

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 improve the living standard of the people. Same as 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 development 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. After the lombards, the goldsmiths practised banking as a sideline to their normal activities in the bullion and jewellery fields. First of all, the person who deposited his surplus funds with the goldsmith became as a 'Depositor' and naturally paid for the privilege of having hid money defended this way. These payments were

called 'Bank Charges'. The depositors who needed funds to pay wages or debts, could call at the bank and collect such sums as required.

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 stage. 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.¹

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.²

The main objective of the bank is to pool the scattered deposit from public in the form of saving and channel it for productive use like investment in_ medium and short-term loan for the development of industry, trade and business to the ones in need. In other words bank is a custodian of money received from the depositors. 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. Now days, the function area of bank is

¹ Bhuvan Dahal and Sarita Dahal, “A Hand book of Banking”, Asmita Books Stationery, Putalisadak, Kathmandu, Second Edition, 2002; p.8.

² Ronald Grywinshki; “The New Fashioned Banking”, Harvard Business Review; May-June, 1993; p.87

broaden. 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 different kinds of short term loan and long term loan in different sectors and assist in developing country's economy. It collects scattered capital from different parts of country through it's 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 Ranoddip Singh (1877A.D) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not accept deposits from the public but provided credit to employees and public against the collateral.

The history of development of modern bank began 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 Baisakh 14) 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, increasing of banking function got popular and more complicated. Thus NRB planned 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 its branches are diversified all over the country.

Apart from this, **Nepal Arab bank Ltd** was established in 1984 A.D (B.S) and now it has been changed into Nabil bank limited. Likewise the two development bank **Agricultural Development Bank and NIDC** was established in before 198. Other development bank and financial institutions were established and continued to establish after the economic liberalization policy adopted by the government. And according to current data of Nepal Rastra bank in mid July 2014, there are total 203 banking and financial institution, out of them 30 commercial banks, 84 development banks, 53 finance companies and 37 micro finance.

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 or established with the joint venture of other countries. Now a day, there are 30 commercial banks operating in Nepalese financial market along with 9 joint ventures with foreign investors.

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. 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 mainly 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 out of them 9 are joint ventured with foreign banks on the other hand a 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 significant role for the development 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 five rural development banks are operating in Nepalese banking industry. Now credit development bank is established and 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 cheques, overdraft facilities to industries and commerce whenever banks lend money they must remember that the source of their fund is customer's 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 less 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 became 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 that receiving prompt service. Now

the commercial banks (mainly joint venture banks) are trying to introduce and established themselves different by providing special service and attractive schemes. In 1995 AD, Himalayan bank ltd introduce tale-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 other 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 chartered bank, NABIL and Everest 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_kumari bank had started internet banking facilities first time to their customer, with this facility they can easily make transaction of deposit and withdraw using internet and also get the statement of the transaction. Likewise, The bank of Katmandu has just introduced the mobile banking services.

Table 1.1 Lists of Licensed Commercial Banks

S.N.	Name of the Bank
1.	Nepal Bank Ltd.
2.	Rastriya Banijya Bank Ltd.
3.	Nepal SBI Bank Ltd.
4.	Nepal Bangladesh Bank Ltd.
5.	Nabil Bank Limited
6.	Nepal Investment Bank Ltd.
7.	Siddhartha Bank Limited
8.	NCC Bank Ltd.
9.	Laxmi Bank Limited
10.	Bank of Kathmandu Ltd.
11.	NIC Asia Bank Ltd.
12.	Himalayan Bank Ltd.
13.	NMB Bank Ltd.
14.	Machhapuchchhre Bank Ltd.
15.	Sunrise Bank Ltd.
16.	Prime Bank Ltd.
17.	Grand Bank Ltd.
18.	Standard Chartered Bank Nepal Ltd.
19.	Lumbini Bank Ltd.
20.	Everest Bank Ltd.
21.	Global IME Bank Ltd.
22.	Kumari Bank Ltd.
23.	KIST Bank Ltd.
24.	Citizen International Bank Ltd.
25.	Janata Bank Nepal Ltd.
26.	Mega Bank Ltd.
27.	Commerz & Trust Bank Nepal Ltd.
28.	Civil Bank Ltd.
29.	Century Bank Ltd.
30.	Sanima Bank Ltd.

Source:- NRB, "Banking and financial Statistics, N0-43"

1.1.3 Introduction of Commercial Bank

The commercial banks are those banks that pool the scattered savings of the community and for invest them in 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 an 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 the scattered savings of the community and invest them for their productive use and to yield more profit. They supply financial needs of modern business. But now days the function area of commercial bank is increased. Like it helps in providing loans, agency function, General utility functions, and accepting deposits

“The commercial bank has its own important 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 facilities, to provide loan to offer banking services to the people and the country to help in development in business and agriculture. It provides internal resources for developing countries economic. Now days, It has started to provide loan for different purpose like education loan, demand loan housing loan, hire purchase loan people's welfare. It collects diversified capital from different parts of country through its own branches.

According to commercial bank act 1974 “A Commercial bank means bank which deals in exchanging currency accepting deposits, giving loans and doing commercial transaction.”Commercial bank can be in various forms like Deposit banks, Savings bank, Industrial bank, mixed banks, Exim banks etc. But now its function area has been increased for their customers.

The commercial bank has started different facilities and skims to attract the customers. In present age there are very tough competition between the banks, so who can attract and satisfy their customers they only survive in the field. 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.

1.1.3.1 Function of commercial Bank

Bank can be defined according to the function they performed. The commercial Bank established with prime objective of profit maximization. To achieve this, Bank performs various functional activities. The function of commercial bank has been categorized in two parts, first primary functions and second is secondary functions. “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 functions 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. And utilize them in to different kinds of short term investments and long term investments to earn more profits. Generally a bank accepts deposit in four forms namely – saving, current, fixed deposits and call deposits.

a) Current deposits

This kind of deposit is mainly for the group of people who involve in the business and trade. In this account, customers can deposit and withdraw large amount money from the bank anytime. In this account bank 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

In saving account, deposit is collected of 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.

c) Fixed Deposit

It is long term deposit planning, In this account, customers have to deposits fund for a specific period of time and bank provide higher rate of interest. Amount cannot be withdrawn from bank before the expiry of time. Customers can get loans and advance from the bank with the fixed deposit slip. 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) Lending

The second major function of commercial bank is to provide loans and advances to their customers against the security of movable and immovable properties. There are different kinds of loans provided like demand loan, education loan, cash credit, direct loans, overdraft, Import loan, Hire purchase loan

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. This is provided to those customers whom the bank trusts more.

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 cheques according to his requirements. But he has to pay 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) 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 payments like_subscription, insurance premium, rent etc and collection of credit instruments like bills of exchange, promissory notes, draft, salaries, pensions, dividends, interest etc on behalf of the customers. It also acts as a correspondent or representative of its customers, with other banks and financial corporations. It also sales and purchases of securities. It plays trustee and attorney on the behalf of customer and transfer of money of the customers.

4) 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.

5) General utilities functions

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.

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 and issue letter of credit and credit instruments on the behalf of customers. It also make dealings in foreign exchange.

a) Safekeeping of Valuables

The bank receives valuables such as securities jewellery, 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.

b) 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.

1.1.4 Profile of the Concerned Banks

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

1.1.4.1 Nepal Bangladesh Bank Ltd.

Nepal Bangladesh Bank Ltd. is also a joint venture commercial bank with International Finance Investment and Commercial Bank Ltd. Bangladesh. It was established in 1993 AD under the company act 1964 and it commenced its operation on June 6, 1994. The bank is managed by IFIC Bank Ltd. Bangladesh in accordance with the joint venture and technical services agreement between it and Nepali promoters. Now it has 29 branches including main branch (head office) and 31 ATM counters in Nepal.

Out of total equity shares of NBBL, 22.95% shares hold by IFIC Bank Ltd., and 77.05% shares by Nepali promoter, general public, and financial institutions.

