly in the remote and hilly regions, providing more banking facilities to the public.

1.1.4. Function of commercial Bank

Bank can be defined according to the function they performed. Bank established with prime objective of profit maximization. To achieve this, Bank performs various functional activities. Principally, commercial bank accepts, deposits, provides loan, primarily to business firms there by facilitating the transfer of funds in the economy.

However, in the previous years, banks were viewed as acceptor of deposits and provider of loan but modern commercial banks have to perform for overall development of trade commerce, industry, agriculture, including priority and dependent upon banking. So, we do not have doubt to say that the main objective of commercial banks is to earn profit by performing various functions. Following are the main function performed by the commercial banks.

1) **Accepting Deposits.**

The main function of commercial bank is to accept deposits from the public in different types of deposits account. Generally a bank accepts deposit in three forms namely – saving, current and fixed deposits.

a) **Current deposits**

The account in which any amount can be deposited and withdrawn at any time is known as current account. In this account, banks do not give interest to the account holder. These days, the bank under this account as per their own rule has determined minimum limit of deposit.

b) **Saving deposits**

Saving account is managed to collect the small savings of people. This account can be opened with nominal amount. The main purpose of this account is to promote the saving habit of the people. Limited amount can be deposited and withdrawn from the bank in the specified time. Bank provides nominal rate of interest in this account.

Fixed Deposit

A fixed deposit is one where a customer required keeping a fixed account with the bank for a specific period of time providing higher rate of interest. Amount cannot be withdrawn from bank before the expiry of time. The banker knows the time when the bank is free to make use of this money for granting loans and advance. In case of emergency, he is permitted to borrow money on the security of his fixed deposit account holder can take loan against the security deposit of it paying 2% extra interest.

2) Advancing Loans

The second major function of commercial bank is to provide loans and advances from the money, which receives by the way of deposits. Direct loans and advances are given to all types of persons against the security of movable and immovable properties. The banks in the following forms grant the loans;

a) Overdraft

An overdraft is an arrangement by which the customer is allowed to overdraw his account against some collateral security. The customer is charged interest only on the amount by which his current account is actually overdrawn and not by the full amount of the overdraft sanctioned to him by the bank.

b) Cash Credit

Cash credit is provided against the security of goods or personal security. The amount of the loan is credited to the current account of the borrower. The borrower can withdraw money through the cheque according to his requirements. But he has to pays interest on the full loaned amount.

c) Direct Loans

The banks against the security of movable or immovable assets provide direct loans. The borrowers are required to pay interest on the entire amount of loan sanctioned from the date of taking the loan to the date of repayment.

d) Discounting Bills of Exchange

If a creditor holding a bill of exchange wants money immediately, the bank provides him money by discounting bill of exchange. It deposited the amount of the bill in the current account of the bill holder after deducting its rate of interest for the period of loan. The length is generally 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtors who accepted the bill.

3) Agency Service

Banks also provide the number of services on the behalf of its customers. A commercial bank undertakes the payment of subscription, insurance premium, rent etc and collection of cheque, bills, promissory notes, draft, salaries, pensions, dividends, interest etc on behalf of the customers. It also acts as a correspondent or representative of its customers, other banks and financial corporations.

Credit creation

The most important function of the commercial banks is to create credit. In order to earn profits, they accept deposits and advance loans by keeping small cash in reserve for day to day transactions. When a bank advances a loan, it opens an account to draw money by cheque according to his needs. By providing the loans to different persons or business firm, the bank creates credit.

4) General utilities services

Apart from agency services, the commercial bank also provides some other useful services, which are known as general utility services. They can be explained as follows.

a) Assist in foreign trade

The Bank assists these traders who are engaged in foreign trade. He discounted the bill of exchange drawn by Nepalese exporter on the foreign importers and enables the exporters to receive money in the home currency. Similarly he also accepts the bills drawn by foreign exporters.

b) Safekeeping of Valuables

The bank receives valuables such as securities jewelers, documents of title to goods etc., from its customers for safe custody. The bank acts as the custodian of the valuables belonging to the customers. He receives them and returns them bank when demanded.

Making Venture Capital Loans

Banks have become active in financing the start-up costs of new companies, particularly in high-tech industries. Because of the added risk involved in such loans, this is generally through a venture capital firm that is a subsidiary of a bank holding company, and other investors are often brought in to share the risk.

c) Offers Security Brokerage Service

At present, financial marketplace, many banks are striving to become true “financial super market” – offering a sufficiently wide array of financial services to permit customers to meet all of their financial needs at one location. Because of this reason, banks began to market security brokerage. Services offering customers get an opportunity to buy stocks, bonds and other securities without having to go to security dealer.

d) Financial Advising

Bankers have long been asked for financial advised by their customers, mainly when it comes to the use of credit and the saving or investing of funds. Many banks offer very useful financial advisory services, from helping financial to consulting to business managers and checking on the credit standing of firms.

e) Offering Investment Banking and Merchant Banking Services

Today Banks are following in the footsteps of leading financial institutions all over the globe in offering investment banking and merchant banking services to corporations. These services include identifying possible merger targets, financing acquisitions of other companies, dealing in security underwriting, providing strategic marketing, advice, and offering hedging services to protect their customers against risk from fluctuating world currency prices and changing interest rates.

1.1.5. Profile of the Concerned Banks

As there has been numbers of commercial banks established in Nepal, the research has been taken into consideration of EBL and KBL. So, the short introductions of these commercial banks are given as.

1.1.5.1. Everest Bank Ltd.

Everest Bank Ltd. was registered under the company act 1964 in 19th November 1993 (2049/09/03), and started commenced banking transaction in 16th October 1994 (2051/07/01), the promoter of the bank decided to join hands with an Indian bank and entered into joint venture agreement in January 1997 AD with Punjab National Bank (PNB), which is one of the leading commercial bank of India, having over 100 years of successful banking experience and known for its strong system and procedure. A team of professionals are deputed by PNB under this arrangement. Now the bank has 37 branches including main branch in Nepal.

On equity holding PNB has 20% equity participation in its total shareholding and also has undertaken management responsibility under a technical service agreement and other balance is maintain by the Nepali investor. Nepalese promoter holds 50% and rest 30% held by General public.

Everest bank Ltd. received the Award “Bank of the year 2006”, Nepal. And the bank has “NICCI Excellence” Award also by the public EBL in association with smart choice Technology is providing ATM services to its Customers through more than 74 ATMs and over 850 point of sales across of country . All branches of the bank are connected with anywhere branch banking system (ABBS) which enable to customers to do all their transaction from any branch of all over the country.

The main purpose of EBL is to extend professional banking services to various sectors of the society in the Kingdom of Nepal and thereby contributing in the

economic development of the country. It provides following facilities and services to their customers;

- Cumulative Deposit Scheme
- Unfix Fixed Deposit
- Required Deposit Plan
- Telegraph Transfer (T.T)
- Letter of Credit
- Drawing Arrangement
- SWIFT Transfer
- International Trade and Bank Guarantees
- Remittance
- Foreign Currency Deposits/ Lending
- Foreign Exchange
- Trade Finance
- 365 Days Banking
- Debit Card
- Merchant Banking
- ATM (Automated Teller Machine) etc

Table 1.2: The ownership of EBL is composed as;

Subscription	Holding %
Promoter Share Holders	50%
General Public	30%
Punjab National Banks	20%
Total	100%

Source:- Annual Report of EBL

Everest Bank Ltd. is moving towards to the consumer finance and providing different types of loans like; Housing Loan, Home Equity Loan, Education Loan, Professional

Loan, and Vehicle Loan etc. The authorized capital of the bank was Rs.240 million, issued capital Rs.120 millions and paid-up capital Rs.117.5645 millions in the beginning of 2051/52. The present capital structure of the EBL is shown below;

Table 1.3: The Present Capital Structure of EBL;

Share Structure	Amount (Rs.)
Shareholders Capital	830467000
Reserve & surplus	1479530000
Debt	37232310000

Source:- Annual Report of EBL

1.1.5.2 Kumari Bank Ltd.

Kumari Bank Ltd. was established in April 03, 2001 as part of the policy of Nepal Rastra Bank's liberalization of the Nepalese Banking Industry. It has been established with an objective of providing a complete banking solution to customers backed by its state-of-the art infrastructure. Apart from its regular business loans, KBL is gearing itself up to offer a wide range of consumer banking product and services like; vehicle loan, education loan and home loans etc. At present it has 29 branches including main branch (head office) in Nepal and 33 ATM all over the country. It was established fully investment made by Nepalese investors and its 100% equity is held by the Nepali promoters and public.

Depending on your income and your need, a loan of NPR 500,000.00 to NPR 4,000,000.00 can be availed of at a very competitive rate of interest. Repayments are calculated on an Equal Monthly Installment (EMI) basis that goes easy on borrower's monthly budget. Drawdowns are allowed on a phase-wise manner to minimize interest burden. In some cases, may even qualify for a moratorium on principle repayment for up to 6 months. And the tenor is kept flexible to suit borrower need: bank allows to the customer a minimum of 12 months or a

maximum of 120 months to repay. They can also have an option of prepaying loan and be charged is a low 1% on the outstanding amount by the bank. So, , walk in to nearest office of kumara bank and get a home loan approved for a nominal processing fee. bank guarantee a decision on customers application within 48 hours of receipt of completed application. credit & marketing officers will be pleased to provide information. From the side of bank.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

KBL is providing following facilities and services to their customers;

- Internet Banking
- Electronic Bill Payment System
- Mobile Banking
- Debit Card, Credit Card
- ATM
- Remittance
- Bulk cash management

Table 1.4: The present capital structure of the KBL is presented as below;

Share Structure	Amount (Rs.)
Authorized Capital	1,60,00,00,000
Issued Capital & Paid-up Capital	1,48,50,00,000

Source:- Annual Report of KBL

1.2 Statement of the problem

When government introduced the liberalization policy many banks, financial institution and other institution are established rapidly. These days many commercial banks, developments banks and financial institutions are operating their work to assist in the process of economic development in the country. Due to the high competition between the financial institutions, the collected huge amount from public is comparatively lower than fund mobilization and investment practice of collected funds. So, it raised the problems of investment and proper mobilization of collected funds. Strong fund mobilization activities play a vital role in utilization of collected funds and overall development of economy of the nation.

If the funds are wrongly invested without thinking any financial risk, business risk and other related facts, the bank cannot be able to obtain its target. Fund mobilization policy may differ from one bank to another but there is no optimum utilization of shareholders fund to have greater return in any bank. Nepal Rastra Bank has also played significant role to make commercial bank mobilize their fund in good sector for this purpose; NRB imposed many rules and regulation so that commercial bank can have sufficient liquidity and security. Though most of the commercial banks have been successful to earn profit from fund mobilization, none of them seem to be capable to invest their entire fund in more profitable sector.

The unplanned expansion of city, uncontrolled population growth, lack of basic facilities, deteriorating security, raise in nuclear families and working couples have

resulted a sharp increase in demand for “home” like dwelling places. But, the continued high rates of population growth, the commercialization and growing regularization of land markets, the constricted supply of mortgage financing, reduced household purchasing power the rising cost of imported building materials have made the access to these “homes” very difficult.

As the major motive of the commercial banks is to earn more profit, they want to disburse the deposits on loans and advance on different sectors. These days, most of the commercial banks are moving towards to the consumer financing. Housing finance (loan) is one of the most importance sectors among the various consumer finances. Bank has to take minimum risk while providing housing loans to the needy people. So, most of the commercial banks have been providing housing finance to their customer. The banks have been facing various problems while providing housing loans to their customers. The present problems related to the housing finance of the various commercial banks are;

1. What is the position of Housing Loan of commercial banks?
2. What is the proportion of Housing Loan on Total Loan and Advance?
3. Does the correlation of Total Loan and Advance with respect to Housing Loan is significant?
4. Whether they are able to provide Housing Loan to their customer at lowest cost?
5. Is there easy accessibility of Housing Loans from commercial banks?

Objectives of the study

For any kind of research work or study the objectives must be determined. It shows the way to achieve desired goals. Similarly, the main objectives of this research work are to examine, interpret and analysis the housing financing procedures adopted by the three banks (i.e, EBL and KBL). This study is also concerned with whether the banks are adopting efficient housing finance policy or not. The main objectives related to this study are presented as below;

1. To analyze the situation of Total Loan and Housing Loan of Everest bank & Kumari Bank.
2. To evaluate the relationship between Total Loan and Advances and Housing Loan of Everest bank and kumara bank.
3. To examine the position of Housing Loan of Everest bank and kumara bank.
4. To find the proper implementation of housing loan according to the guidelines of NRB.

1.3 Significance of the study

Today housing finance is one of the important financing sectors of the commercial banks in Nepal. In spite of the government policy for promotion of housing sector in 10th five-year plan,, the financial institution joining in hands by venturing different housing schemes. The private developers initiating the construction of different housing projects, people in general are still derived of the facility to own their houses. So, an independent study in this sector will help people find their way to the solution for their investment for the houses.

When bank mobilizes its fund to any sectors, it must be consider customer, national and government and as well as its shareholders interest. The significance of the housing finance can be written as the following manner;

1. By the help of this study, general public can know the housing financing activities of the banks.

2. It is also beneficial for the government while formulating policies and rules regarding housing finance.
3. The study of housing finance would provide information to the management of the concern banks that would be helpful to take corrective action in the banks activities.
4. This study provides valuable information that is necessary for the management of the banks, shareholders, general public (depositors, customers, and creditors), and related parties.

1.5. Limitation of the study

For the completion of this study, some facts are to be considered as the limitations. These are presented as below;

1. This study is based on primary as well as secondary data.
2. Only two commercial banks have been selected as sample for the study, i.e. EBL and KBL.
3. This study covers only five years data starting 2062/063 to 2066/67.
4. Only the housing financing aspect is analyzed.

1.6. Organization of the study

This study has been divided into five chapters. They are Introduction, Review of Literature, Research Methodology, Presentation and Analysis of data and Summary, Conclusion and Recommendations.