It provides following facilities and services to their customers;

- ATM (Automated Teller Machine)
- ABBS (Any Branch Banking System)
- Remittance
- Debit Card
- Credit Card
- Letter of credit

NBBL is also started to provide consumer banking services and facilities as per need and requirements of its customers, and started to provide Hire Purchase facilities, Education Loan and Housing Loans at lower interest rate.

The ownership of NBBL is composed as;

Subscription	Holding %
International Finance Investment and Commercial Bank Ltd. Bangladesh	22.95%
Financial Institutions	16.29%
General Public	48.35%
Promoter Shareholders	12.41%
Total	100%

The present capital structure of the NBBL is presented as below;

Share Structure	Amount (Rs.)
Authorized Capital	5,00,00,00,000
Issued Capital	2,009,395,600
Paid-up Capital	2,009,395,600

Source:- Annual Report of NBBL

1.1.4.2 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 30 branches including main branch (head office) and 38ATM in Nepal. It was established fully investment made by Nepalese investors and now its 96.98% is held by the public and 3.02% from other institutions.

ption	Holding %
General Public	96.98%
Other institutions	3.02%

KBL is providing following facilities and services to their customers;

- Internet Banking
- Kumari Mobile Banking
- SMS Banking
- eSewa
- Visa Electron Debit card
- Electronic Bill Payment System
- Credit card
- Utility bill payment (NTC prepaid recharge card, World link recharge card, NTC postpaid bill, NTC landline bill, Ncell postpaid bill)

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

Share Structure	Amount (Rs.)
Authorized Capital	2,00,00,00,000
Issued Capital	1,82,83,32,000
Paid-up Capital	1,82,83,32,000

Source:- Annual Report of KBL from website.

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 sample 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 various financial institutions?

1.3 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 two banks (i.e., NBBL 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 trend of Total Loan and Housing Loan.
2. To evaluate the relationship between Total Loan and Advances and Housing Loan.
3. To examine the position of Housing Loan of sample commercial banks.
4. To provide suggestions for the improvement of Housing Loan schemes on the basis of findings.

1.4 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 deprived 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. Accuracy depends upon the data collected and provided by the banks.
2. This study has been carried out for the partial fulfillment of master's degree, faculty of management of TU. So the time and resource are major limitations of the study.
3. Only two commercial banks have been selected as sample for the study, i.e. NBBL and KBL.
4. This study covers only three and half years' half yearly data.
5. Non-availability of the various references of sources acts as constraints for the study.
6. Only the housing financing aspect is analyzed. While providing suggestion, other performance of the organizations is fully neglected.

1.6 Plan 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.

1.6.1 Chapter I. Introduction

This chapter contains the introduction of the study, which includes the following topics;

- i) General Background of the study.
- ii) History of Banks
- iii) Statement of problems
- iv) Objectives of the study
- v) Significance of the study
- vi) Limitation of the study
- vii) Plan of the study.

1.6.2 Chapter II. Review of Literature

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.

1.6.3 Chapter III. Research Methodology.

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 following topics;

- i) Introduction
- ii) Research design
- iii) Source of data
- iv) Population and sample
- v) Method of analysis and presentation

1.6.4 Chapter IV. Presentation and Analysis of Data

The fourth chapter is analyzing chapter, 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.

1.6.5 Chapter V. Summary, Conclusion and Recommendation

The fifth chapter is the last chapter 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

2.0 Introduction

Review of literature means the study of relevant topics in the related field of research or reviewing related research studies and findings such 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 “A Comparative Study on Housing Finance of NBBL and KBL.” Every study is very much based on the past knowledge. The previous study cannot be ignored because they provide the foundation to the present study. There must be continuity in research. This continuity in research is ensured by linking the present study with past research studies. This chapter describes the conceptual framework and highlights the literature that is available in concerned subject as to my knowledge.

2.1 Conceptual Frame Work

Basically, conceptual framework describes the following terms, which are closely related to the research work;

2.1.1 Investment

Jams B. Bossley express his view as, “Investment policy fixes responsibilities for the investment disposition of the banks assets in terms allocating funds for investment and loan and establishing responsibility for day to day management of those assets.”³

J.K. Francis saying, “An investment is a commitment of money that is accepted to generate additional money. Every investment entails some degree of risk it requires a present certain sacrifice for a future uncertain benefit.”⁴

Cheney and Moses said, “Their investment objective is to increase systematically the individuals wealth defined as asset minus liabilities. The higher the level of desired

³ James B. Besley, Banking management, (New Delhi; Sijeet Publication-1987) p-124

⁴ Jack Clark Francis, Investment Analysis and Management, 5th edition (Singapore; Mc Graw-hill Book Co. 1991) p-1

wealth the higher the must be received. As investor seeking higher return must be willing to take higher level of risk.”⁵

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 or extended 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.

From the above definitions we can conclude that investment means use of rupee of amount today by expecting more income in future. If some one invests his/her fund today, he/she expects financial benefits in future from mobilization of their fund. The value of investment in future increases. The commitment takes place at present the future always remains uncertain. The return sometimes may be negative, if investment is made wrongly.

⁵ John M Cheney and Edward A. Moses, Fundamentals of Investment, (St. Paul, USA, west Publishing company 1992) p-13

2.1.2 Features of sound lending and investment policy

Income and profit of the financial institutions like; commercial banks and finance companies depend upon its lending procedure, lending policy, investment policy of collected fund in different securities. The greater the credit credited by the banks higher will be the profitability. Some required features of sound lending policy and investment polices are explained as below;

a) Safety and Security

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

Where, M=Marketability
 A=Ascertain ability
 S=Stability
 T=Transferability

b) Liquidity

Liquidity is the position of the firm to meet current or short-term obligations. General public or customers deposit their savings at the banks in different accounts having full confidence of repayment by the banks wherever 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 for excess fund.

c) Profitability

To maximize the return on investment and lending position, financial institution must invest their collected fund in proper sectors. Finally they can maximize the volume of their wealth. Their return depends upon the interest rate, volume of loan, its time period and nature of investment on different securities and sectors.

d) Purpose of loan

Banks and other financial institutions must examine why loan is required to the customer. If customers do not use their borrowings, they can never repay and the financial institutions will have bad debts. So they should collect detailed information about the plan and scheme of the borrowing.

e) Legality

Each and every financial institution follow the rules and regulation of the company, government and various directions supplied by Nepal Rastra Bank, Ministry of Finance and on while issuing securities and mobilizing their fund. Illegal securities will bring out any problems to the investors. Lastly, the reputation and goodwill of the firm may be last.

f) Tangibility

A commercial bank should prefer tangible security to an intangible one. Though it may be considered that tangible properly does not yield on income a part from intangible securities, which have last their value due to price level inflation.

g) Diversification

A firm can invest its deposit collection in various securities in various securities to minimize the risk. So, all the firms must diversify their fund or make portfolio investment. Diversification helps to earn a good return and minimize the risks and uncertainty. So, the firms are making portfolio investment with different securities of different companies.

2.1.3 Meaning of some important terminology

Assets

Assets are the valuable and important properties of the firm and represent economic resources. All the assets should be measured in monetary term, which help to earn future benefits to an organization such as; building, debtors, marketable securities, patents, goodwill, etc. In the firms, there may be tangible and intangible assets as well as fixed and current assets to run the activities properly and for the smooth operation.

Liabilities

Liabilities are the amount of debt payable in future by the firm to its creditors. Liabilities represent the obligations to make payments through cash of bank or provide goods and services in future; e.g. creditors, bills payable, loan, outstanding expenses, overdraft etc.

Balance sheet

Balance sheet is a financial statement, which is prepared at the end of each accounting year, which contains assets liabilities, owner share capital. It shows the actual financial position of the organization, the efficiency of all assets and liabilities separately. Broadly speaking, it shows three things, they are; the nature and value of assets, the nature and value of liabilities and the position of capital.

Income Statement

It is a statement, which summarizes and provides the information about revenues and expenditure of the organization during the accounting period. It contains real income and expenditures during the fiscal year. Income statement contains all the items of revenue, gains, losses and operating expenses incurred in carrying on the business and

selling and distribution of the goods for the particular accounting period which gives the amount of net profit.