The first chapter is introduction of the study which includes General Background of the study, History of Banks, History of Banks, Statement of problems, Objectives of the study, Significance of the study, Limitation of the study and organization of the study.

The second chapter is review of literature, which contains conceptual framework, review of previous thesis, research paper and published and unpublished master's thesis of T.U.

The third chapter is concerned with the research methodology, which is applied to collect the data and analyze them in this study. It consists of the Research design, Population and sample and Hypothesis.

The fourth chapter is presentation and analyses of data. which deals with presentation and analysis of relevant data through definite courses of research methodology with financial and statistical analysis related to housing finance of related banks.

The fifth chapter is the summary, conclusion and recommendation of the study, which concerned with the summary of the data, conclusion and recommendation of the study for the implementation in the future. Finally, an extensive, bibliography and appendices are also presented at the end of this thesis work.

CHAPTER TWO REVIEW OF LITERATURE

The study of relevant topics in the related field of research or reviewing related research studies and findings is review of literature. It is prepared in such way that all part studies, their conclusions and deficiencies may be known and further research can be done.

This chapter is basically concerned / related with review of literature relevant to the topic “HOUSING FINANCE SITUATION OF COMMERCAL BANKS IN NEPAL (with special reference to Everest bank ltd. and Kumari bank ltd.)”. The study is mostly based on the past knowledge. The past study is the foundation to the present study. The research must be continued. Linking the present studies with past studies may ensure the continuity of the research. This chapter describes the conceptual framework and highlights the literature. It is .available in concerned subject.

2.1 Conceptual Frame Work:

The following terms, which are closely related to the research work, are basically described by conceptual framework.

2.1.1 Investment:

“An investment is a commitment of money that is expected to generate additional money. Every investment entails some degree of risk, it requires a present certain sacrifice for a future uncertain benefit (Frances et al, 1991:1).

“Investment policy fixes responsibilities for the investment disposition of the bank’s assets in terms allocating funds for investment and loan and establishing responsibility for day to day management of those assets.”(Besley et-al, 1987:124)

“Their investment objective is to increase systematically the individuals wealth defined as asset minus liabilities. The higher the level of desired wealth the higher the must be received. As investor seeking higher return must be willing to take higher level of risk.”(Cheney & Moses et-al, 1992:13)

Investment by individual, business and government involves a present sacrifice of income to get on expected future benefit. As result investment raises a nation’s standard of living.

V.K. Bhalla, has given the basic concept of investment in three points. They are as follows;

1. Economic investment that is an economist definition of investment.
2. Investment in a more general sense, which is used by “the man of the street.”
3. The sense in which we are going to be very much interested normal financial investment.

The above definitions conclude that investment means use of amount today by expecting more income in future. Investment of someone’s fund today is expected to gain financial benefits in future from mobilization of their fund. The value of investment is increased in future. . The commitment is taken at present but the future always remains uncertain. If investment is made wrongly, the return may be negative.

2.1.2 Features of sound lending and investment policy:

Lending procedure, lending policy and investment policy of collected funds in different securities determines the profit and income of commercial banks and finance companies.

The greater the credit credited by the banks higher will be the profitability and vice versa. Some required features of sound lending policy and investment polices are explained as below:

a) Safety and Security:

Financial institutions should invest their funds in profitable and secured sectors. They should not invest their fund in hose companies whose securities are too much depreciated and fluctuated because of risk of loss factors. They should accept only those securities which are marketable, durable, profitable, high market price and stable. In this case MAST should be applied while making investment on any sector.

Where, M=Marketability

A=Ascertainability

S=Stability

T=Transferability

b) Liquidity:

Liquidity is the position of the firm or financial institutions to meet current or short-term obligations of a customer. Customers deposit their cash at the banks in different accounts having full confidence of repayment whenever they require. To show a good current position and maintain the confidence, every firm must keep proper cash balance with them while investing in different securities and granting loan..

c) Profitability:

Financial institutions must invest their fund in a proper sector to maximize the return and lending position. Interest rate, volume of loan, time period of loan, and nature of investment on different securities are investment in housing finance. It will play the vital role in return on investment. Proper investment finally can maximize the volume of wealth of the institution.

d) Purpose of loan:

Before issuing the loan to the customers, banks and financial institutions must do the micro level analysis of required loan to the customer. If the customers do not properly use their borrowing, they cannot repay the bank. The financial institution will have bad debts. So every financial institution should collect detailed plan and scheme of the borrowing before issuing the loan.

e) Legality:

Each and every financial institution follow the rules and regulation of the company, government and various directions issued by Nepal Rastra Bank, Ministry of Finance and also on while issuing securities and mobilizing their fund. Illegal securities bring out the problems to the investors and finally the reputation and goodwill of the institution will be lost..

f) Tangibility :

A commercial bank should prefer tangible security rather than intangible one. Though it may be considered that tangible properly does not yield on income apart from intangible securities which have lost their value due to price level inflation.

g) Diversification:

Diversification of fund investment in various securities helps to minimize the risk in investment return of a firm. To maintain the good return on investment all the firms must diversify their fund or make portfolio investment. It helps good return on investment. So, the firms are making portfolio investment with different securities in different companies.

2.2. Housing finance:

Housing finance plays a critical role in the development process by supporting strong housing markets, while strengthening the financial sector and contributing to overall economic growth. With strong housing and housing finance markets come many economic and social benefits, such as greater consumer savings, more social and labor mobility, and increased investment. In addition, strong housing markets support job creation in construction and manufacturing, and they improve living conditions and basic infrastructure. The availability of housing finance also has social implications. Where the rapid flow of population to cities puts pressure on the housing supply, and where either new construction is unable to keep up with escalating demand or the lack of financing makes housing unaffordable, slums proliferate. Conversely, when mortgage financing is available, the market for housing grows, and a larger share of the population can become homeowners.

Housing and housing finance build assets and livelihoods, and thus contribute toward poverty reduction. However, a housing finance system could provide benefits to the economy beyond development of a housing market and contributions to employment and growth. For example, instituting a sound property registration system would enable entrepreneurs to use their property as collateral for business loans. With transparent lending for housing, where risks can be measured and mitigated, financial institutions would be able to put capital that they might otherwise have held against residential mortgages to other productive uses, such as business lending. In addition, housing finance represents an important asset class in the financial sector—an asset class that could help develop a long-term finance market for other industries, including infrastructure development. And private sector lending for housing would free scarce government resources for other social and economic needs. Mortgage finance contributes to financial sector growth and accounts for a sizable part of a liberalized financial sector. In the context of the global financial crisis, it became clear that housing finance is critical to economic stability; and the sector requires careful focus and prudent development.

When discussing housing finance in South Asia, one is faced with a segmented market. The market caters to upper-income groups, where supply is ample from both developers and financial outfits. Prices in this market are not affordable to the middle- and lower-income groups. The housing finance market has exhibited fast growth, very healthy development, and considerable success and sophistication, driven by steady property price escalation in the past decades. The upper-income market has remained unaffordable even to middle-class families, however. This report necessarily focuses on the market shortcomings as they concern these middle and lower-income housing and housing finance markets; and frequently it does not discuss in thorough detail the upper-income, smoothly functioning housing and housing finance markets in the region.

Currently, more than a billion people around the globe live in inadequate housing. One in every four people on the planet lives in the South Asia region, and more than 14 percent of South Asians have no homes or live in such inadequate housing as urban slums and squatter settlements. South Asia's housing and housing finance markets are dynamic, but limited in their outreach, catering to upper-income groups. The impressively high growth rates of these markets give hope that housing and housing finance services have the potential to be expanded to middle- and even lower-income families. In some countries, such as India, this shift is already afoot. The challenge is that South Asia is home to about half of the world's poor people, and these people require more complex housing solutions because existing market terms are not directly affordable for them. The contribution of the housing and real estate sector to overall economic growth, social uplift, and employment is considerable in the context of the rapidly expanding economies.

2.2.1. Variations in the Depth of Housing Finance Development

How restricted is the availability of housing finance in some countries? Characterizing differences among countries in the development of their housing finance systems is a challenge because of the limitations on data and market fragmentation and segmentation. As discussed further below, lending for housing in some transition

countries and many developing countries is segmented primarily between formal lending - mortgage lending similar to that in industrialized countries - and micro lending that supports the incremental construction and improvement of dwellings for occupancy by households who either cannot qualify for or cannot access formal mortgage loans.

Unfortunately, comprehensive data on national housing finance development are completely lacking in many countries. The comparative data available are for formal lending, particularly the ratio of the outstanding volume of mortgage loans to a country's GDP.

Why is this? Mortgage depth can be much more strongly influenced by government housing and housing finance policies than by general financial development. As discussed below, well intentioned but erroneous policies such as government imposition of interest rate controls on mortgage lending by private as well as public lenders to make loans "affordable" can have the effect stunting mortgage market development even while overall financial markets mature and deepen.

In summary, a housing finance strategy requires a clear statement of objectives, an understanding of local conditions, a sense of how policy and programmed features are linked to outcomes and a plan for generating and applying the resources needed to implement the strategy (Mayo et al, 1986:198).

Defining objectives at the start of the planning process is necessary to help guide it, but the final objectives will be informed by the results of the analysis undertaken in strategy preparation. In short, objectives setting will be an iterative process.

2.2.2. Housing Finance Situation:

In the late 80's the access to institutional housing finance was almost nil. There were only government & semi- Government operated banks in the Country. These banks used to consider housing as an unproductive sector to finance. In this situation, the families themselves used to acquire land, marshal resources, procure building materials and organize the construction activities. Accomplishing all these activities used to be a very costly, tedious and time consuming task to the majority of the

households. As a result, they used to take years to improve their savings; house construction process was incremental, floor by floor and unfinished. The other form of acquiring housing finance was to sell or mortgage jewellery or take informal lending at high rate of interest say 20% to 40% per annum. Similar was the situation for the housing developers. It is estimated that the land purchase occupies 50% to 60% of the total housing expenditure in Nepal.

After 1991, with the emergence of new democratic government in Nepal, plenty of private commercial banks and finance companies emerged. Even then, housing finance was still a low priority for them as they had lot of clients for industrial and commercial purposes. However, this situation did not last longer. In due course of time, especially from 1996 to 2000, commercial lenders reduced to a minimum due to various political crises and the emergence of the Maoist insurgency: the tourism, industrial and other economic activities were badly affected. On the other hand, bank's deposits were increasing due to the concentration of people in towns and the increasing remittance from employees working abroad. Thus, financial institutions were in search of safe area for lending. First, these institutions started lending for car purchase on installment basis and eventually switched over to housing finance from 2001 because the valley was experiencing a rapid growth on housing and apartment business; spurred by the insurgency driven rural to urban migration.

By now, a total of 7 commercial banks are actively involved and it is learnt that all the remaining banks and financing companies of Kathmandu Valley have already developed a policy to provide house loan. There are altogether 18 commercial banks and 37 financial companies operating in Kathmandu valley. The lending is on regular monthly installment for the period of 5 to 18 years period and the rate of interest 13% to 18% . By now a total of 53.5 million US Dollars have already been invested by banks and Financial Institutions for house loan according to the Deputy Manager of the Kumari Bank (Nepal 2004).

2.3. Assets and Liabilities of Commercial Banks as per NRB Directives:

Balance sheet of a bank mainly comprises of the assets and the liabilities sides Total assets and total liabilities are always equal in balance sheet.

Assets of a Banks:

Brief discussion of the assets of a commercial bank is done here under which could be helpful during the course of the study. The items that appear in the assets side of the balance sheet are as follows:

(i) Cash:

It is the first assets in the portfolio of a commercial bank. Cash is completely liquid form of asset, which refers to cash in hand, and cash of commercial bank with the central bank. Cash in hand meets the demands of the customers. Cash is the primary reserve of the bank and the bank knows by its experience that it must keep a certain percentage of its deposited liabilities in the form of cash. Cash of a commercial bank will be in the central bank in its vault and some portion with other commercial banks for their interbank adjustments. The cash reserve in the central bank and other banks are equally good as cash lying in its vault.

The maintenance of adequate cash reserve required to honor the cheques presented by the customers determines the success of a bank. A bank usually synchronizes the deposits and withdrawals through investigations and research. A commercial bank has to manage these two in such a way that the good banker always keeps an extra amount of cash for the sake of safety. However, the bank avoid excessive holding of cash since it is an idle assets and do not generate any income.

(ii) Money at calls and short notice:

The amount of all interest bearing placement with other local or foreign banks with maturity period of not-exceeding 7 days with stipulated condition for payment at call or at short notice (52 hours) are exhibited under this head.

(iii) Bills discounted and purchased:

Commercial banks prefer to invest in bills for several reasons. The bills are negotiable and can be bought and sold easily. Bills may be promissory notes, bills of exchange or treasury bills. Commercial banks prefer to have this type of assets due to its liquid nature. That is why they can be easily marketed and they also bring some revenue to the bank. Most of the bills are eligible for rediscount at the central bank. This enhances the liquidity of the bills. They satisfy the principles of liquidity, safety and profitability so they are regarded as ideal bank assets.

(iv) Investments:

Investments constitute a banker's third line of defense after cash and bills discounted. Investments yield a higher return than that obtained from liquid assets but is less than loans and advances. Banks invest a large proportion of their funds in government securities and other gilt-edged securities. These securities can be converted into cash easily and without much loss of value. But the banks do not prefer to invest their funds in corporate shares and debentures due to risk involved in them. Considerable amount of investments in government treasury bills and bonds is also made by the commercial banks of Nepal .

(v) Loans and Advances, Cash Credits and Overdrafts:

Loans and advances are the most profitable of all the assets of all commercial banks. It is the primary source of income and the most profitable of all the assets of the commercial banks. Loans and advances account for the largest willing to lend as much as possible of its funds. But it has to be careful about the safety of such advanced as well. Banks may be influenced by bad debts whereas its timidity may fail to obtain adequate returns from the allocated funds for it, if it is too liberal. In the mean time, they are the least liquid of all the assets. In other words, it is very difficult to realize them at short notice except those, which are repayable on demand. Therefore a bank cannot rely on such funds at the time of emergency.

(vi) Fixed Assets:

All assets of long-term nature (fixed) owned by the bank are accounted and exhibited under this head at written down value after deducting the depreciation from the total cost. In case of disposal of asset, sold or written for the purpose of determining profit/loss on such sale or writing off the (fixed) Assets Account will be credited with the amount equivalent to the written down value, and the difference in cash receipt will be adjusted to profit & loss a/c.

The least liquid assets of the bank such as land and building, vehicles, machinery owned by the banks are fixed assets. They cannot be considered as the liquid assets of the banks.

(vii) Other assts:

Other assets of the banks include any other tangible and intangible assets like stationary stock, Accrued interest on Investment, Accrued interest on Loan, Sundry Debtors, Assets-in-transit, Non-Banking Assets, Expenses not written off like prepaid expenses, development etc. which are exhibited under this head.

(viii) Contingent Liabilities:

Claims on banks but not accepted by the banks, the amount of rediscounted bills, the amount of letter of credit opened, full value of immature forward exchange contract, the amount of acceptances and endorsements etc. are disclosed under contingent liabilities.

Liabilities of Bank:

The sources of funds, which are employed by the bank in the ordinary course of its business is represented by the liabilities of the bank. The items that appear in the liabilities side of the balance sheet are as follows.

(i) Capital:

The maximum amount of capital that a bank can issue under its memorandum of association the authorized capital. The issued capital is that capital which is issued for public subscription. Subscribed capital may be the whole of issued capital or its part. Called up capital is the amount that the shareholders required to pay. Paid up capital is the actual amount that the shareholders have paid. So the paid up capital is the actual cash capital of the bank. The difference between the called up capital and paid up capital is known as uncalled capital.

(ii) Reserve fund:

It is the presentation of accumulation of profits appropriated over a period of time. . Generally the amount of reserve fund is invested in first class securities. At the time of

heavy losses by banks, this fund is used. In other words, the figure of the reserve presents an additional security of the banks to their customers. General reserve fund or the statutory reserve fund, capital reserve fund, share premium, other reserves and fund and accumulated profit/loss are presented under this head.

(iii) Deposit:

It represents the liability of the bank. Since the deposits are the borrowed amounts from the depositors. It is the liability of the banks. A bank can collect deposits in various forms- savings, time, current or demand deposits etc.

Deposits are the main source of fund, which the banks usually use for the generation of profit. Therefore the efficiency for the banks depends on its ability to attract deposits. The capacity of the bank to earn profits depends on the volume of the deposit the bank has mixed.

(iv) Bills payable:

The outstanding amounts pertaining to draft, T.T., mail transfer and pay orders issued by one branch to another branch of the bank as well as bills drawn on the bank by other local and foreign banks are accounted under it

(v) Borrowing from other banks:

It includes the amount, which a bank has borrowed from other banks during the course of operation. For this the bank pays certain amount of interest to the lending bank.

(vi) Other liabilities:

Other than the capital and liabilities accounts mentioned above, all other liabilities of whatsoever nature, such as pension fund insurance fund, unclaimed dividends, un-expired discounts etc. are included under this heading.

(vii) Profit and loss account:

It is the balance of profits left after making all adjustment, which also appears, in the liability side of the balance sheet.

2.4. Consumer Lending and Borrowing:

The markets providing savings instruments and credit to individuals and families are the most important of all financial markets. Many financial analysts have referred to the period since World War II as the age of consumer finance of loan able funds flowing into the financial markets today. Moreover, the market for consumer financial services is the one market that everyone, regardless of profession or social status, will enter Once during his or her lifetime.

2.4.1. Consumers as lenders of funds :

All of us are consumers of goods and services every day in our life. Almost all of the day we enter the marketplace to purchase food, shelter, entertainment and other essentials of modern living. We know that consumers often borrow loan heavily in the financial marketplace to increase their standard of living. The groups of consumers are the most important lenders of funds in the economy. Consumers supply loadable funds, when they purchase financial assets from the other units in the economy.

The most important household financial asset today is pension fund reserve, built up by individual workers to prepare for their retirement. An aging population has shown great concern in recent years that sufficient funds will be available when they retire to sustain their living standards. In second place are holdings of corporate stock (equities) led by a dramatic rise in holdings of shares in mutual funds (investment companies). The recent growth in household's common stock investment appears to reflect continuing fears about inflation. Then, too many individuals are concerned that, when they reach retirement, social security and other government pension programs

will be inadequate to cover their medical expenses and other living costs in their future.

In third place among household holdings of financial assets are deposits in banks, saving and loan associations, credit unions, and other saving institutions.

2.4.2. Consumer as Borrowers of funds:

We know that consumers provide most of the savings out of which loans are made and financial assets are created in the money and capital markets. However, it is also true that consumers are among the most important borrowers in the financial system. The total volume of household debt outstanding is huge in both absolute and relative terms to most other sectors of the economy. However, to judge whether consumer borrowing is really excessive, that debt should be compared to the financial assets consumers hold. These assets are principal payment that comes due on consumer borrowings.

2.4.3. Categories of Consumer Borrowing:

The range of consumer borrowing needs is enormous loan to the household sector support. Consumer borrow long term loan to purchases of durable goods; such as homes, automobiles and home appliances. They usually borrow short term to purchases non-durable goods and services: such as medical care, vaccines, food and clothing etc. Financial analysts frequently divide the credit extended to consumers into three broad categories.

1. Residential Mortgage Credit, used to support the purchase of new or existing homes or colony.
2. Installment Credit, used primarily for long term non-residential purpose and
3. Used short-term cash needs for non-installment Credit.

The dominant form of consumer borrowing is aimed at providing shelter for individuals and families through mortgage loans. The volume of home mortgage credit flowing to households has grown rapidly in recent years with the attractiveness of home ownership.

Installment credit is the second major component of consumer debt. Installment debt consists of all consumer liabilities other than home mortgages that are repaid in two or more consecutive payments usually monthly or quarterly. Lenders in this field extend four major types of installment credit: automobile credit, revolving credit, mobile homes and other consumer installment loans. This kind of credit includes the purchase of furniture and appliances, the payment of medical expenses, purchase of automobiles, and the consolidation of outstanding debt, finances and an incredibly wide variety of consumer goods and services.

The final major category of consumer debt is non-installment credit, which is normally paid off in a lump sum. This form of consumer's credit includes single payment loans, charge accounts and credit for services such as medical care and utilities. The total amount of non-installment loans outstanding is difficult to estimate because many such loans are made by one individual to another or by department stores, oil and gas companies and commercial banks, however, make a substantial volume of non-installment loans to consumers and are considered the lending lender in this field.

2.4.4. Home Equity loans:

Home equity loan is a new form of consumer borrowing that is closely related to residential mortgage credit. Like traditional home mortgages, a home equity loan is secured by a borrower's home. However, unlike traditional home mortgages many home equity loans consist of a rearranged revolving credit line the borrower can draw on for purchases of any goods or services he or she wishes in varying amounts over the life of the credit line. So the consumer can literally or presenting a credit card for purchases made up to a stipulated maximum amount known as the borrowing base.

The borrowing base usually equals the difference between the appraised market value of the borrower's home and the unpaid amount of the mortgage against that home multiplied by a fraction (of 70%).

Most home equity loan rates are linked to the bank prime interest rate plus an extra margin for risk (i.e. a flotation loan rate). The consumer protection act of 1998 prohibits a home equity lender from canceling a loan unless fraud, failure to pay, or other violations of the loan contract occur. Thus, most home equity loans have been used to pay off other debts, make home improvements buy automobiles or finance an education.

Home equity credit has proved to be especially attractive to consumer lending institutions for a variety of reasons. These loans tend to have a lower rate of default because borrowers tend to feel more responsible when their home is pledged as collateral and that collateral tends to have more stable value. Moreover the cost of making home equity is substantially lower than the cost of a series of short-term loans made to the same customer. In addition, these loans usually carry rates that adjust to the market, whereas, many other consumer loans have fixed interest rates. Finally home equity credits help the lender to build a working relationship with a customer better than most other types of consumer loans, creating more opportunities for the lender to sell that customer additional services.

The borrower can repeatedly borrow, repay and borrow again because most home equity credit lines are revolving credits. However, if the borrower cannot make the loan payments his or her home may be repossessed and sold to pay back the lender. Many financial experts recommended that consumers use home equity credit with caution, particularly when their future employment prospects are uncertain.

2.4.5. Consumer Lending Institution:

Banks, saving and loan associations, credit unions, and finance companies-account for most of the loans made to consumers. Although each type of financial institution prefers to specialize in a few selected areas of consumer lending, there has been a tendency in recent years for institutions to diversify their lending operations. One important result of this diversification has been to bring all major consumer lenders into direct competition with each other.

(i) Commercial Banks:

Commercial banks are the most important consumer lending institution. Commercial banks approach the consumer in three different ways by direct lending, through purchases of installment paper from merchants, and by making loans to other consumer lending institutions. Roughly half of all bank loans to consumers consist of mortgages to support the purchase, construction or improvement of residential dwellings; the rest consist of installment and non-installment credit to cover purchases of goods and services. In the mortgage field, commercial banks usually prefer to make long-term permanent loans for family housing.

Banks make a wider variety of consumer loans than any other lending institution. They grant almost half of all auto loans extended by financial institutions to consumers each year. However, most bank credit in the auto field is indirect-installment paper purchased from auto dealers-rather than being made directly to the auto-buying consumer. Moreover, bank's leadership in auto lending has been challenged in recent years by finance companies and credit unions. Indeed, in recent years by finance companies and credit unions. Indeed, in many forms of consumer installment credit today, the lead of commercial banks is threatened by challenged from aggressive non-bank lenders who see the consumer market as a key growth area for the future.

(ii) Finance Companies:

Finance companies have a long history of lending in the consumer installment field. It provides funds directly to the consumer through thousands of small loans offices and indirectly by purchasing installment paper from auto and appliance dealers. These active household lenders provide auto loan and credit for home improvements and for the purchase of appliances and furniture. Finance companies often face state-imposed legal limits of the interest rates they can charge for household loans and on maximum loan size.

(iii) Other Consumer Lending Institutions:

Other Consumer installment lenders include credit unions, saving and loan associations and saving banks credit unions make a wide variety of loans for such diverse purposes. They are purchase of automobiles, home repair and more recently mortgage credit for the purchase of new homes. It is also important in the consumer loan field in recent years have been savings and loans and savings banks, which experienced dramatic growth in consumer lending but more recently have faced much slower growth and even decline due to inadequate capital and the public's fears about the long-run soundness of some of these institutions.

Although these institutions have long been dominant in residential mortgage lending, they have moved aggressively to expand their portfolios of credit card, education, home improvement furniture, appliance and mobile home loans over the past decade.

2.4.6. Factor Considered In Consumer Loans:

Consumer loans are considered the most profitable uses of funds for most financial institutions. There is evidence, however, that such loans usually carry greater risk than most of other kinds of loans and they are most costly to make loan likewise. The lender often can offset these costs by charging higher interest rates. Consumer credit

markets in many communities are less competitive than the market for business loans or for marketable securities, giving the lender an advantage.

Making consumer loans is one of the most challenging aspects of modern financial management. It requires not only a thorough knowledge of household financial statements but also an ability to assess the character of the borrower. Over the years, most loan officers have developed decision “rules of thumb” as an aid to processing and evaluating consumer loan applications. The duration of employment of the borrower is often a critical factor, and money institutions deny a loan request if the customer has been employed at his present job for less than a year. And other most important aspect is the adequate collateral for the loan.

The past payment record of a customer usually is the key indicator of character and the likelihood that the loan will be repaid in timely fashion. Many lenders refuse to make loans to consumers who evidence “pyramiding of debt” that is borrowing from one financial institution to pay another. Evidence of sloppy money handling, such as large balances carried on charge accounts or leavy installment payment, is regarded as negative factor in loan application. Loan officers are particularly alert to evidence of a lack of credit integrity as reflected in frequent late payments or actual default on past loans. Regard less of the strength of the borrower’s financial position; if the consumer lacks the willingness to repay debt, the lender has made a bad loan.

Most lenders believe that those who own valuable property, such as land or marketable securities are a better risk than those who do not own such property. Moreover, a borrower’s chance of getting a loan usually goes up if he or she does other business (such as maintain a deposit) with the lending institution. If more than one member of the family works, this is often viewed as a more favorable factor than if the family depends on one breadwinner who may become ill, die or lose a job. Having a telephone at home is another positive factor in evaluating a loan application because the telephone gives the lender an inexpensive way to contact the borrower. One way to lower the cost of a loan is for the consumer to pledge a bank deposit or

other liquid assets as security behind the loan. The disadvantage here is that such security ties up the asset pledged until the loan is repaid.

2.5. Review of published Thesis on the same topic:

There are very few thesis and research work of the same kind and in same field in Nepal, to knowledge of the researcher, various master level thesis conducted in different aspects of commercial bank such as lending policy, liquidity position, interest rate structure, capital structure, investment policy etc. These theses are more or less related to the field of this study. The review and the extract from them are presented below.

A study by **Neeva Shrestha (Pradhan)** on “**A study on Housing Finance by Commercial Banks**” tried to identify the convenient housing finance schemes out of the commercial banks. Though this study has similar topic as of Mrs. Shrestha’s but some of her objectives were different than this study. According to that thesis, the objectives were,

- To find the means for people to find a convenient housing finance schemes out of the commercial institutions.
- To find out the possibility for financing organization to lunch these schemes.
- To provide suggestion for the improvement of housing financing scheme.

Keeping above-mentioned objectives, Mrs. Shrestha found that with changing social structure and needs people are looking for better houses and dwelling places, demands are high for the basic facilities and society. Hence there is an increasing demand for planned and organized houses and colonies. Similarly she found that the government has no concrete strategies to address the housing problem. But there is a considerable growth in the private sector participation in developing housing colonies. Likewise she found that in line with the increasing demand for housing loans more and more banks are into providing the scheme. Majorities of them are sanctioning it for

residential buildings with different loan limits. The interest rates are 13 to 16 percent and the payback period of 15 years. The age limitation has been established at 55 to 65 years. The mode of payment is EMI for all the banks.