Off Balance Sheet Transaction

Off balance sheet transactions are the future agreements concerning with bills purchase, letter of credit and guarantee which are treated as liabilities.

Share

The part of capital owned by a shareholder is called share. These shares are transferable in nature. Thus, any person can be the member of the company by purchasing the certificates of investment on company and could withdraw his/her shares. In Joint Stock Company total amount of capital is divided into the number of shares through which company can collect capital.

Bond

A bond is the source of long term financing or long term promissory note issued by an organization under which borrower agrees to pay interest as well as principle on specific date to the lender. It is of two types; i.e. mortgage bond, and debenture.

Securities

Securities are the main sources of long term financing which involves shares and debentures issued by the company or government and redeemed in future with interest.

Deposits

Financial institutions collect deposits from the customers in various accounts like current account, saving account, and fixed deposit account. Therefore the sums of money collected by the financial institution from the depositors in various accounts are called deposits. Deposit is the main source of fund of the financial institutions.

Loan and advances

Loan and advances, and overdraft are the main sources of income for a firm. Bank deposits can be crossed beyond a desired level but the level of loans and advances and overdraft will never cross it. Commercial banks and other financial institution may take more preferential collateral while granting loan and advances. Some portion of loan and advances and overdrafts includes that amount which is given to staffs to the banks as home loan, vehicle loan, personal loan and others.

Liquidity Position

It is the states of owing things of value that can easily be changed into cash. Liquid assets determine the liquidity position of the organization and higher the liquidity assets, better would be the liquidity position.

Interest

Interest is that additional source of money of charged on borrowing or paid to someone who borrows money from the banks or other financial institutions or moneylenders. It is an opportunity cost on sacrificing the saving from own state for certain period.

Retained Earning

It is the certain portion of the firm's earnings, which is kept for the future use or contingencies. It is an internal source of financing.

Variance

The square of standard deviation is called variance and it is denoted by ' σ^2 '. It is one of the statistical tools, which is used to analyze the data for the study.

Standard Deviation

Standard deviation is the positive square root of the mean of the deviations taken from the arithmetic mean, which measures the variability of a set of observations. It is usually denoted by the ' σ '.

Co-efficient of variation

Co-efficient of variation (C.V.) is the proportion of standard deviation with mean and multiplied by 100. It can be defined by;

$$C.V = \frac{\sigma}{\bar{X}} \times 100\%$$

Mean

A mean is the average value or the sum of all the observations divided by the number of observations and it is denoted \bar{X} . The formula is;

$$\bar{X} = \frac{\sum X}{N}$$

Correlation

Correlation is one of the statistical tools, which measures the relationship between or among the variables, which does not explain the causes and effects relationship between the variables. It explains that two variables are correlated if the change in one variable results in a corresponding change in the others. It can be categorized into two groups i.e. Positive correlation and Negative correlation.

2.1.4 Assets and Liabilities of Commercial Banks as per NRB Directives

Balance sheet of a bank mainly comprises of the items as listed below in the assets and the liabilities sides.

Assets of Banks

Brief discussion of the assets of a commercial bank is done hereunder which could be helpful for during the course of the study.

(i) Cash

Cash is the first asset in the portfolio of a commercial bank. Cash is completely liquid form of asset, which refers to cash in hand, and cash with the central bank. Cash is held to meet 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

deposits liabilities in the form of cash of a commercial bank will be in the form of cash in its vault with central bank and some portion with other commercial banks for their inter bank adjustments. The cash reserve with central bank and other banks are equally good as cash lying in its vault.⁶

The success of a bank depends on the maintenance of adequate cash reserve required to honor the cheques presented by the customers. 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 must 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 banks (local or foreign) with maturity period of not-exceeding 7 days with stipulated condition for payment at call or at short notice (48 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 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 are regarded as ideal bank assets because they satisfy the principles of liquidity, safety and profitability.

(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

⁶ Shakespear Vaidya, "Banking Management", Monitor Nepal, Kathmandu, 1999.

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. The commercial banks of Nepal also make considerable amount of investments in government treasury bills and bonds.

(v) Loans and Advances, Cash Credits and Overdrafts

Loans and advances are the most profitable of all the assets of all commercial banks. This is the primary source of income and the most profitable of all the assets of the banks. Loans and advances account for the largest willing to lend as much of its funds as possible. But it has to be careful about the safety of such advanced as well. If the bank is too liberal, it may be influenced by bad debts whereas its timidity may fail to obtain adequate returns from the allocated funds for it. 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.

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

(vii) Other assets

Other assets of the banks include any other tangible and intangible assets, not mentioned above, 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.

B.Liabilities of Bank

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

(i) Capital

The authorized capital is the maximum amount of capital that a bank can issue under its memorandum of association. 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. It is an additional margin of safety for the depositors and creditors of the bank in case of their doubt about the financial situation of the bank.

(ii) Reserve fund

It is the presentation of accumulation of profits appropriated over a period of time. The objective of the reserve fund is to meet the unforeseen contingencies. It is not made from the original capital of shareholders but by the profit generated by the bank. 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. Under this head,

general reserve fund or the statutory reserve fund, capital reserve fund, share premium, other reserves and fund and accumulated profit/loss are presented.

(iii) Deposit

This item represents the liability of the bank. Since the deposits are the borrowed amounts from the depositors or from general public, it is the largest portion of liability of the banks. A bank can collect deposits in various forms- savings, time, current or demand deposits etc. Today different types of policy of the withdrawals of money from bank by the depositors. Similarly, different interest rates are entitled for different types of deposits.

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 and the deposit mix the bank has.

(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 this head.

(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, unexpired 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.

2.1.5 Consumer Lending and Borrowing

Among the most important of all financial markets are the markets providing savings instruments and credit to individuals and families. Many financial analysts have referred to the period since world war II as the age of consumer finance of loanable funds flowing into the financial markets today but system. Moreover, the market for consumer financial services is the one market that every one, regardless of profession or social status, will enter at one time or another during his or her lifetime.⁷

2.1.5.1 Consumers as lenders of funds

Each of us is a consumer of goods and services virtually every day of our life. Scarcely a single day passes that we do not enter the marketplace to purchase food, shelter, entertainment and other essentials of modern living. We are also well aware perhaps from personal experience, that consumers often borrow heavily in the financial marketplace to achieve their desired standard of living. The groups of consumers are the most important lenders of funds in the economy. Consumers supply loanable 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 spiraling medical expenses and other living costs in their later years.

⁷ Rose, Peter S. (1997), "Money and Capital Markets: Financial Institution and Instruments in a Global Marketplace", Irwin, Chicago, 6th edition. P553.

In third place among household holdings of financial assets are deposits in banks, saving and loan associations, credit unions, and other thrift institutions. The importance of deposits in consumer financial investment is increasing these days. There has also been a significant rise in household investments in small businesses, which are often owned and operated by an individual or by a member of same family.

2.1.5.2 Consumer as Borrowers of funds

It has been noted that consumers provide most of the savings out of which loans are made and financial assets 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 terms and relative 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, principal payment that comes due on consumer borrowings.

2.1.5.3 Categories of Consumer Borrowing

The range of consumer borrowing needs is enormous loan to the household sector support a more diverse group of purchase of goods and services than is true of any other sector of the economy. Consumer borrow long term loan to finance purchases of durable goods, such as single-family homes, automobiles and home appliances. They usually borrow short term to cover purchases of non-durable goods and services, such as medical care, vaccines, food and clothing. 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.
2. Installment Credit, used primarily for long term non-residential purpose; and
3. Non-installment Credit, used for shorter-term cash needs.

For and away 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 as a tax shelter and with recent tax reforms that favor loans secured by the borrower's home.

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, including the purchase of furniture and appliances, the payment of medical expenses, the purchase of automobiles, and the consolidation of outstanding debt, finances an incredibly wide variety of consumer goods and service.

The final major category of consumer debt is non-installment credit, which is normally paid off in a lump sum. This form of consumer 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 leading lender in this field.