Finally in her conclusion, she found that most of the banks are already into the spree of providing the housing loan. The sense of competition among the banks has already been felt, thereby resulting in decrease in interest rates and improvement of EMI and payback period. However, the consumers have different views and expectation for such facilities. Factors like gender, age group, employer occupation and salary scale are found to have direct effect on selection of the structures of these loans. According to her, the available policies and scheme for housing loans need to be improved in a great way to provide an easy access to these facilities, henceforth making the scheme available to all walks of life.

At the end of this study, she has recommended that the government should be made in a manner consistent with market principles and economic efficiency for the development to the housing finance sector and the housing finance policy most address the needs of all target groups and most just those of professional and highly salaried individuals.

She has only tried to show the housing financing position and the housing finance scheme of the commercial banks. She has taken into consideration only selected section of people of the Kathmandu valley. This study cannot show and analyze the housing loan with other factors.

Ramala Bhattarai, in her theses study entitled 1997; “**lending Policy of Commercial Banks in Nepal**” has tried to examine the collection of resources utilization of those resources and collection of resources utilization of those resources and investment sectors. She has concluded in the last section that commercial banks should be able to generate capital. Otherwise lower capital formation hampers economic development of the people and whole country. So they must give more preference for collection and utilization of fund properly.

Her study is not concerned with housing finance. She has tried to show the position of deposit collection and lending them, other factors are not analyzed. Her study period is up to FY 1996/97. Therefore her findings cannot represent the lending position of the commercial banks after FY 1996/97.

A study by **Upendra Tuladhar**, entitled **2000 “A Study on the Investment Policy of Nepal Grindlays Bank Limited in comparison to other Joint venture Banks of Nepal”** has highlighted the following objectives to complete the study.

- To study the mobilization of fund and investment policy
- To evaluate the liquidity, efficiency of asset management and profitability position, growth ratios.

In this study, he has concluded the following findings

- Mean current ratio of NGBL is slightly higher than that of other banks i.e. NABIL and HBL. Liquidity position of NGBL is less than that of the other two JVBs.
- Mean of cash and bank balance to current ratio of NGBL is less than of NABIL and HBL.
- Mean of loan and advances to total deposit ratio of NGBL is less than that of other two JVBs.
- Mean of investment on government securities to working fund ratio of NGLB is better than that of other two JVBs.
- NGBL has the largest profit margin in comparison with other two JVBs.
- Growth ratio of NGBL and NABIL is negative but it is found that HBL has increasing growth ratio.

Finally he has presented the following suggestions.

- JVBs should extend their services to rural areas and priority sector of the kingdom.
- JVBs should increase cash and bank balance to meet the need of investment and demand of loan and advances.
- JVBs should follow the liberal lending policy.

Mr. Tuladhar has also recommended investing their funds in the purchase of shares and debenture of other financial non-financial companies, hotels and debenture of other government companies. His study period is up to 1999/00, which cannot represent the investment policy of succeeding fiscal year.

Uttam Raj Panta, in his thesis entitled 1976, “**A study of commercial Banks Deposits and its utilization**” has tried to examine the resources collection and utilization. He has concluded that commercial banks have failed to utilize their resources due to lending for short term only. So that he has suggested that all commercial banks should give preference on long term lending sectors for the better utilization of the deposits and improvement of their existing situation.

He has also tried to show the deposit position and utilization. He has not explained the risk factor. His main focus is deposit collection, which cannot show and analyze the financial position, proper lending and investment policy. His study period is up to Fy1975/76, which cannot show deposit position and its utilization for succeeding years.

Min Bhadur Ranabhat in his thesis 1997, “**An Analysis of Financial Performance of Finance Companies in the Context of Nepal**” has included the objectives of fund mobilization and investment on different sectors of finance companies, how the finance companies are utilizing their funds through housing loans, hire purchase loan, how they are investing in government securities, share and bond of other companies. Finally, he found that,

- Finance companies are using their fund on hire purchase loan in decreasing trend.
- The use of funds towards housing loans is also gradually decreasing.
- They are providing term loan in increasing way.
- The fund used by finance companied is increased towards leasing with increasing rate.
- Investment on government securities is in increasing rate.

On the basis of above findings he has recommended the following suggestions

- Finance companies are providing several financial services. The uses of funds toward hire purchase and hanging financing must be shifted towards the business financing. They have to prepare good investment policy, credit strategies to form adequate capital for overall development.
- The unhealthy competition of interest rate towards finance companies for the collection of deposits should be avoided.
- They need strong supervision and control of finance companies by Nepal Rastra Bank.
- They should have a good cooperation and collect the public confidence.
- The finance companies have to prove it to the country that they
 - can really contribute to the national economy
 - are efficient to mobilize their deposits
 - are trust worthy.

He has mainly focused the study on financial performance of finance companies of Nepal. He has not mentioned comparative study and investment policy. He has mainly focused the lending policy of finance companies on hire purchase loan, house loan and leasing etc. His study period is up to FY 1996/97, which cannot explain the result after 1996/97.

Deepak Raj Bhandary, in his study entitled 1978, “**The Impact of Interest Rate Structure on Investment Portfolio of Commercial Banks of Nepal**” has concluded followings.

- Rates of commercial banks have been fluctuating. Deposits and lending rates were increased immediately after liberalization of the interest rate on August 31, 1989 but, however, started to decline, which have helped in increasing the credit flow.
- Interest rate structure has direct influence on profitability of commercial banks. Decreasing lending rate helps to increase the profitability through increasing the credit amount.
- Deposits are more interest rate conscious and positively correlated.
- Loans and advances of commercial banks have been found to be continuously increasing with the decline interest rates.
- Effective interest rate structure helps in proper utilization of resources as measured by loan to deposit ratio.
- Most of the banks are having similar interest rate structure, which lessens the importance of liberalization of interest rate.

A study conducted by **Neeta Dangol** , 2003 on the “**Impact of Interest Rate on Financial Performance of Commercial Banks**” concludes,

- Most of the commercial banks contradict the general financial theories.
- The relation between amount of deposits and interest rate on deposits, in general concept, must be positive. But deposits are increasing despite the decrease in the general level of interest. The result of such phenomenon is that there are fewer investment opportunities for the banking sectors as well as general investors.
- The relationship between total amount of loan and the lending rate is negative and significant. However, the change in the total amount of loan flow is not proportionate with the change in the lending rate.
- Correlation between interest rate and inflation is not significant.

- Not only interest rate is responsible to shape the profitability of banks but also the operation efficiency also has major influence on it.

2.6. Review of Research and Articles

Study undertaken by the Nepal Housing Development Finance Company.

The Nepal Housing Development Finance Company (NHFDC) is one of the pioneers in the field of housing finance Nepal. It will be of great importance to put light to the studies undertaken by them.

The NHFDC was established in March 1990 under the finance companies Act of 1985. Its six founding institutional shareholders signed a memorandum, and subscribed a total of Rs. 18 million in share capital, all of which had already been paid in.

The goal of the NHDFC has been to become a financially sustainable and efficiently managed housing finance organization with a social obligation. The main objectives of the NHFDC are

1. To mobilize financial resources to be channeled to the housing sector.
2. To supply interim and long term loans for the purchase construction, improvement, expansion and completion of houses and for the purchase of land.
3. To expand NHDFC operations to other cities in Nepal.
4. To introduce innovative savings programs to complement the lending efforts.
5. To introduce additional lending programs to serve a wider range of families.

Initially, NHDFC implemented a basic lending program to be called the Experimental Lending Program (ELP). The ELP was with Rs. 2 million plus in retained earning held

by made available about more than Rs. 10 million to extend the program to other qualified borrowers.

A household Survey Studied by the institution revealed that families rely on cash saving as the most important source of funding for the purchase of land for housing and for housing construction. Savings as the principal source of funding were almost three times as large as the second most common source the sale of land. Other important sources include loans from employees, sale of ornaments; remittances and the sale of one house to buy another. Bank loans are a less important source, however, when added to loans from employers, these two formal sector sources accounted for about 15 percent of the funds for house and land finance.

It is rare in Nepal for a family to finance the construction of a home from only one of the many sources mentioned. A typical family would use funds from four or five sources only one of which might be an employer or bank loan, with an average of 85 percent of the funding coming from personal savings or the informal sector institutions now involved in providing some sort of financing.

2.7. Loans Power Housing Growth:

For an individual with a regular income, owning a house is no longer a distant dream in Nepal. Boom in consumer finance in recent years leads to change in urban living patterns and rapid growth in the purchasing power of the middle-class people.

The prolonged conflict in the country still remains as the major hindering factor for long-term project financing, critically increasing credit risks. This has left no choice for commercial banks to seek alternative haven where there is less risk.

Rapid urbanization is what most of commercial banks are cashing in on with products that help meet the need of people. Houses and automobiles have become two important and viable sectors in which banks are investing money recent figures show that the real estate business, especially in urban areas, is doing very well.

Competitive interest rates on housing loans and loans that cover more than the cost of house are proving to be an irresistible combination for middle class people with stable earnings.

The Equated Monthly Installment (EMI) repayment method with repayment period of up to a maximum of 20 years has also been a driving force.

Between most commercial banks and financial institutions there is a cut-throat competition for this segment of the market, which is ultimately benefiting customers. The competition resulted in cutting down interest rates as well as other features associated with such loans.

Through interest rates vary from bank to bank, the nature of house loan is; common-purchase of a house or apartment, construction, renovation/extension, and purchase of land. Till four to five months bank, private sector banks and financial institution were the only players. But entry of the two largest public sector commercial banks, Nepal Bank Ltd. And Rastriya Banijya Bank, in the consumer-financing sector has added fuel to the fire.

Though investment-wise, lending is not so big, this has certainly helped to ease liquidity as well diversification of banking services, he said, adding that such products have repositioned the bank's image as well. "Banking services are not meant for the elite only. Today, a fast growing mass of middle-class population cannot be ignored," Sharma said.

RBB is offering house loans at an interest of 7.5 percent to 10 percent per annum up to a maximum period of 20 years.

Nepal Industrial & Commercial Bank recently introduced its much-acclaimed scheme, 'NCC Ghar Subidha', which the bank claimed, is unprecedented in Nepal. The interest rate of 6.99 percent on refinancing and 7.49 percent on new loans, offered by the bank is the lowest one as of now under the house loan scheme.

NIC Bank is providing up to 110 percent money for construction and renovation with a maximum loan repayment period is 20 years. The total loan amount ranges from Rs. 5 million to Rs. 15 million.

Recognizing the value of offering, a wide range of services is provided not only to the corporate but also to individuals. Himalayan Bank Ltd. (HBL) has been aggressively offering various consumer loans as required by individuals, helping people realize their dreams, says Sabina Dangol of HBL.

According to her, HBL house loan ranges from Rs. 0.5 million to Rs. 3.4 million, the maximum repayment period being 15 years. However, the loan amount could go up depending upon the value of collateral and disposable income of customer.

Lumbini Bank Ltd (LBL) is also eyeing the market and planning to introduce house loans with refined features very soon.

“Although there is a fierce competition, there is still a charm on the sector”, says Lokendra PN Pradha, chief manager at LBL.

Under the scheme, the bank plans providing loans of up to Rs. 10 million for a maximum period of 15 years. The interest rates will be ranging from eight, nine to 10 percent for five, 10 and 15 year repayment period respectively, informed Pradhan, The present boom in coming days, too.

Construction will certainly continue to grow, whatever might be the country’s economy, the only different will be its pace.

List of the Builders at Work

1. Ace Apartment
2. Ansal Chaudhary Developers
3. Civil Homes
4. Valley homes
5. Dome Housing

6. Euro Housing and Developers
7. Grace Apartment
8. Greenwood Villas
9. Indrani Apartment
10. Jaulakhel Real Estate and Housing
11. Kusunti Housing
12. KC Constrictions (Pokhara Homes)
13. Rapid Development
14. Saligram Apartments
15. Shangrila Villa
16. Subha Avas
17. Oriental Construction and Development
18. Suncity apartment
19. Bagmati homes
20. civil homes

Housing finance—a study undertaken by Department of International Economic and Social Affairs on Housing and Economic Adjustment

In the formal sector, an aspect of housing cost that is even more important than its price is the manner in which the price is paid. With this precept in mind, housing finance systems have been viewed in most countries as the key to making conventional housing affordable. Given the nature of their lending, however such institutions have generally been fragile and selective and in recent years have come under enormous pressures. Many are a virtual casualty of crisis generated by external debt burdens, an unfavorable fiscal and monetary environment, high and fluctuating rates of inflation, and stagnating or declining real household incomes. Although examples exist of housing finance systems that are currently healthy and thriving, that does not appear to be the case for those undergoing adjustment policies. The study on Housing and Economic Adjustments undertaken by the Department of International Economic and Social Affairs, United Nations in the year 1988 indicates the above facts.

Housing finance mechanism includes specialized circuits that rely on government transfers, intermediaries that borrow short on a voluntary basis and institutions that rely on mandatory worker schemes and provident funds for resources. Whether the result of inflation or reduced available finance,, all its showing signs of contraction.

The study further shows that in keeping with public sector efforts to reduce domestic deficits, service external debt and limit monetary emission mortgage lending that passes through special circuits on a subsidized basis is at risk of being severely curtailed in many countries. As a consequence although interest rates are low, the availability of mortgage money to lend is generally limited and increasingly rationed in an arbitrary and regressive manner.

Housing entitles that draw upon social security funds workers schemes and the like have also experienced severe problems in recent years. Some of those funds have been deeply drawn down as growing numbers of dismissed workers collect benefits, the first wave of pensioners comes of age and because of the losses of some housing operations through policies of negative real interest rates and their growing delinquency levels in payments.

IN more recent years credits have been obtained mainly form multilateral and bilateral agencies. In the 1980s official development assistance for housing and related infrastructure project has ranged from \$800 million to \$1 billion annually, amounting to approximately 2% of all official external assistance. The United States Agency for International Development (USAID) continues to provide support to housing finance systems and the International Finance Corporation has recently become involved in the creation of new secondary mortgage facilities.

CHAPTER - THREE

RESEARCH METHODOLOGY

3.1 Introduction

The systematic way to solve the research problem is research methodology. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rationale of each step) to be adopted by a researcher in studying a problem with certain objectives in view. Thus the overall approach to the research is presented in this chapter. The main objective of this research work is to evaluate the housing financing procedures adopted by two commercial banks i.e. EBL and KBL, which are selected as sample financing banks.

3.2 Research Design:

The specification of methods and procedures for acquiring the information needed is a research design. It is the overall operational pattern or framework for the project that stipulates what information is to be collected, from which sources and by what procedures. Thus a research design is a plan for the collection, presentation, analysis and interpretation of data. This study is analytical in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendation among them, they are derived with the help of some statistical tools were adopted to evaluate the housing finance of commercial banks. They are EBL and KBL in consideration not only to research about them but also to facilitate among them.

3.3 Population and Samples:

The term “population” of universe for research means the universe of research study in which the research is based. At present there are 28 commercial banks operating in Nepal and most of their stocks are traded actively in the stock market. Due to the lack of suitable investing opportunity, all banks are involved in Housing Finance. So precisely saying, all 28 commercial banks are the population of this study. Among them 2 commercial banks are chosen as sample from total population.

Sampling technique is very much essential for conducting research. It allows the researcher to make an intensive study of the research problem within the limited time frame. When the study of whole population is not possible, sampling technique is adopted. The ideal sampling represents the whole universe accurately.

The simple random sampling method is used here among different methods. The following organizations are chosen under study: General introduction and major objectives of these organizations are presented in chapter one.

- Everest Bank Ltd.
- Kumari Bank Ltd.

3.4 Sources of Data and Collection Procedure:

Secondary data are the main basis of this study. These data are collected from published sources like; balance sheet, annual reports, prospectus, newspaper, journal, web sites and other sources. Besides this as per research need, primary data can also be used in some cases. These data can be collected through personal interview and direct observation. The secondary data published on annual reports of concerning organizations, is collected through personal visit of respective organization and their websites too. The data related to the housing loan of past period is collected through the personal visit of respective organizations and from their web sites too.

3.5 Data Processing and Presentation:

The raw information and data are obtained from the different sources. Raw data need for process in required form for the presentation in research study... So, the converted raw data into a required form are presented in this study. This process is called data processing. For the study, only required data are taken from the secondary source and presented likewise, in some case graphical presentation is also made. Different tables are used for presentation. The calculations that are related to this study are done with the help of scientific calculator as well as computer software program.

3.6 Data Analysis Tools:

The core of each and every research work is analysis and presentation of the data. Data are analyzed by using different types of tools in order to get concrete results from this research. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools are used.

Arithmetic Mean:

It is the sum of all the observations divided by the number of observations. In such cases all the items are equally important. As arithmetic mean is most common,

popular and widely used tools for data analysis, here in this study also, arithmetic mean is used. It is computed by using following formula.

$$\text{Mean (x)} = \frac{\sum X}{N}$$

Where \bar{X} = mean

$\sum X$ = sum of all the variable

N = variables involved

Standard Deviation:

It is the Best Measure of dispersion. It is an improvement over the mean deviation and is free from the defects of other measures of dispersion. The standard deviation is defined as the positive square root of the arithmetic mean of the squared deviations from their arithmetic mean of a set of values. It is also known as 'root mean-square deviation.' It is usually denoted by the Greek letter σ (small sigma).

$$\sigma_x = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

Coefficient of Variation

The relative measure of dispersion based on standard deviation is called CV. CV being a pure number is independent of the units of measurement. A distribution having less CV is said to be less variable and more consistent. having More CV is said to be More variable and Less Consistent. (Panta et-al, 2058:201) More over CV is used in this research in position of housing financing commercial banks in Nepal.

$$CV = \frac{\bar{X}}{\sigma} \times 100$$

Coefficient of Correlation

This tool is used to describe the degree to what extent one variable is linearly related to other variables. Two or more variables are said to be correlated if change in the value of one variable appears to be linked with the change in the other variables. Correlation analysis enables us in determining the degree and direction of relationship between the variables (Sharma et-al 2000,p-420). Correlation may be positive or negative and range from -1 to $+1$. Simple correlation between the total loan and advance and housing loans is computed in this thesis. For this research work, following reference is used.¹

- Correlation may be positive or negative and ranges from -1 to $+1$.
- When $r = +1$, there is perfect positive correlation, when $r = -1$, there is perfect negative correlation and when $r=0$, there is no correlation and when $r<0.5$ then there is low degree of correlation.
- When r lies in 0.7 to 0.999 (or -0.7 to -0.999), there is high degree of positive (or negative) correlation.
- When r lies in 0.5 to 0.699 , there is a moderate degree of correlation.

The simple correlation coefficient, r is calculated by using following formula.

$$\text{Simple Correlation Coefficient } (r) = \frac{n\sum XY - (\sum X)(\sum Y)}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

Where,

r = Karl person's coefficient of correlation

n = number of observation in series X and series Y

ΣX = Sum of the observations in series X

ΣY = Sum of the observations in series Y

ΣX^2 = Sum of the square of observation in series in X

ΣY^2 = Sum of the square of observation in series in Y

ΣXY = Sum of the product of the observations in series X and series Y

A convenient and useful way of interpretation of the value of coefficient of correlation between two variables is to use the square of coefficient of determination (r^2). If the value of coefficient of correlation, $r=0.90$, then the coefficient of determination, $r^2=0.81$, which means that 81% of the total variation in the value of the dependent variable has been explained by the change in the value of independent variable. It is must easier to understand the meaning of r^2 than r and therefore, coefficient of determination is preferred while presenting the result of correlation analysis.

Trend Analysis

The statistical test used in this study, which describes the trend of any variables whether it increases or decreases with passage of time. The formula of least square method is,

$$Y_c = a + bx$$

$$\text{Where, } a = \frac{\Sigma y}{n}$$

$$b = \frac{\Sigma xy}{\Sigma x^2}$$

Here, Y_c is used to designate the trend value to distinguish from the actual value. a is the Y_c intercept as the computed trend figure of the trend line or the amount of change in Y variable, that is associated with a change of one unit on X variable represents the time.

Probable Error (P.E) of Correlation coefficient

Probable error is an old measure of ascertaining the reliability of the value of Pearsonian coefficient of correlation. It depends up on the condition of random sampling methodology.

$$P.E.(r) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

Where, $\frac{1-r^2}{\sqrt{n}}$ = Standard error of the coefficient of correlation.

The reason for testing the factor 0.6745 is that in a distribution 50% of the observation lies in the range $\mu \pm 0.6745$.

The probable error is used to rest whether the calculated value of sample correlation coefficient is significant or not. A few rules for the interpretation of the significance of correlation coefficient are as follows;

- 1) If $r < P.E.(r)$ is not significant (i.e. insignificant)
- 2) If $r > P.E. (r)$, then is definitely significant.

Hypothesis

Statement of hypothesis:

The following hypothesis is formulated and tested of capital structure of commercial banks in Nepal.

Null Hypothesis(Ho):

The formulating of Hypothesis is of Housing Loan situation is ;

There is insignificant difference between mean value of Housing loan and total loan of Commercial banks in Nepal.

Alternative Hypothesis(H1):

There is significant difference between mean value of housing loan and total loan of the commercial banks in Nepal.

CHAPTER FOUR DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, data collected from the secondary sources are presented and analyzed by using the statistical tools and techniques. The analysis is fully based on secondary data available and data are presented in tables, graphs, and charts according to need. The available data are analyzed and interpreted so that the housing finance of banks can be evaluated easily. To evaluate the housing finance of EBL and KBL, trend analysis and correlation analysis is used in this study.

4.2 Housing Finance analysis Of commercial banks

In this section, detail study is made about the housing finance situation of selected commercial banks of Nepal. For this purpose two commercial banks are considered.

4.2.1 Everest Bank Ltd.

Everest Bank Limited is the pioneer in retail banking which includes auto loan, education loan, travel loan, housing loan and consumer products. Housing finance scheme was launched in the market in the month of April 2001. Since the bank primarily focuses on retail banking, the budget authorized for housing loan does not have any limitation. In view of customer's convenience, it has modified its scheme regarding the loan amount, the interest rate and loan repayment period. The interest rate has been Increased to 13.50% and 15.50% the loan amount has Rs. 1,500,000 to Rs. 4,000,000 and it depends upon the valuation of the house. The loan repayment period has up to 15 years. The financing is provided to commercial building as well as non commercial building. And the age limit is 55 years.

The features of the scheme for EBL are tabulated in Table. 4.1

Table 4.1: Features of House Loan policy by EBL

S.N	Particular	Features
1	Finance	Commercial Building / Non-commercial Building
2	Loan Amount	NRs. 20,00,00 to NRs. 4,00,00,00
3	Interest Rate	13.50%-15.50%
4	Payback Time Period	Maximum up to 15 years
5	Mode of Repayment	Equal Monthly Installment
6	Bad-loan	Not yet
7	Grace period	1 year for new land building, negotiable for expansion.
8	Age bar	Last installment within 55 years
9	Authorized capital for Housing Loan of the total budget in %	No limit
10	Scheme launched date	April 2001
11	Loan disburse till date	NRs. 448205.1467million

Source: annual report

4.2.2 Kumari Bank Ltd.

It has been introduced housing loan scheme since mid July 2001 in the market. It has a provision to finance only up to 60% of the cost of purchase/construction/renovation of land/house with in municipal boundaries. To get the home loan facility from the bank customer needs to provide his or her income by producing reference and guarantee from the employer. Depending upon the customer's income and need, the loan amount varies from NRs. 500,000 to Nrs. 4,000,000 and are disbursed at a very competitive rate of interest of 16%. Repay tenure is flexible to suit the need of the customers ranging from a minimum of 12 months to maximum of 84 months with a charge of 1% as prepaid amount on the outstanding amount.

KBL has already attracted 1000 an more customers till now with the total loan disbursement reaching NRs. 62836.078 million. The finance is provided to commercial and non-commercial building and the age limit is 65 years.

The features of the housing loan scheme rendered by KBL are tabulated in table 4.2

Table 4.2: Features of House Loan scheme by KBL

S.N	Particular	Features
1	Finance	Commercial Building / Non-commercial Building
2	Loan Amount	NRs. 50,00,00 to NRs. 4,00,00,00
3	Interest Rate	16%
4	Payback Time Period	Maximum up to 15years
5	Mode of Repayment	Equal Monthly Installment
6	Loan disburse till date	NRs. 62836.078 million
7	Bad-loan	Not yet
8	Grace period	1 year for new land building, negotiable for expansion.
10	Age bar	Last installment within 65 years
11	Scheme launched date	August 2001

Source: Annual report

4.3. Housing Loan position

The banks collect the deposit from the customers and they are invested on various sectors. Since past few years, there is lack of secured investing sector due to nation's internal problem. However, housing finance is one of the most popular and secured investing sector. So, most of the banks are attracted towards such financing schemes for their customer by lunching different housing finance scheme since last five years. The housing loan position of last few years of EBL and KBLare shown in the table 4.4

Table: 4.3 Position of Housing Loan (Rs. In million)

Fiscal Year	Housing Loan	
	EBL	KBL
2061/62	1675	428.344
2062/63	1875.9	465.249
2063/64	5709.4046	639.383
2064/65	4902.2791	803.481
2065/66	3844.1811	1022.247
2066/67	3355.5293	1142.674
Total	21366.2941	4501.378
Mean	3561.049	750.2297
Standard Deviation	1467.3427	267.0684
CV	2.43	2.81

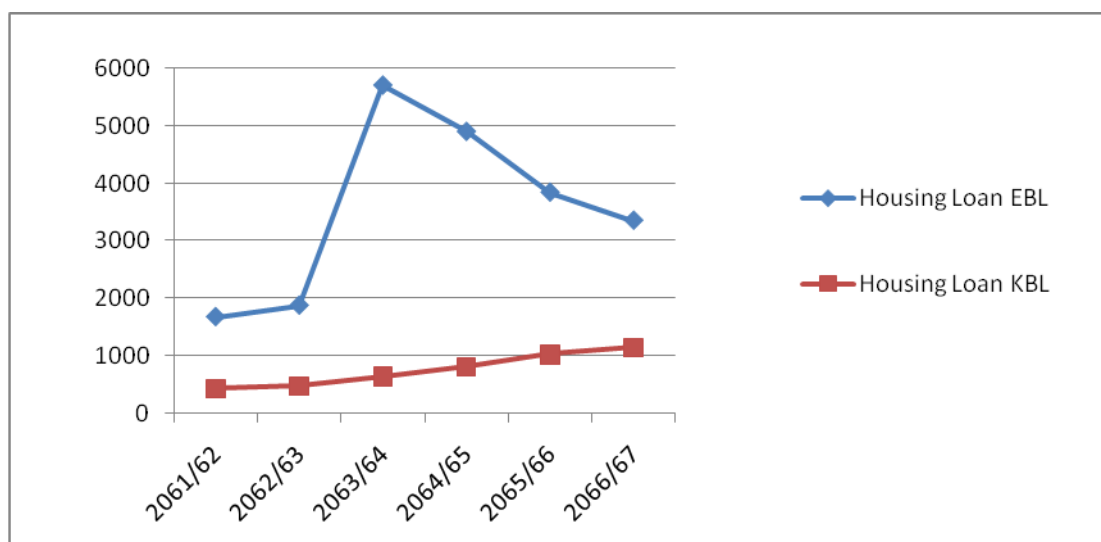
Source: Appendix I, VI & VII

From the Table No. 4.3, it seems that the amount of housing loan for EBL is in first 3 years are in increasing trend and next three years are decreasing trend.. Similarly the KBL, the amount is in increasing trend in unequal percentage. During the mid period of the study, it is in fluctuating but latter on, the trend has been increased.