2.1.5.4 Home Equity loans

One new form of consumer borrowing that is closely related to residential mortgage credit is home equity loan. 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 be 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 far, 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 a 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 recommend that consumers use home equity credit with caution, particularly when their future employment prospects are uncertain.

2.1.5.5 Consumer Lending Institution

Financial intermediaries-banks, saving and loan associations credit unions, and finance companies-account for most of the loans made to consumer in the economy. Intermediaries also dominate the market for non-installment credit and make the bulk of home mortgage loans. 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 in to 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 providing 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 as purchase of automobiles, home repair and more recently mortgage credit for the purchase of new homes. 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.

2.1.5.6 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 heavy 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.

2.2 Review of Unpublished Thesis

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 thesis 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**"⁸ 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 10 to 12 percent and the pay back period of 15 years. The age limitation has been established at 55 to 60 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 not 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, "**lending Policy of Commercial Banks in Nepal**"⁹ 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.

⁸ Shrestha, Neeva, "A Study on Housing Finance By Commercial Banks" an unpublished MBA thesis, TU, Kathmandu, 2003

⁹ Bharrarai, Ramala, "lending Policy of Commercial Banks in Nepal", on unpublished Master's degree theses, T.U. Kathmandu 1997

A study by **Upendra Tuladhar**, entitled “**A Study on the Investment Policy of Nepal Grindlays Bank Limited in comparison to other Joint venture Banks of Nepal**”¹⁰ 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 Pant, in his thesis entitled, “**A study of commercial Banks Deposits and its utilization**”¹¹ 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, “**An Analysis of Financial Performance of Finance Companies in the Context of Nepal**”¹² 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 companies 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

¹⁰ Tuladhar, Upendra, ”A Study on the Investment Policy of Nepal Grindlays Bank Limited in Comparison to Other Joint Venture Banks of Nepal” an unpublished Master’s degree thesis, TU, Kathmandu, 2000

¹¹ Pant, Uttam Raj, “A study of commercial Bank Deposits and its utilization” an unpublished master’s degree Thesis T.U., Kathmandu 1976

¹² Rababhat, Man Bahadur, “An Analysis of Financial Performance of Finance Companies in the Context of Nepal”, MBA thesis, T.U. Kathmandu, July 1997

- 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 trusts 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, “**The Impact of Interest Rate Structure on Investment Portfolio of Commercial Banks of Nepal**”¹³ 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** on the “**Impact of Interest Rate on Financial Performance of Commercial Banks**”¹⁴ 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.

2.3 Review of Research and Articles

Study undertaken by the Nepal Housing Development Finance Company.

¹³ Bhandary, Deepak Raj, “The Impact of Interest Rate Structure on Investment Portfolio of Commercial Banks of Nepal” An unpublished MBA thesis, TU Kathmandu, 1978

¹⁴ Dangol, Neeta , “Impact of Interest Rate on Financial Performance of Commercial Banks” an unpublished MBS thesis, TU, Kathmandu, 2003.

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 Rs. 10 million to extend the program to other qualified borrowers.

A household Survey¹⁵ Studied by the institution revealed that families rely on cash saving as the most important source of funding for the purchase of land for hosing 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 bye 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.

Loans Power Housing Growth¹⁶

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.

¹⁵ Culpin Planning Ltd., "Nepal Shelter Sector Background Report," March 1992, financing was provided by UNCHS (HABITAT) UNDP

¹⁶ The Himalayan Times, published on June 29, 2005.

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 can not be ignored," Sharma said.

RBB is offering house loans at an interest of 9% 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 in new loans, offered by the bank is the lowest one as of how under the house loan scheme.

NIC Asia 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. Annapurna Developers
3. Ansal Chaudhary Developers
4. Civil Homes
5. Comfort Housing
6. Dome Housing
7. Euro Housing and Developers
8. Grace Apartment
9. Greenwood Villas
10. Indrani Apartment
11. Jaulakhel Real Estate and Housing
12. Kusunti Housing
13. KC Constructions (Pokhara Homes)
14. Rapid Development
15. Saligram Apartments
16. Shangrila Villa
17. Subha Avas
18. Oriental Construction and Development
19. Valley Homes

Source: - *The Himalayan Times, Published on July 29, 2005*

S.N.	Name of the bank	Interest change on Housing Loan (%)
1.	Nabil Bank	9–10
2.	Nepal SBI	13-14
3.	Himalayan Bank	8.50–10.50
4.	Kumari Bank	11-12.50
5.	Nepal Bangladesh bank Ltd	9.50-11.50
6.	Nepal Investment Bank	12.50
7.	Bank of Kathmandu	13-14
8.	Mega Bank	9.5-12
9.	Prime commercial Bank	10-12
10.	Everest Bank limited	10-14
11.	Supreme Development Bank Ltd	10.5-13.50
12.	Sanima Bank	9–14
13.	Laxmi Bank, Birgunj	8–10
14.	Nepal bank	12-12.5
15.	Sunrise Bank	9-12
16.	NIC Asia Bank	8.99–15.99
17.	Global IME	12-12.5

Table 2. 1 List of Banks providing Housing Finance and their interest rates

Source: - Consumer Finance Index

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 victim of a causality 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 undergoing adjustment policies. The study on Housing and Economic Adjustments undertaken by 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 are 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 entities 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 mew secondary mortgage facilities.

ICICI Home Finance¹⁷

ICICI Home Finance Company Limited, the fully owned home loans, company established by ICICI Limited in 1999. ICICI is one of the main institutions, which has established itself as a major player in the field of housing finance. ICICI home finance, a fully owned subsidiary of ICICI Limited, is a housing finance company registered with the National Housing bank. ICICI home loans are available to customers in 60 cities and towns across the India. Loans are offered for the purchase of new homes, purchase of resale homes and home improvement.

Besides ICICI home finance, company limited has also launched loans for commercial property and is offering loans against existing property. The loans are offered for tenure up to 30 years.

The company has also introduced several customer friendly services such as “Door-step Service”, “Know your loan on phone facility” and “ICICI Home Search”- free property brokerage services. In FY 2000-01, the company sanctioned loans totaling Rs. 1388 crore and disbursed Rs. 677 crore. The company offers the home loan from 10.75 to 12.50% interest rate to the home loan

CHAPTER THREE

borrowers on the basis of loan period.

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is systematic way to solve the research problem. 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.¹⁸ 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. NBBL and , KBL, which are selected as sample financing banks.

¹⁷ Source: Web Page Publication on ICICI Group

¹⁸ Kothari, C.R.,(1994), “Research Methodology, Methods and Techniques” Vikash Publication House Pvt. Ltd, New Delhi, p-9

3.2 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulates what information is to be collected, from which sources and by what procedures.¹⁹ 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 NBBL, and KBL inconsideration 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.²⁰ At present there are 30 commercial banks operating in the kingdom of 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 30 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 and research. It allows the researcher to make an intensive study of the research problem within the limited time

¹⁹ Paul, E. Green and Donald, S. Till, “Research for Marketing Decision”

²⁰ Wold, Howard K. and Pant, P.R. (2000), Social Science Research and Thesis Writing” Second edition, Buddha Academic Enterprises Pvt. Ltd., Kathmandu, p-75

frame. When the study of whole population is not possible, sampling technique is adopted. The ideal sampling represents the whole universe accurately.

For selecting the samples, simple random sampling method is used here among different methods. Organizations under study are as follows, whose general introduction and major objectives are presented in chapter one.

- Nepal Bangladesh Bank Ltd.
- Kumari Bank Ltd.

3.4 Sources of Data and Collection Procedure

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

3.5 Data Processing and Presentation

The information and data obtained from the different sources are in row form. From that information, direct presentation is not possible. So it is necessary to process data and converts it into required form. After then only, the data are presented for this study. This process is called data processing. For the study, only required data are taken form the secondary source and presented likewise, in some case graphical presentation is also made. For presentation, different tables are used. Likewise, in some case graphical presentation is also made. 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

Analysis and presentation of the data is the core of each and every research work. In order to get the concrete results from this research, data are analyzed by using different types of tools. 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.²¹ 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 X = mean
 $\sum X$ = sum of all the variable
 N = variables involved

Coefficient of Correlation

The degree of relationship between two variables is identified by using this statistical tool. In other words, 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.²² Correlation may be positive or negative and range from -1 to +1. Simple correlation between the total loan and

²¹ Pant, G.D., and Chaudhary, A.K., (1999). "Business Statistics and Mathematics" Bhudi Puran Prakashan, Kathmandu, p-19

²² Sharma, P.K. and Chaudhary, A.K. (2000) "Statistical Methods", Khanal Books Prakashan, Kathmandu, p-420

advance and housing loans is computed in this thesis. For this research work, following reference is used.²³

- 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.

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

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

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

²³ Pant, G.D. and Chaudhary, A.K., (2053), "Statistics and Quantitative Techniques" 2nd edition, Nepal Sahitya Prakashan Kendra, Kathmandu, p-306

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 test 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.

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 NBBL and KBL, trend analysis and correlation analysis is used in this study.

4.2 Analysis of Housing Finance scheme and Features

In this section, detail study is made about the housing finance scheme and its features of various banks. For this study only three commercial banks are considered because of various limitations.

4.2.1 Nepal Bangladesh Bank Ltd.

Nepal Bangladesh Bank Ltd has started housing loan scheme for its valued customers. It has been introduced housing finance scheme since 2003 in the market. Before the date, it has provided the housing loan under construction and residence. To get the home loan facilities from the bank, the customer need to produce his or her income by

producing reference and guarantee from the employer. Depending upon the customer's income and need, the bank provide housing loan up to NRs. 5,00,000 to 99,00,000 to build or purchase a new house and up to NRs. 10,00,000 to renovate the existing house at a very competitive rate and its mode of payment is equal monthly installment basis.

The features of the housing loan scheme are tabulated in table 4.3.

Table 4.1
Features of Home Loan scheme by NBBL

S.N	Particular	Features
1	Finance	Commercial Building / Non-commercial Building
2	Finance in Housing Colony	No
3	Loan Amount	NRs. 5,00,000 to NRs. 99,00,000
4	Interest Rate	10% -11%
5	Payback Time Period	15 years
6	Mode of Repayment	Equal Monthly Installment
7	Loan disburse till date	NRs. 806.5 million
8	Bad-loan	Not yet
9	Grace period	1 year for new land building, negotiable for expansion.
10	Age bar	Last installment within 55 years
11	Scheme launched date	2003
12	Number of customer till date	900 (Approximately)

Source: Personal Interview

It has already attracted 900 customers till now with the total loan disbursement reaching NRs. 806.5 million. The finance is provided to commercial and non-commercial building and the age limit is 60 years. It also provide housing developer loan to the experienced firms/companies or persons in the field, for the construction of dwelling i.e., flats, houses or units.

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 within 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. 5,00,000 to NRs.40, 00,000 are disbursed at a very competitive rate of interest of 11% to 12.5%. Repay tenure is flexible to suit the need of the customers ranging from a minimum of 12 months to maximum of 120 months with a charge of 2% as prepaid amount on the outstanding amount.

KBL has already attracted 700 customers till now with the total loan disbursement reaching NRs. 502.29million. The finance is provided to commercial and non-commercial building and the age limit is 70 years. The terms and condition of the housing loan are as follows.

Terms & Conditions

- Property being mortgaged should be located within municipal boundaries of Kathmandu Valley and in other residential / commercial sector of developing areas within 40 KMs from the heart of Kathmandu (Hanuman Dhoka) like Godavari, Nagarkot, Bhaktapur, Dhulikhel, Kakani etc and must have motorable access.
- As security, the Bank shall have the First Legal Mortgage on freehold property (land + building) valued by Bank's approved valuer with extended value (Distress value as valued by the Bank's valuer) not less than the 100% of financed amount.
- Bank reserves the right to call for additional Registered Mortgage over land and / or building.
- First drawdown is allowed only after injection of investment portion of the Borrower is confirmed and subsequent drawdown is allowed in phase-wise manner upon receipt of application from the Borrower with details of estimated costs and confirmation of the Bank's valued of utilization of previously drawn amount.
- First Repayment Date is from the subsequent month of initial drawdown in case of ready built houses / refinance of owned houses while a moratorium period of six months will be provided in case of construction / renovation or expansion.
- Repayment is to be made in Equal Monthly Installments (Interest + Borrowings) which will not exceed 50% of the borrower's net monthly

earnings. Monthly net savings in case of Self-employed individuals must be 5 times of EMI.

- Property being mortgaged should be insured against fire, earthquake, flood etc with a banker's clause.

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

Table 4.2
Features of Home Loan scheme by KBL

S.N	Particular	Features
1	Finance	Commercial Building / Non-commercial Building
2	Finance in Housing Colony	No
3	Loan Amount	NRs. 5,00,000 to NRs. 40,00,000
4	Interest Rate	11%-12.5%
5	Payback Time Period	Maximum up to 10 years
6	Mode of Repayment	Equal Monthly Installment
7	Loan disburse till date	NRs. 502.29 million
8	Bad-loan	Not yet
9	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
12	Number of customer till date	700(Approximately)

Source: Personal Interview

4.3 Position of Housing Loan

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 NBBL and KBL are shown in the table 4.4 below.

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

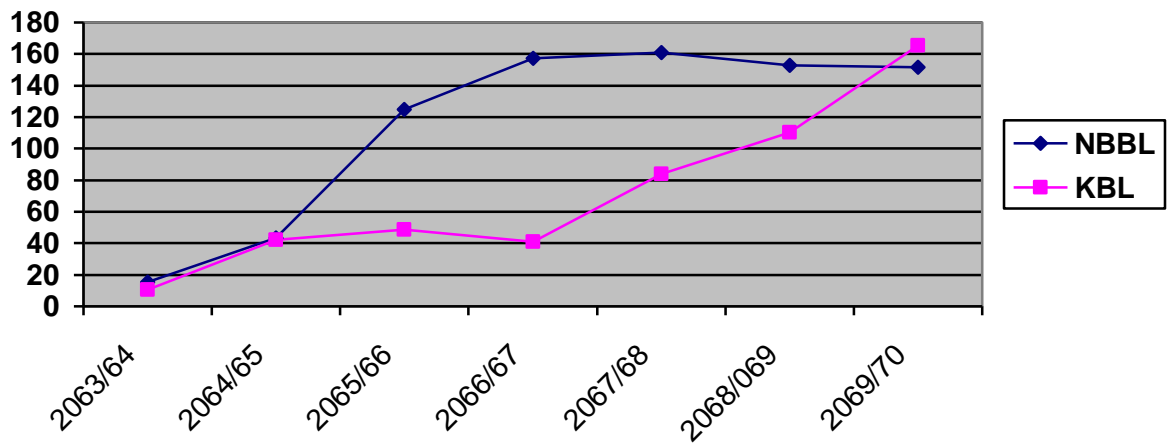
Years	NBBL	KBL
	2063/064	15.53
2064/065	43.57	42.32
2065/066	124.70	48.62
2066/067	157.13	40.94
2067/068	161.06	83.79
2068/069	152.99	110.39
2069/070	151.52	165.58
Total	806.5	502.29

Source: Internal Sources

From the Table No. 4.4, it is seen that the amount of housing loan for NBBL is in increasing trend. The amount is seen to be increased by more than triple within past seven six months' periods. Similarly for KBL, the amount is in increasing trend but with fluctuation. During the mid period of the study, it is in fluctuating but latter on, the trend has been increased. ,

These all situation can be presented on figure no. 4.1

Figure No. 4.1
Trend of Housing Loan for NBBL 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, 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	NBBL	KBL
	2063/064	18914.07