The CV of EBL is 2.43 and KBL is 2.81 . In comarasion between CV of EBL and KBL , EBL is more consistant than KBL.

These all situation can be presented on figure . 4.1

Figure . 4.1: Trend of Housing Loan for EBL and KBL



4.4 Position of Total Loan and Advance

The major source of loan is deposit collected by the banks from its valuable customers. The banks provides loan and advances to their customer in various forms like; auto loan, housing loan, education loan, business loan, vehicle loan, and so on. The major activity of the bank is to collect deposit from the customer and generate income in the form of interest by granting loan to the needed person and sectors.

Table: 4.4: Position of Total Loan and Advance (Rs. In million)

Years	Total Loan and Advance	
	EBL	KBL
2061/62	14929.7	5461.917
2062/63	17121.5	7010.197
2063/64	88226.7688	9063.248

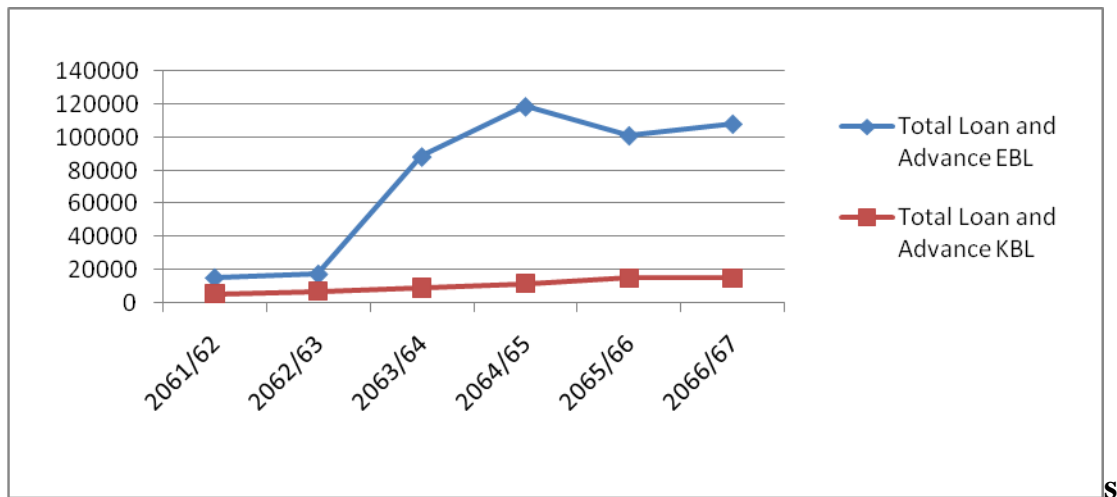
2064/65	118666.7724	11530.804
2065/66	101101.9637	14798.772
2066/67	108158.4418	14971.140
Total	448205.1467	62836.078
Mean	74700.8578	10472.6797
Standard Deviation	36324.712	3632.1223
CV	2.055	2.88

Source:Appendix I,VI & VII

From the Table: 4.4, it is seen that the amount of Total loan for EBL is in increasing trend first 4 years and next 2 years is in decreasing trend.. Similarly for KBL, the amount is in increasing trend .Mean vamuue of EBL and KBL is Rs. 74700.8578 million and Rs. 10472.6797 million. CV of EBL is 2.055. similarly KBLis 2.88.Therefore EBL is more Consistant than KBL.But KBL is more variable of position of total loan and advance.

These all events can be present on figure: 4.2

Figure No. 4.2: Trend of Total Loan and Advance for EBL AND KBL



4.5 Relationship between housing loan and total loan

One of the main objectives of this study is to know the relationship between housing loan and total loan. In other words, the major motive is to explore to chunk of housing loan out of total loan. Since in past few years, financial institutions are not getting appropriate avenue for investment. So they are forced to search new sectors for investment and ultimately enter into housing finance. This scenario has diverted the most of the invest-able fund of banks to housing sectors. To some extent such finance is good, but large finance on such sector is not good for county's economy because they are non productive sector. They don't give any contribution to the growth of economy. So by this analysis, it is tried to know the trend (increasing or decreasing trend) of housing finance out of total loan.

4.5.1 Correlation between Housing loan and Total loan for EBL

To find out the relationship between housing loan and total loan, it is necessary to know the magnitude of relationship. The better measure to know the magnitude of relationship is to calculate correlation coefficient. Following table 4.5 shows the calculation procedures of correlation coefficient.

Table: 4.5: Correlation between Housing loan and Total loan for EBL (Rs in millions)

year	Housing Loan (X)	Total Loan (Y)	X.Y	X ²	Y ²
2061/62	1679	14929.7	25066966.3	2819041	222895942.1
2062/63	1875.9	17121.5	32118221.85	3519000.81	293145762.3
2063/64	5709.4046	88226.7688	503722319.6	32597300.89	7783962733
2064/65	4902.2791	118666.7724	581737638.2	24032340.37	14081802872
2065/66	3844.1811	101101.9637	388654258	14777728.33	10221607064
2067/68	3355.5293	108158.4418	362928820.5	11259576.88	11698248533
	ΣX=21366.2941	ΣY= 448205.146	ΣXY=1894228224.2	ΣX ² =89004988.20	ΣY ² =3923385165

$$r_{xy} = \frac{n\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Where,

r = Karl person's coefficient of correlation

n = number of observation in series X and series Y

ΣX = Sum of the observations in series X

ΣY = Sum of the observations in series Y

ΣX² = Sum of the square of observation in series in X

ΣY² = Sum of the square of observation in series in Y

ΣXY = Sum of the product of the observations in series X and series Y

$$r_{xy} = \frac{6 \times 1894228224.2 - (21366.2941)(448205.1467)}{\sqrt{6 \times 89004988.20 - (21366.2941)^2} \sqrt{6 \times 3923385165 - (448205.1467)^2}}$$

$$= 0.35$$

Since, Correlation coefficient is highly positive, which indicate that the relationship between two variables is very strong. In other words when one variable changes by one time, other variable also changes by 0.35 time in the same direction. This figure indicates EBL has increased its housing loan scheme each year in its total loan.

Probable Error (P.E) of Correlation coefficient

$$P.E.(r) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$

$$0.2416$$

Since, $r > P.E.(r)$, therefore r is significant. The relationship between housing loan and total loan is very strong.

4.5.2 Correlation between Housing loan and Total loan for KBL

To find out the relationship between housing loan and total loan, it is necessary to know the magnitude of relationship. The better measure to know the magnitude of relationship is to calculate correlation coefficient. Following table 4.6 shows the calculation procedures of correlation coefficient.

Table: 4.6: Correlation between Housing loan and Total loan for KBL

(Rs. In million)

Year	Housing Loan (X)	Total Loan (Y)	XY	X ²	Y ²
2061/62	428.344	5461.917	2339579.38	183478.58	29832537.31
2062/63	465.249	7010.197	3261487.14	216456.63	49142861.98
2063/64	639.383	9063.248	5794886.70	408810.62	82142464.31
2064/65	803.481	11530.804	9264781.93	645581.72	132959440.89
2065/66	1022.247	14798.772	15128000.28	1044988.93	219003652.71
2066/67	1142.674	14971.14	17107132.43	1305703.87	224135032.90
	ΣX=4501.378	ΣY= 62836.078	ΣXY=52896016.19	ΣX ² =3805020.35	ΣY ² =737215990.1

$$\text{Now, } r_{xy} = \frac{n\Sigma XY - (\Sigma X)(\Sigma Y)}{\sqrt{n\Sigma X^2 - (\Sigma X)^2} \sqrt{n\Sigma Y^2 - (\Sigma Y)^2}}$$

Where,

r = Karl person's coefficient of correlation

n = number of observation in series X and series Y

ΣX = Sum of the observations in series X

ΣY = Sum of the observations in series Y

ΣX² = Sum of the square of observation in series in X

ΣY² = Sum of the square of observation in series in Y

ΣXY = Sum of the product of the observations in series X and series Y

$$r_{xy} = \frac{6 \times 52896016.19 - (4501.378)(62836.078)}{\sqrt{6 \times 3805020.35 - (4501.378)^2} \sqrt{6 \times 737215990.1 - (62836.078)^2}}$$

$$= 0.9887$$

Since, Correlation coefficient is highly positive value which, indicate that the relationship between two variables is very strong. In other words when one variable changes by one time, other variable also changes by 0.9887 time in the same direction.

Probable Error (P.E) of Correlation coefficient

$$P.E.(r) = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = 0.006$$

Since, $r > P.E.(r)$, therefore r is significant. The relationship between housing loan and total loan is very strong.

4.6 Trend Analysis

To find the future scenario of housing loan for sample banks, trend analysis has been done. This statistical test describes the trend of any variables with passage of time. Most popular method for trend analysis is least square method. The formula of least square method is,

$$Y_c = a + bx$$

$$\text{Where, } a = \frac{\sum y}{n}, \quad b = \frac{\sum xy}{\sum x^2}$$

Here, Y is used to designate the trend value to distinguish from the actual value. 'a' is the Y intercept as the computed trend figure of the trend line or the amount of change in Y variable, that is associated with a change of one unit on X variable represents the time.

4.6.1 Trend Analysis of Housing Loan of EBL

In this section, an attempt has made to analyze the trend amount of housing loan for EBL and to forecast the housing loan for the coming 6 year period.

Table: 4.7: Trend Analysis of Housing loan of EBL

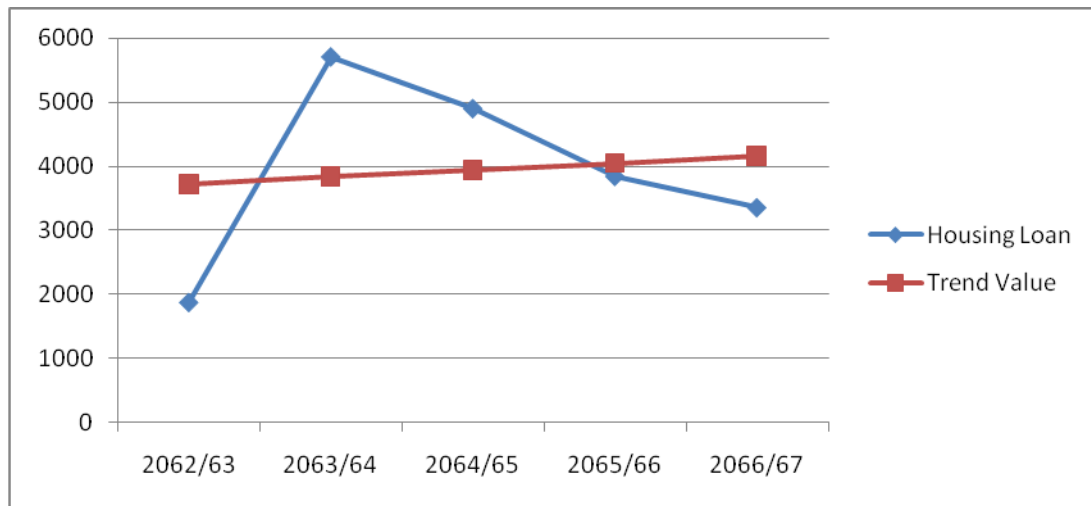
(Rs. in million)

Years	Housing Loan	Trend Value
2062/63	1875.9	3718.65
2063/64	5709.4046	3838.057
2064/65	4902.2791	3937.46
2065/66	3844.1811	4046.86
2066/67	3355.5293	4156.27
Mean (a)		3937.46
Rate of Change (b)		109.4035
Trend Equation($Y=a+bx$)		$3937.46+109.4035x$

Source:Appendix II

From the table 4.9, it is found that the amount of housing loan of EBL is in increasing trend for first 3 years and decreasing is in next 3 years trend. The rate of change is Rs. 4.1493 million. i.e. $b=4.1493$. The mean housing loan of 6 years period is Rs. 74700.8578 million in the study period. If other things remains same, the housing loan for the five year period at the end of ashadh 2062, Ashadh 2063 , ashadh 2064, ashadh 2065, ashadh 2066 and ashadh 2067 will be Rs. 81650.9353 million Rs. 82484.5297 million , Rs. 98390.8903 million, Rs. 95041.8845 million, Rs. 90651.5184 million and Rs. 88623.9555 million respectively. These facts can be presented in diagram to make clear as following.

Figure: 4.3: Trend Analysis of Housing Loan of EBL



4.6.2 Trend Analysis of Housing Loan of KBL

The trend of amount of housing loan for KBL and its forecasted housing loan amount for the coming yearly period are presented for 6 years in table 4.9

From the table 4.9, it has been revealed that the amount of housing loan of KBL is fluctuated in increasing trend. The rate of change is Rs. 13.9016 millions, i.e. $b = 13.9016$. The mean housing loan of one years period is Rs. 10472.6797 million in the study period. If other things remaining the same, the housing loan for the 6 years period ending ashadh 2062, Ashadh 2063 and ashadh 2064, ashadh 2065, ashadh 2066 and ashadh 2067 will be Rs. 16427.3467 million, Rs. 16940.3852 million and Rs. 19361.1264 million, Rs. 21642.3512 million, Rs. 24683.5486 , Rs. 169322.6485 million respectively.