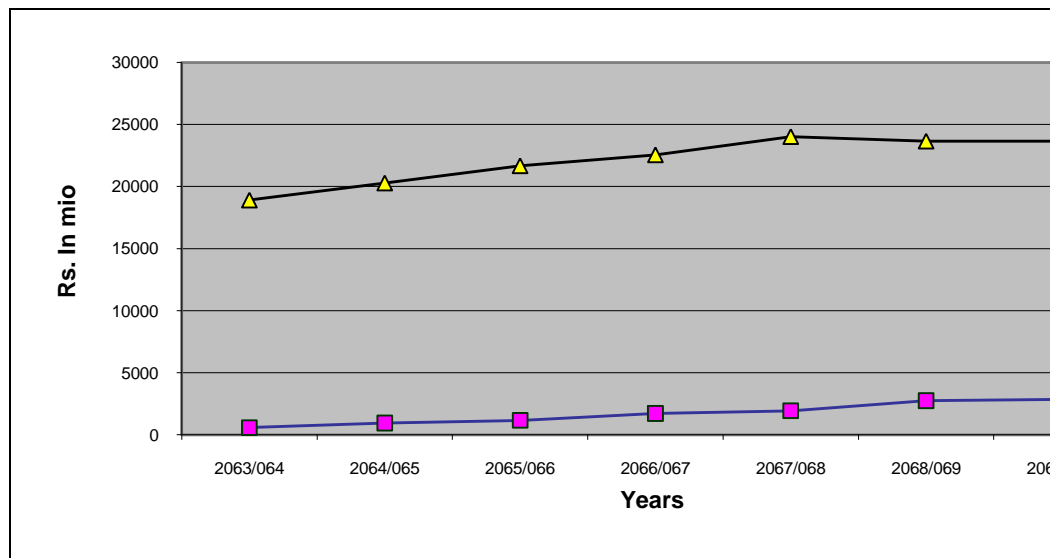
2064/065	20286.23	947.58
2065/066	21671.57	1158.15
2066/067	22550.93	1715.03
2067/068	24014.65	1933.97
2068/069	23652.05	2739.55
2069/070	23649.69	2851.37
Total	154739.19	11923.66

Source: Annual Report

From the Table: 4.5, it is seen that the amount of Total loan for NBBL is in increasing trend. The amount is seen to be increased by more than double amount in past seven periods. Similarly for KBL, the amount is in increasing trend and the amount has increased by more than five times. These all events can be present on figure: 4.2

Figure No. 4.2

Trend of Total Loan and Advance for NBBL 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 NBBL

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: 4.5

Correlation between Housing loan and Total loan for NBBL (Rs in million)

year	Housing Loan (X)	Total Loan (Y)	X.Y	X ²	Y ²
2063/064	15.53	18914.07	293735.51	241.18	357742044
2064/065	43.57	20286.23	883871.04	1898.34	411531127.6
2065/066	124.7	21671.57	2702444.78	15550.09	469656946.3
2066/067	157.13	22550.93	3543427.63	24689.84	508544443.9
2067/068	161.06	24014.65	3867799.53	25940.32	576703414.6
2068/069	152.99	23652.05	3618527.13	23405.94	559419469.2
2069/070	151.52	23649.69	3583401.03	22958.31	559307837.1
	ΣX=806.5	ΣY= 154739.19	ΣXY=18493206.65	ΣX²= 114684.03	ΣY² =3442905283

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

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

$$r_{xy} = \frac{7 \times 18493206.65 - (806.5)(154739.1)}{\sqrt{7 \times 114684.03 - (806.5)^2} \sqrt{7 \times 3442905283 - (154739.1)^2}}$$

$$= 0.954$$

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 0.972 time in the same direction. This figure indicates NBBL has increased its housing loan scheme each year in its total loan.

Probable Error (P.E) of Correlation coefficient

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

$$= 0.023$$

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

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
2063/064	10.65	578.01	6155.81	113.42	334095.56
2064/065	42.32	947.58	40101.59	1790.98	897907.86
2065/066	48.62	1158.15	56309.25	2363.90	1341311.42
2066/067	40.94	1715.03	70213.33	1676.08	2941327.90
2067/068	83.79	1933.97	162047.35	7020.76	3740239.96
2068/069	110.39	2739.55	302418.92	12185.95	7505134.20
2069/070	165.58	2851.37	472129.84	27416.74	8130310.88
	ΣX=502.29	ΣY= 11923.66	ΣXY=1109376.09	ΣX ² = 52567.85	ΣY ² =24890327.78

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

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

$$r_{xy} = \frac{7 \times 1109376.09 - (502.29)(11923.66)}{\sqrt{7 \times 52567.85 - (502.29)^2} \sqrt{7 \times 24890327.78 - (11923.66)^2}}$$
$$= 0.922$$

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 0.922 time in the same direction.

Probable Error (P.E) of Correlation coefficient

$$P.E.(r) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$$
$$= 0.038$$

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_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.

4.6.1 Trend Analysis of Housing Loan of NBBL

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 3 half yearly period.

Table: 4.7
Trend Analysis of Housing loan of NBBL (Rs. in million)

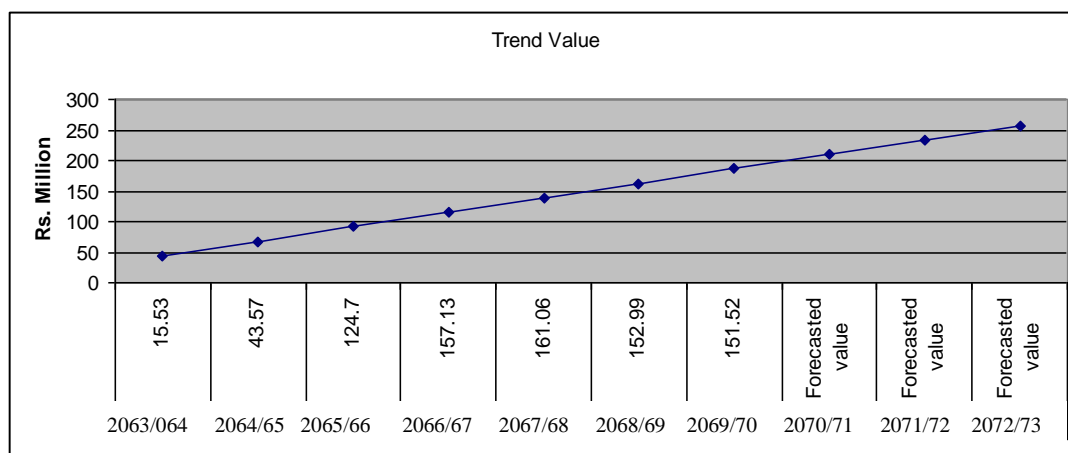
Years	Housing Loan	Trend Value
2063/064	15.53	44.17
2064/065	43.57	67.85
2065/066	124.7	91.53
2066/067	157.13	115.21
2067/068	161.06	138.89
2068/069	152.99	162.57
2069/070	151.52	186.25
2070/071	Forecasted value	209.93
2071/072	Forecasted value	233.61
2072/073	Forecasted value	257.29
Mean (a)		115.21
Rate of Change (b)		23.68

Trend Equation	155.21+23.68x
-----------------------	----------------------

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

Figure: 4.3

Trend Analysis of Housing Loan of NBBL



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 3 half yearly period are presented 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. 22.72 millions, i.e. $b = 22.72$. The mean housing loan of 6 months period is Rs. 71.75 million in the study period. If other things remaining the same, the housing loan for the 6 months period ending Pausha 2070, Ashadh 2071 and Pausha 2071 will be Rs. 162.63 million, Rs. 185.35 million and Rs. 208.07 million respectively.