Table: 4.8: Trend Analysis of Housing loan of KBL

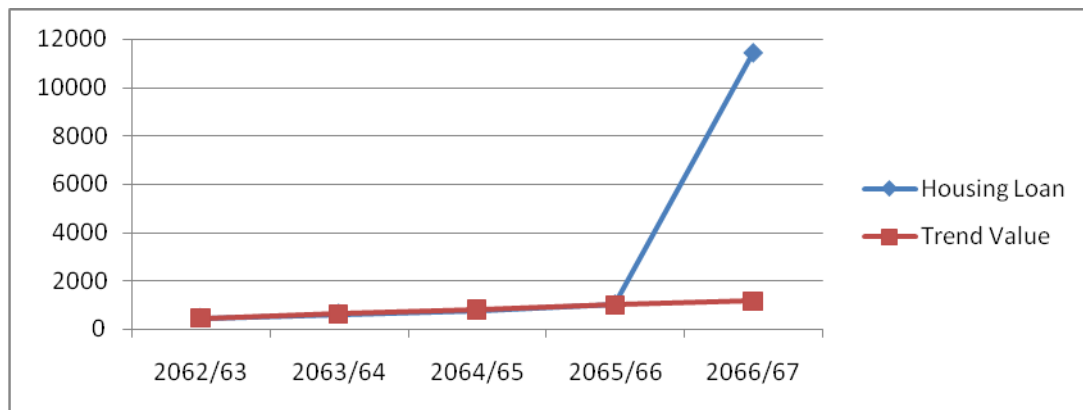
(Rs. in million)

Years	Housing Loan	Trend Value
2062/63	465.249	467.067
2063/64	639.383	640.837
2064/65	803.481	814.607
2065/66	1022.247	988.377
2066/67	11426.74	1162.147
Mean (a)		814.607
Rate of Change (b)		173.77
Trend Equation		$814.607+173.77x$

Source:Appendix III

To make clear these facts can be presented in diagram4.4 as following.

Figure: 4.4: Trend Analysis of Housing Loan of KBL



These facts can be presented in figure: 4.4 to make clear as following.

4.6.3 Trend Analysis of Loan and Advance of EBL

In this section, an attempt is made to analyze the trend of loan and advance of EBL and to forecast the loan and advance for the coming 6 years period.

Table: 4.9: Trend Analysis of Loan and Advance of EBL

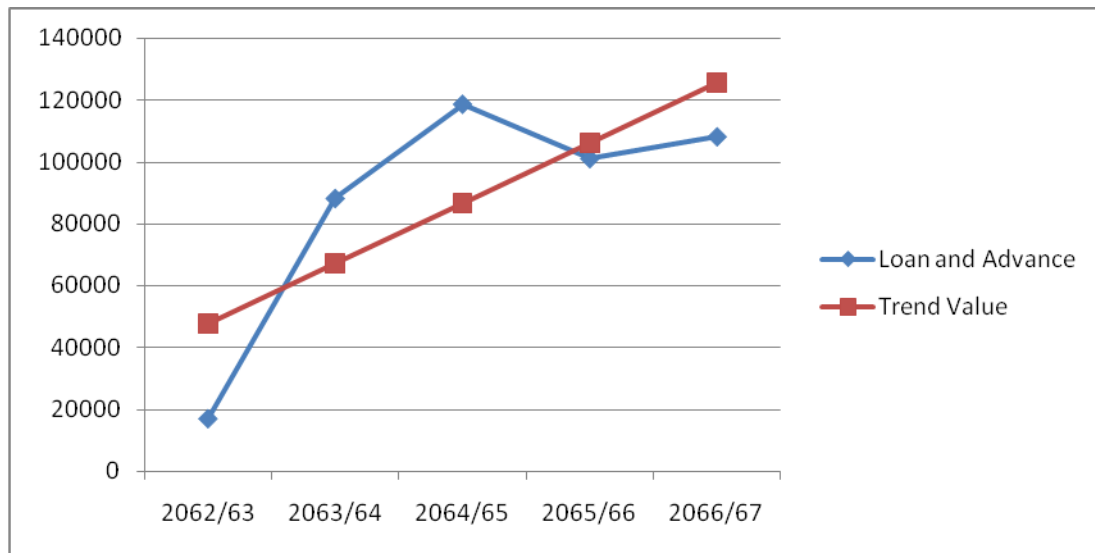
(Rs. in million)

Years	Loan and Advance	Trend Value
2062/63	17121.5	47665.27
2063/64	88226.7688	67160.18
2064/65	118666.7724	86655.09
2065/66	101101.9637	106150
2066/67	108158.4418	125644.91
Mean (a)		86655.09
Rate of Change (b)		19494.91
Trend Equation		$86655.09+19494.91x$

Source:Appendix IV

From the table: 4.12, it is revealed that the amount of loan and advance of EBL is fluctuated in increasing trend. The rate of change is Rs. 4.1493 million. i.e. $b=4.1493$. The mean loan and advance of one year period is Rs. 74700.8578 million in the study period. If other things remaining the same, the loan and advance for the 6 years period ending asdadh 2062, Ashadh 2063, ashadh 2064, ashadh 2065, ashadh 2066 and ashadh 2067 will be Rs. 136648.662million Rs. 145743.0978million, Rs. 440780.1896 million, Rs. 567084.8965 million, Rs. 494203.2358 million and Rs. 523482.6804 million respectively. These facts can be presented in diagram to make clear as following.

Figure: 4.5: Trend Analysis of Loan and Advance of EBL



4.6.4 Trend Analysis of Loan and Advance of KBL

In this section, an attempt is made to analyze the trend of loan and advance of KBL and to forecast the loan and advance for the coming 3 half yearly period.

From the table: 4.13, it is revealed that the amount of loan and advance of EBL is fluctuated in increasing trend. The rate of change is Rs. 13.9016 millions, i.e. $b=13.9016$. The mean loan and advance of one year period is Rs. 10472.6797 million in the study period. If other things remaining the same, the loan and advance for the 6 years period ending ashadh 2062, Ashadh 2063, ashadh 2064, ashadh 2065, ashadh 2066 and ashadh 2067 will be Rs. 88402.065million Rs. 108759.7303 million Rs. 136466.3281million, Rs. 170769.3046 million, Rs. 216199.2885 million and Rs. 218595.4795 million respectively.

Table: 4.10: Trend Analysis of Loan and Advance of KBL

(Rs. in million)

Years	Loan and Advance	Trend Value
2062/63	7010.197	7143.35
2063/64	9063.248	9309.09
2064/65	11530.804	11474.83
2065/66	14798.772	13640.57
2066/67	14971.140	15806.31
Mean (a)		11474.83
Rate of Change (b)		2165.74
Trend Equation		$11474.83+2165.74x$

Source: Appendix V

These facts can be presented in diagram 4.6 as following.

Figure: 4.6: Trend Analysis of Loan and Advance of KBL

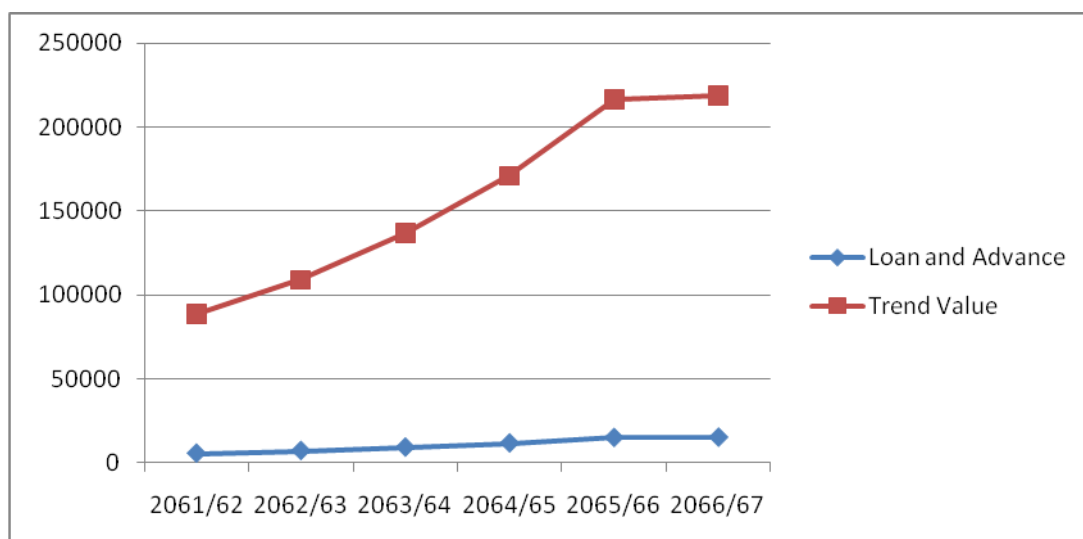


Table 4.11: Housing Loan percentage on Total loan of EBL and KBL

Year	EBL (%)	KBL(%)
2061/62	11.25	7.8
2062/63	10.96	6.64
2063/64	6.47	7.05
2064/65	4.13	6.97
2065//66	3.80	6.91
2066/67	3.10	7.63
Total	39.71	43
Mean	6.62	7.17

Source: Appendix- I

Housing loan % on total loan of KBL and EBL is fluctuating mode. Mean value of EBL is 6.62% and KBL is 7.12%.

4.6.5 Hypothesis testing :

The hypothesis testing of two commercial banks in nepal of housing loan percentage in terms of total loan, Here students t-test is applied for the situation housing loan, The following table shows the students t-test of two commercial banks,

Table No. 4.12

Particulars	Mean of EBL	Mean of KBL	r	r ²	t- test value	t.05	Result
housing loan position of EBL and KBL.	6.62	7.17	.03	.009	-0.356	2.057	significant

Formulating the null hypothesis is :

H0: There is no significant difference between the mean value ratio of housing loan percentage measure in the housing loan percentage and total loans in the selected commercial banks in Nepal.

H1: There is significant difference between the mean value ratio of housing loan percentage measure in the housing loan percentage and total loans in the selected commercial banks in Nepal.

In above table the statistical evidence shows that calculated value of t is smaller than tabulated

Value at 5% level of significance at 5 degree of freedom. Hence, the null hypothesis is accepted and concludes that there is no significant difference between the mean value ratios of housing loan percentage of commercial banks Of Nepal.

4.7 Major Findings of the Study

The main findings of the study are derived on the basis of analysis of financial data of EBL and KBL are given below;

Housing finance position of EBL and KBL

The EBL has been providing the housing finance since April 2001. The interest rate on housing loan has been revised from 13.5% to 15.5% Similarly the KBL have been charging the interest of 13% to 16% respectively.

- The housing loan amount of EBL has been increased from Rs. 1,500,000 to Rs. 4,000,000. Likewise, the KBL have been granting Rs. 500,000 to Rs. 4,000,000. The maximum loan amount of the every sample banks is equal.
- The loan repayment period of EBL and KBL is up to 15 years.

- All the sample banks have no bad loans till now. The EBL has disburse Rs. 21366.2941 million in housing loan while the KBL have disbursed the Rs. 4501.378 million respectively.
- All the sample banks have been providing the finance to commercial building as well as non-commercial building.
- The age limit for the repayment of last installment is 55 years of age of the borrower for EBL while 65 years of age for KBL.
- The mode of repayment for every bank is equal monthly installment.
- The proportion of housing loan in total loan and advance for all the banks under the study is in increasing trend of KBL but the EBL is fluctuated in last 3 years.
- The amount of housing loan for EBL was Rs. 1679.7 million in 059/03/31 and it has increased to Rs. 5709.4046 million in 064/03/31. And it has decreased to 4902.2791 in 2065 and rs 3355.5293 in 2067.
- Similarly, the ratio of KBL and EBL was Rs. 428.344 million and Rs. 1679 million respectively in 062/03/31. And these amounts have increased to Rs. 11426.74 million respectively in 062/03/31. But the ratio of EBL was increased first 3 years and decreased next 3 years.
- Housing loan % on total loan of KBL and EBL is fluctuating mode. Mean value of EBL is 6.62% and KBL is 7.12%.
- Mean value of EBL and KBL is Rs. 74700.8578 million and Rs. 10472.6797 million. CV of EBL is 2.055. Similarly KBL is 2.88. Therefore EBL is more Consistent than KBL. But KBL is more variable of position of total loan and advance.

From the above result, it is concluded that the position of housing loan for KBL is in better position, and EBL is weak rather than KBL. All the banks are provided greater proportion of their fund on housing finance.

Position of Total Loan and Advance:

- The amount of total loan disbursed by KBL is in increasing trend but the loan amount of EBL is in increasing trend .
- The total loan amount for EBL was Rs. 14929.7 million in 062/03/31 and it has reached to Rs. 118666.7688 million in 065/03/31, but it was decreased thereafter.
- Similarly for KBL, the amount has increased from Rs. 5461.17 million in 2061/62 to Rs. 149711.40 million in 2066/67.

From the above result, it is concluded that the position of total loan and advance for KBL is comparatively better than EBL.

Correlation between Housing Loan and Total Loan

Correlation analysis between different variables of EBL and KBL reveals that;

- It is found that the correlation between housing loan and of EBL is positive; i.e. $r = 0.35$. It means, the EBL has decreased its housing loan scheme each year in the same proportion at which the amount of loan and advances are also decreased.
- Similarly, the correlation between housing loan and total loan of KBL has high positive value; i.e. $r = 0.987$, that indicates the relationship between two variables is very strong.

From the above result, it is seem that the relationship between housing loan and total loan of all the banks is significantly positive.

Trend Analysis of Housing Loan

- It is found that the amount of housing loan of EBL is fluctuated in increasing trend for 3 years and decreasing trend thereafter. The rate of change is Rs. 109.4035 million. i.e. $b=109.4035$. The mean housing loan of one year period is Rs. 3937.46 million during the study period.
- It has been revealed that the amount of housing loan of KBL is fluctuated in increasing trend. The rate of change is Rs. 173.77million, i.e. $b= 173.77$ The mean housing loan of one year period is Rs. 814.607 million during the study period.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter has been presented, summary of the study and conclusions derived from the study. At last recommendations to the concerned study on the basis of the major findings are presented for the implementation and improvement in the future.

5.2 Summary

Many commercial banks, developments banks and financial institutions are operating in the economy to assist in the process of economic development in the country. Due to the high competition between the financial institutions, the collected huge amount of deposit from public is not properly invested. It is due to the lack of demand for fund. So, it raised the problems of investment and proper mobilization of collected funds. Strong fund mobilization activities play a vital role in the overall development of economy of the nation.

The unplanned expansion of city, uncontrolled population growth, lack of basic facilities, deteriorating security, raise in nuclear families and working couples have resulted a sharp increase in demand for “home” like dwelling places. But, the continued high rates of population growth, the commercialization and growing regularization of land markets, the constricted supply of mortgage financing, reduced household purchasing power the rising cost of imported building materials have made the access to these “homes” very difficult. As the major motive of the commercial banks is to earn more profit, they want to disburse the deposits on loans and advance in different sectors. These days, most of the commercial banks are moving towards the consumer financing. Housing finance is one of the most importance sectors among the

various consumer finance. Bank has to take minimum risk while providing housing loans to the needy people.

Today housing finance is one of the important financing sectors of the commercial banks in Nepal. Though the private developers are initiating the construction of different housing projects or colony, general people are still deprived of the facility to own their houses. So, an independent study in this sector will help people to find their way to the solution for their investment for the houses.

The main objectives of this research work are to examine, interpret and analyze the housing financing scheme adopted by the sampled banks, i.e. Everest Bank Ltd. and Kumari Bank Ltd. This study is also concerned with evaluate the relationship between total loan and advance and housing loan.

5.3 Conclusions

The following conclusions have been drawn of the commercial banks in data analysis and presentation chapter;

1. Housing finance scheme in EBL was launched in the market in the month of April 2001. Since the bank primarily focuses on retail banking, the budget authorized for housing loan with interest rate 12% to 10% does not have any limitation. Now interest rate has been increased 13.5% to 15.5% and also the loan amount has been increased up to Rs. 4,000,000. The loan repayment period has also been provided up to 15 years. The housing financing is provided by the commercial banks in building as well as real states
2. KBL has introduced housing loan scheme since July 2001 in the market. It has a provision to finance only up to 60% of the cost of purchase/construction/renovation of land/house with in municipal boundaries.

Depending upon the customer's income and need, the loan amounting NRs. 500,000 to NRs. 4,000,0000 may be disbursed at a very competitive rate of interest of 10.5% at the beginning of House Loan. Now a day's Interest on Housing Loan increased to 16%.. The finance is provided to commercial and non-commercial building and the age limit is 15 years.

3. The observing the study period of data are covering the six years, it is found that, the proportion of housing loan in total loan and advance for all selected banks are in increasing trend. The ratio of EBL is found sharply increased for first 3 years but decreasing trend thereafter. The amount of housing loan for EBL was Rs. 1679 million in 2061/62. The amount has increased to Rs. 5709.40 million in 2063/64. But 20664/65 housing loan has been decreased in Rs. 4902.28 million and thereafter. Similarly, the ratio of KBL was Rs. 428.344 million respectively in 2061/62. These amounts have increased to Rs. 1142.67 million respectively in 066/67.
4. It is found that the amount of total loan disbursement by EBL is in fluctuating trend.. Similarly, the amount of loan disbursement position of KBL is in increasing trend
5. The proportion of housing loan in total loan and advance for all the banks under the study is in increasing trend of KBL but the EBL is fluctuated in last 3 years.
6. The correlation between housing loan and total loan of EBL is highly positive, i.e. $r = 0.35$, which indicate that the relationship between two variables is strong. However the housing loan of, EBL has been increased in its housing loan in first 3 year And then decreased thereafter in the same proportion ,
7. It is found that . the Correlation coefficient of KBL in between housing loan and total loan has high positive value, which indicates that the relationship between two variables is very strong. In other words when one variable changes by one time, other variable also changes by 0.987 time in same direction.
8. The regression analysis shows that the amount of housing loan of EBL is fluctuated in increasing trend. The rate of change is Rs. 109.4035 million. i.e.

$b=109.4035$. The mean housing loan of 5 year period is Rs. 3937.46 million during the study period.

9. The regression analysis shows that, the amount of housing loan of KBL is fluctuated is in increasing trend. however, the rate of change is Rs. 173.77million, i.e. $b= 173.77$. The mean housing loan of 5 years period is Rs. 814.607 million during the study period.
10. The statistical evidence shows that, standard deviation on Housing Loan of KBL is Rs. 267.0684 million and on total loan is Rs. 3632.1223 million. And CV on housing loan and total loan is 2.81 and 2.88 respectively. Similarly, Standard Deviation on housing loan and total loan is Rs. 1467.3427 million and Rs. 36324.712 million. But the CV on housing loan and total loan is 2.43 and 2.055 Of EBL Respectively.
11. The CV of EBL is 2.055 and KBL is 2.88. Therefore EBL is more Consistent than KBL. But KBL is more variable of position of total loan and advance. Further more housing loan percentage in comparison with total loan of KBL and EBL are in fluctuating mode. The statistical figure shows the mean value of EBL is 6.62% and KBL is 7.17%..
12. The statistical evidence of student t-test shows that calculated value of t is smaller than tabulated value at 5% level of significance at 5 degree of freedom. Hence, the null hypothesis is accepted and conclude that there is no significant difference between the mean value ratio of housing loan percentage of commercial banks Of Nepal.
13. Standard Deviation of EBL is Rs. 1467.3426 million on housing loan and Rs. 36324.712 million on total loan. Againa standard deviation of KBL is Rs. 267.068 million on housing loan and Rs. 3632.1223 million respectively. EBL is more standard deviation so it has more risk.
14. Since, $r= 0.35 > P.E.(r)= 0.2416$, therefore r is significant. The relationship between housing loan and total loan is strong of EBL. And $r=0.9887 > P.E.(r)= 0.06$, therefore r is significant. The relationship between housing loan and total loan is very strong of KBL.

5.4 Recommendation

Based on the research study, it is found that the amount of housing loan is in increasing trend. Among the sample banks, EBL has disbursed higher amount for housing loan. EBL is the pioneer bank in Nepal which initiates the housing loan scheme in Nepal. But nowadays situation of investment market EBL has decreased Housing loan. However, the KBL also providing housing loan but it is not as aggressive as KBL. On the basis of the foregoing findings and conclusions, the following recommendations are made to improve housing finance policies and scheme.

- When there is less investment opportunity in the country, housing loan is one of the best avenues for investment. Regarding this, EBL has disbursed large amount of fund for housing loan. However, , KBL have disbursed little amount as Housing Loan. So it is recommended for them to increase the chunk of house loan.
- Another factor hindering the growth of housing loan is its interest rate. So the sample banks are requested to lower down the interest rate for Housing loan.
- The procedure to get home loan is quite tedious and lengthy. So it is suggested to make the procedure easy.
- Government should provide a regulatory climate conducive to the establishment of private specialized housing finance institutions by allowing them to compete effectively for savings and respond to market demand for loan rates.
- The financial institutions should be more aggressive in providing the housing loans with improved EMI, interest rate and payback period.
- More simplified legal procedure should be established by the Commercial Banks to cater the loans in efficient manner.

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Appendix I

Everest Bank Ltd

Housing Loan and Total Loan of EBL.;

Particular	2061/62	2062/63	2063/64	2064/65	2065/66	2066/67
Housing loan	1679	1875.9	5709.4046	4902.2791	3844.1811	3355.5293
Total Loan	14929.7	17121.5	88226.7688	118666.7724	101101.9637	108158.4418

Kumari bank Ltd

Housing Loan and Total Loan of KBL.;

Particular	2061/62	2062/63	2063/64	2064/65	2065/66	2066/67
Housing loan	428.344	465.249	639.383	803.481	1022.247	1142.674
Total Loan	5461.917	7010.197	9063.248	11530.804	14798.772	14971.140

Appendix II

Trend analysis of Housing Loan for EBL

Year (n)	Housing Loan (y)	$x=X - 2064/65$	x^2	xy	Trend Value Y_c
2062/63	1875.9	-2	4	-3751.8	3718.65
2063/64	5709.4046	-1	1	-5709.4046	3838.057
2064/65	4902.2791	0	0	0	3937.46
2065/66	3844.1811	1	1	3844.1811	4046.86
2066/67	3355.5293	2	4	6711.06	4156.27
	$\Sigma y =$ 19687.2941	$\Sigma x = 0$	$\Sigma x^2 =$ 10	$\Sigma xy =$ 1094.035	

Period 2064/65 assumed base year

Since, $\Sigma y = 19687.2941$, $\Sigma x = 0$, $\Sigma x^2 = 10$, $\Sigma xy = 1094.035$,

$$n = 6$$

$$\therefore a = \frac{\Sigma y}{n} = \frac{19687.2941}{6} = 3281.2157$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{1094.035}{10} = 109.4035$$

Now, Equation of Trend line $Y_c = a + bx$

$$= 3281.2157 + 109.4035 x$$

Appendix III

Trend analysis of Housing Loan for KBL

Year (X)	Housing Loan (y)	$x=X - 2064/65$	x^2	xy	Trend Value Y_c
2062/63	465.249	--2	4	-930.498	467.067
2063/64	639.383	-1	1	-639.383	640.837
2064/65	803.481	0	0	0	814.607
2065/66	1022.247	1	1	1022.247	988.377
2066/67	1142.674	2	4	2285.348	1162.147
	$\Sigma y =$ 4073.034	$\Sigma x = 0$	$\Sigma x^2 =$ 10	$\Sigma xy =$ 1737.714	

Period 2064/65 assumed base year

Since, $\Sigma y = 4073.034$, $\Sigma x = 0$, $\Sigma x^2 = 10$, $\Sigma xy = 1737.714$, $n = 5$

$$\therefore a = \frac{\Sigma y}{n} = \frac{4073.034}{5} = 814.607$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{1737.714}{10} = 173.77$$

Now, Equation of Trend line $Y_c = a + bx$

$$= 678.839 + 173.77 x$$

Appendix IV

Trend analysis of Total Loan and Advance for EBL

Year (X)	Total Loan & Advance (y)	x=X - 2064/65	x ²	xy	Trend Value Yc
2063/63	17121.5	-2	4	- 34243	47665.27
2063/64	88226.7688	- 1	1	-88226.7688	67160.18
2064/65	118666.772	0	0	0	86655.09
2065/66	101101.9637	1	1	101101.9637	106150
2066/67	108158.4418	2	4	216316.884	125644.91
	$\Sigma y =$ 433275.446	$\Sigma x = 3$	$\Sigma x^2 =$ 10	$\Sigma xy = 598365.194949.08$	

Period 2064/65 assumed base year

Since, $\Sigma y = 433275.446$, $\Sigma x = 0$, $\Sigma x^2 = 10$, $\Sigma xy = 194949.08$,

$n = 5$

$$\therefore a = \frac{\Sigma y}{n} = \frac{433275.446}{5} = 86655.09$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{194949.08}{10} = 19494.91$$

Now, Equation of Trend line $Y_c = a + bx$

$$= 86655.09 + 19494.91 x$$

Appendix V

Trend analysis of Total Loan and Advance for KBL

Year (X)	Total Loan & Advance (y)	x=X - 2063/64	x ²	xy	Trend Value Yc
2062/63	7010.197	- 2	4	- 14020.39	7143.35
2063/64	9063.248	-1	1	- 9063.248	9309.09
2064/65	11530.804	0	0	0	11474.83
2065/66	14798.772	1	1	14798.77	13640.57
2066/67	14971.140	2	4	29942.28	15806.31
	Σy=57374.16	Σx = 0	Σx ² =10	Σxy=21657.41	

Period 2063/64 assumed base year

Since, $\Sigma y = 57174.16$, $\Sigma x = 0$, $\Sigma x^2 = 10$, $\Sigma xy = 11179.84$, $n = 5$

$$\therefore a = \frac{\Sigma y}{n} = \frac{57374.16}{5} = 11474.83$$

$$b = \frac{\Sigma xy}{\Sigma x^2} = \frac{21657.41}{10} = 2165.74$$

Now, Equation of Trend line $Y_c = a + bx$

$$= 11474.16 + 2165.74 x$$

Appendix VI

Standard Deviation of Housing loan and Total loan for KBL (Rs. In million)

Year	Housing Loan(X)	$(X - \bar{X})^2$	Total Loan (Y)	$(Y - \bar{Y})^2$
2062	428.344	103610.4039	5461.917	251007742.84
2063	465.249	81213.9994	7010.197	11988786.45
2064	369.383	12286.9906	9063.248	1986497.717
2065	803.481	2835.7011	11530.804	1119627.034
2066	1022.247	73993.4115	14798.772	18715074.59
2067	1142.674	154012.5288	14971.140	20236145.07
Total	4501.378	427953.0344	62836.078	79153873.70

$$\sigma_x = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = 267.0684$$

$$\sigma_y = \sqrt{\frac{\sum(Y - \bar{Y})^2}{n}} = 3632.1223$$

Calculation of CV for housing Loan & Total Loan of KBL:

$$CV = \frac{\sigma}{\bar{x}} \times 100$$

$$CV \text{ of housing Loan KBL} = \frac{750.2297}{267.0684} = 2.81$$

$$CV \text{ of total Loan KBL} = \frac{10472.6797}{3632.1223} = 2.88$$

Appendix VII

Standard Deviation of Housing loan and Total loan for EBL (Rs. In million)

Year	Housing Loan(X)	$(X - \bar{X})^2$	Total Loan (Y)	$(Y - \bar{Y})^2$
2062	1679	3542108.438	14292.7	3649145529
2063	1875.9	2839727.152	17121.5	3315382445
2064	5709.4046	4615431.784	88226.7688	182950268.4
2065	4902.2791	1798898.181	118666.7724	1933001647
2066	3844.1811	80163.7861	101101.9637	697018392.7
2067	3355.5293	42238.3471	108158.4418	1119409927
Total	21366.2941	12918567.69	448205.1467	7916908209

$$\sigma_x = \sqrt{\frac{\sum(X - \bar{X})^2}{n}} = 1467.3427$$

$$\sigma_y = \sqrt{\frac{\sum(Y - \bar{Y})^2}{n}} = 36324.712$$

Calculation of CV for housing Loan & Total Loan of EBL:

$$CV = \frac{\bar{x}}{\sigma} \times 100$$

$$CV \text{ of housing Loan EBL} = \frac{3561.049}{1467.3427} = 2.43$$

$$CV \text{ of total Loan EBL} = \frac{74700.8578}{36324.712} = 2.055$$