Table: 4.8

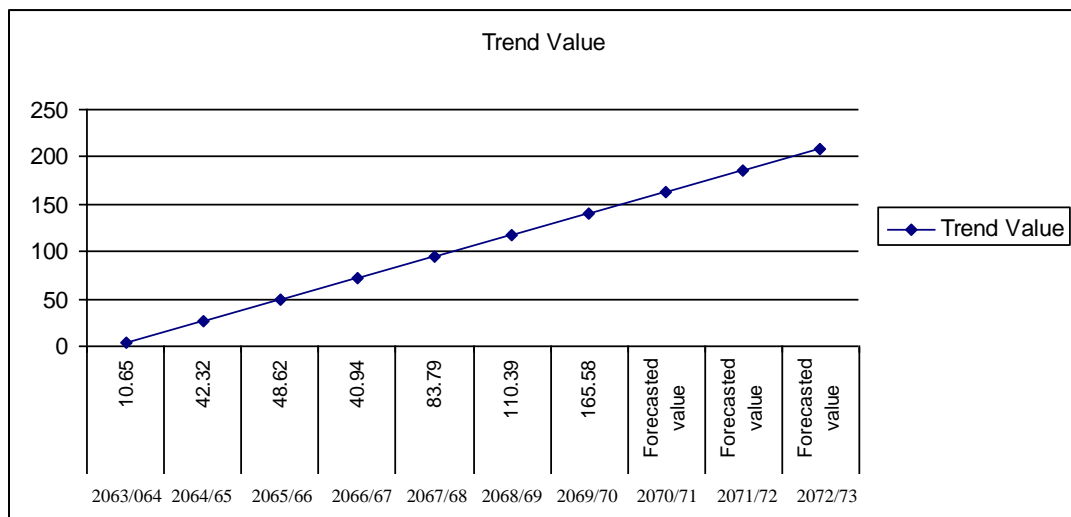
Trend Analysis of Housing loan of KBL Rs. in million

Years	Housing Loan	Trend Value
2063/064	10.65	3.59
2064/065	42.32	26.31
2065/066	48.62	49.03
2066/067	40.94	71.75
2067/068	83.79	94.47
2068/069	110.39	117.19
2069/070	165.58	139.91
2070/071	Forecasted value	162.63
2071/072	Forecasted value	185.35
2072/073	Forecasted value	208.07
Mean (a)		71.75
Rate of Change (b)		22.72
Trend Equation		71.75+22.72x

To make clear these facts can be presented in diagram 4.4 as following.

Figure: 4.4

Trend Analysis of Housing Loan of KBL



4.6.6 Trend Analysis of Loan and Advance of NBBL

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

From the table: 4.14, it is depicted that the amount of loan and advance of NBBL is fluctuated but in increasing trend. The rate of change is Rs. 831.48 millions, i.e. $b=831.48$. The mean loan and advance of 6 months period is Rs. 22105.59 million in the study period. If other things remaining the same, the loan and advance for the 6 months period ending Pausha 2070, Ashadh 2071 and Pausha 2071 will be Rs. 25431.51 million Rs. 26262.99 million and Rs. 27094.47 million respectively.

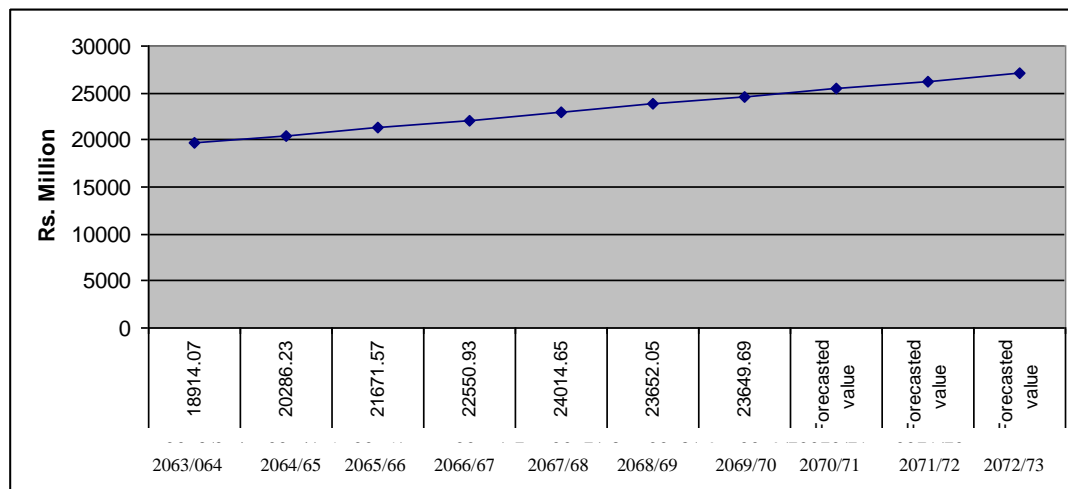
Table: 4.9

Trend Analysis of Loan and Advance of NBBL (Rs. in million)

Years	Loan and Advance	Trend Value
2063/064	18914.07	19611.15
2064/065	20286.23	20442.63
2065/066	21671.57	21274.11
2066/067	22550.93	22105.59
2067/068	24014.65	22937.07
2068/069	23652.05	23768.55
2069/070	23649.69	24600.03
2070/071	Forecasted value	25431.51
2071/072	Forecasted value	26262.99
2072/073	Forecasted value	27094.47
Mean (a)		22105.59
Rate of Change (b)		831.48
Trend Equation		22105.59 + 831.48 x

These facts can be presented in diagram to make clear as following.

Figure: 4.5
Trend Analysis of Loan and Advance of NBBL



4.6.5 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 lone 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. 399.28 millions, i.e. $b=399.28$. The mean loan and advance of 6 months period is Rs. 1703.38 million in the study period. If other things remaining the same, the loan and advance for the 6 months period ending Pausha 2070, Ashadh 2071 and Pausha 2071 will be Rs. 3300.5 million Rs. 3699.78 million and Rs. 4099.06 million respectively.

Table: 4.10

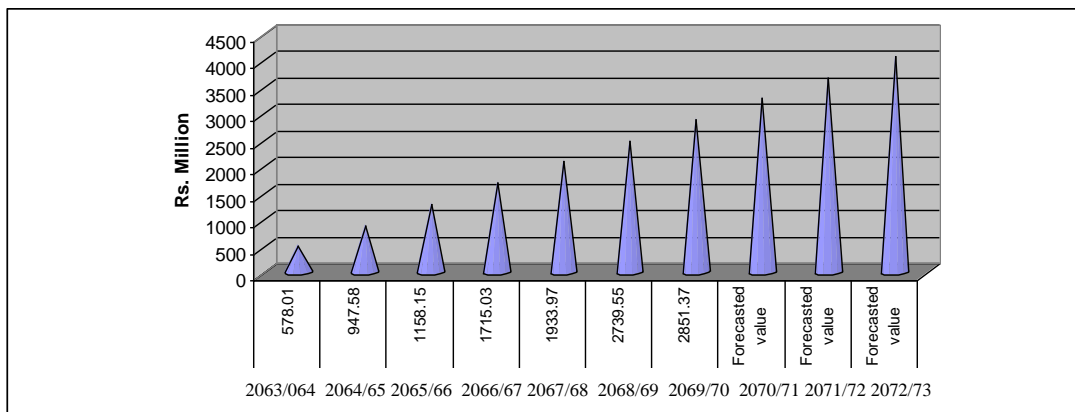
Trend Analysis of Loan and Advance of KBL (Rs. in millions)

Years	Loan and Advance	Trend Value
2063/064	578.01	505.54
2064/065	947.58	904.82
2065/066	1158.15	1304.1
2066/067	1715.03	1703.38
2067/068	1933.97	2102.66
2068/069	2739.55	2501.94
2069/070	2851.37	2901.22
2070/071	Forecasted value	3300.5
2071/072	Forecasted value	3699.78
2072/073	Forecasted value	4099.06
Mean (a)		1703.38
Rate of Change (b)		399.28
Trend Equation		1703.38+399.28x

These facts can be presented in diagram 4.6 as following.

Figure: 4.6

Trend Analysis of Loan and Advance of KBL



4.7 Major Findings of the Study

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist the findings, issues and gaps of the study. This would be meaningful to the desired result. The following presents a comprehensive summary of the main finding of the study.

Main findings of the Study

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

Housing finance scheme and features

- The NBBL has been providing the housing finance since 2003. The interest rate on housing loan has been revised from 12% to 10%-11%. Similarly the KBL have been charging the interest of 11%-12.5%.
- The housing loan amount of NBBL has been increased from Rs. 5, 00,000 to Rs. 99, 00,000. Likewise, the KBL have been granting Rs. 5, 00,000 to Rs. 40, 00,000. The maximum loan amount of the every sample banks is equal.
- The loan repayment period of NBBL is up to 15 years. But KBL has maximum up to 10 years payback period.
- All the sample banks have no bad loans till now. The NBBL has disburse Rs. 806.5 million in housing loan while the KBL have disbursed the Rs. 502.29 million.
- 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 60 years of age of the borrower for NBBL while 70 years of age for KBL.
- The mode of repayment for every bank is equal monthly installment.
- The NBBL has approximately 900 customers till now while KBL have approximately 700 customers.

Position of Housing Loan

- The proportion of housing loan in total loan and advance for all the banks under the study is in increasing trend but the ratio of NBBL is found sharply increased.
- Similarly, the ratio of KBL and NBBL was Rs. 10.65 million and Rs. 15.53 million respectively in 069/03/31. And these amounts have increased to Rs. 165.58 million and Rs. 151.52 million respectively in 070/03/31.

From the above result, it is concluded that the position of housing loan for NBBL and KBL is in better position. 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 NBBL and KBL is in increasing trend.
- Similarly for KBL, the amount has increased from Rs. 578.01 million in 069/03/31 to Rs. 2851.37 million in 070/03/31.
- While the amount of NBBL was Rs. 18914.07 million in 069/03/31 and has reached to Rs. 24014.65 million in 070/03/31 but it was decreased thereafter.

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

Correlation between Housing Loan and Total Loan

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

- It is also found that the correlation between housing loan and total loan of NBBL is highly positive; i.e. $r = 0.954$, which means when one variable changes by one times, other variable also changes by 0.954 time in the same direction.
- Similarly, the correlation between housing loan and total loan of KBL has high positive value; i.e. $r = 0.922$, that indicates the relationship between two variables is very strong..

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

Trend Analysis of Housing Loan

- It is depicted that the amount of housing loan of NBBL is fluctuated in increasing trend. The rate of change is Rs. 23.68 million. i.e. $b= 23.68$. The mean housing loan of 6 months period is Rs. 115.21 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. 22.72 million, i.e. $b= 22.72$. The mean housing loan of 6 months period is Rs. 71.75 million during the study period.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is concluding chapter. In this chapter, summary of the study and conclusions derived from the study are presented. At last recommendations to the concerned body 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, 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. Kumari Bank Ltd... This study is also concerned with evaluate the relationship between total loan and advance and housing loan.

5.3 Conclusions

Housing finance scheme in NBBL was launched in the market in the month of April 2003. Since the bank primarily focuses on retail banking, the budget authorized for housing loan does not have any limitation. The interest rate has been revised from 12% to 10%-11% and the loan amount has been increased from Rs.5, 00,000 to Rs. 99, 00,000. The loan repayment period has also been increased up to 15 years. The financing is provided to commercial building as well as non commercial building. The age limit for the repayment of last installment is 60 years of age of the borrower.

KBL has 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 within municipal boundaries. Depending upon the customer's income and need, the loan amounting NRs. 5, 00,000 to NRs. 40, 00,000 may be disbursed at a very competitive rate of interest of 11%-12.5%. Repay tenure is flexible to suit the need of the customers ranging from a minimum of 12 months to maximum of 120 months with a charge of 2% as prepaid amount on the outstanding amount. The finance is provided to commercial and non-commercial building and the age limit is 70 years.

While observing the past seven semi-annual periods data covering three and half years, it is found that the proportion of housing loan in total loan and advance for all the banks under study is in increasing trend. The ratio of NBBL is found sharply increased. Similarly, the ratio of KBL and NBBL was Rs. 10.65 million and 15.53 million respectively in 070/03/31. These amounts have increased to Rs. 165.58 million and Rs. 151.52 million respectively in 071/03/31.

. Similarly for KBL, the amount is in increasing trend and the amount has increased from Rs. 578.01 million in 070/03/31 to Rs. 2851.37 million in 071/03/31. In the same manner, for NBBL, the amount is in increasing trend for past five six months' periods but latter on it has decreased. The amount was Rs. 18914.07 million in 069/03/31 and the amount was increased to Rs. 24014.65 million in 070/03/31 but it was decreased to Rs. 23649.69 million in 071/03/31.

It is revealed that the correlation between housing loan and total loan 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 0.954 time in same direction.

It is found that Correlation coefficient 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 0.922 time in same direction.

It is depicted that the amount of housing loan of NBBL is fluctuated in increasing trend. The rate of change is Rs. 23.68 million. I.e. $b= 23.68$. The mean housing loan of 6 months period is Rs. 115.21 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. 22.72 million, i.e. $b= 22.72$. The mean housing loan of 6 months period is Rs. 71.75 million during the study period.

5.4 Recommendation

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

- NBBL and KBL, have disbursed little amount as home 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 home 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 pay back period.
- More simplified legal procedure should be established by the financial institutions to cater the loans in efficient manner.

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APPENDIX

D) Arithmetic Mean:

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

Where \bar{X} = mean

$\sum X$ = sum of all the variable

N = variables involved

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

Where,

r = Karl person's coefficient of correlation

n = number of observation in series X and series Y

$\sum X$ = Sum of the observations in series X

$\sum Y$ = Sum of the observations in series Y

$\sum X^2$ = Sum of the square of observation in series in X

$\sum Y^2$ = Sum of the square of observation in series in Y

$\sum XY$ = Sum of the product of the observations in series X and series Y

F) Trend Analysis

Trend Analysis $(Y_c) = a + b$

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

G) Probable Error (P.E) of Correlation coefficient

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

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

H) Correlation between Housing loan and Total loan for NBBL (Rs in million)

year	Housing Loan (X)	Total Loan (Y)	X.Y	X ²	Y ²
2063/064	15.53	18914.07	293735.51	241.18	357742044
2064/065	43.57	20286.23	883871.04	1898.34	411531127.6
2065/066	124.7	21671.57	2702444.78	15550.09	469656946.3
2066/067	157.13	22550.93	3543427.63	24689.84	508544443.9
2067/068	161.06	24014.65	3867799.53	25940.32	576703414.6
2068/069	152.99	23652.05	3618527.13	23405.94	559419469.2
2069/070	151.52	23649.69	3583401.03	22958.31	559307837.1
	ΣX=806.5	ΣY= 154739.19	ΣXY=18493206.65	ΣX= 114684.03	ΣY =3442905283

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

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

$$r_{xy} = \frac{7 \times 18493206.65 - (806.5)(154739.1)}{\sqrt{7 \times 114684.03 - (806.5)^2} \sqrt{7 \times 3442905283 - (154739.1)^2}}$$

$$= 0.954$$

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 0.972 time in the same direction. This figure indicates NBBL has increased its housing loan scheme each year in its total loan.

Probable Error (P.E) of Correlation coefficient

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

$$= 0.023$$

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

I) Correlation between Housing loan and Total loan for KBL (Rs. In million)

Year	Housing Loan (X)	Total Loan (Y)	XY	X ²	Y ²
2063/064	10.65	578.01	6155.81	113.42	334095.56
2064/065	42.32	947.58	40101.59	1790.98	897907.86
2065/066	48.62	1158.15	56309.25	2363.90	1341311.42
2066/067	40.94	1715.03	70213.33	1676.08	2941327.90
2067/068	83.79	1933.97	162047.35	7020.76	3740239.96
2068/069	110.39	2739.55	302418.92	12185.95	7505134.20
2069/070	165.58	2851.37	472129.84	27416.74	8130310.88
	ΣX=502.29	ΣY= 11923.66	ΣXY=1109376.09	ΣX ² = 52567.85	ΣY ² =24890327.78

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

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

$$r_{xy} = \frac{7 \times 1109376.09 - (502.29)(11923.66)}{\sqrt{7 \times 52567.85 - (502.29)^2} \sqrt{7 \times 24890327.78 - (11923.66)^2}}$$

$$= 0.922$$

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 0.922 time in the same direction.

Probable Error (P.E) of Correlation coefficient

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

$$= 0.038$$

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

