

# CHAPTER - I

## INTRODUCTION

### 1.1 Background of the Study

As financial institutions, commercial bank is one of the major means in the frameworks of every economy because they collect scattered saving and provides loan to the various sector according to the need of client. When bank provides loan to new business and industries is established which helps in the development of the country. In this way, whole infrastructure of national development, direction of economy rate of progress is strengthening by banking system.

Housing finance will meet the immediate shortage for adequate housing in Nepal. It will be the first major step toward achieving the longer term objective of establishing a sustainable market-based housing finance system that will allow low and middle income households access to housing loans from qualified participating banks. The access of the poor to urban services and adequate housing continues to be limited. One of the critical factors to increase access to good housing and services, for the poor and for middle-income families, is housing finance.

The major sources of housing finance for low- and middle-income households are their own savings and family assets. The access to a housing finance loan release the financial and technical resources of family, friends, and relatives for other activities. When surveyed regarding housing finance, most potential beneficiaries indicated their willingness to contribute at least as much as the loan to the construction or purchase of the house. Further, the results indicate the overwhelming demand to improve housing, mainly by buying or constructing new houses. Asian Development Bank's involvement in housing in Mongolia is justified by (i) a large demand for adequate housing and shelter, which is essential for survival of the households, particularly for the poor, given the extremes of the Mongolian climate; (ii) the significant health benefits that will accrue from better and improved basic infrastructure; and (iii) the inter-linkages between the financial, banking, housing and construction sectors that will be strengthened, and substantial employment opportunities that will be created.

The main benefit of the housing finance is its catalytic impact on improving the access of low- and middle-income households to housing finance, and the accompanying policy reform plan agenda that will focus on (i) establishing an environment conducive for housing development, (ii) setting up appropriate and sustainable mechanisms for providing housing finance at market rates, and (iii) strengthening institutional capacities in the housing finance and contracting sectors.

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.

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

The word "Bank" is orient in medieval age in 1171 A.D. The "Bank of Vanish" was the 1<sup>st</sup> bank, which established in Italy. Then after in 1401 AD "Bank of Barcelona" is established in Spain, but the credit of the development of modern bank goes to " The Bank of England "which was established in 1694 AD in London."

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

With the gradual development of bank, its functions are increasing. It only dealt with the exchanges of money in its preliminary phase, but later it accepting deposit from public against interest and providing them in the form of loan to the needy persons was the basic function defined. But now a day, bank covers wide range of activities. Banking institutions are indispensable for resource mobilization and all round development maintains economic confidence of various segments and extends credit to the people.

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

Generally the bank refers to commercial bank. Bank collect fund as a saving from public of country and invest in highly return yielding firm. It develops saving habits in people. Commercial bank plays vital role for development of a developing country. Bank provides internal resource for developing country's economy. It collects diversified capital from different parts of country through its own branches so commercial bank is the heart of trade, industry and business in modern age. Commercial banks earn optimal profit by mobilizing such saving resources properly. In the Nepalese context, like other countries, goldsmiths, merchants and moneylenders were the ancient bankers of Nepal. **Tejarath Adda** established during the Prime Minister Ranodip Singh (1933B.S) was the first step towards the institutional development of banking in Nepal. Tejarath Adda did not collect deposits from the public but provided loans to employees and public against the collateral.

The history of development of modern bank started from the establishment of "**Nepal Bank Limited**" in 1937 A.D (1994 B.S) with put forth effort of government and public, as a commercial bank with 10 million authorized capital. Then the government

felt the requirement of central bank and established “**Nepal Rastra Bank**” in 1956 A.D (2013 B.S) as a central bank under NRB act 2012 B.S. It played leading role in development of banking in Nepal and also controlled the monetary culture in the country. Likewise, rising of banking function get popular and more complicated. Thus NRB suggested for the establishment of another commercial bank and in 1966 A.D (2022 B.S) “**Rastriya Banijya Bank**” was established as a fully government owned commercial bank. Now it’s branches are diversified all over the country.

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

Only in 1990 A.D after reestablished of democracy, the government took the liberal policy in banking sector. As an open policy of HMG’s to get permission to invest in banking sector from private and foreign investor under commercial bank act 1975 A.D (2031 B.S), different private banks are getting permission o established with the joint venture of other countries. Now a day, there are 17 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. And NIC Bank Ltd. is also operating from 1997 A.D and Kumari Bank Ltd., Laxmi Bank Ltd. and Siddhartha Bank Ltd. are also operating as a new commercial bank in Nepali financial market.

### **Present Status of Banking Industry**

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

Nowadays there are 26 listed licensed 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 in important role for the growth of countries economic position. Agriculture development bank and Nepal industrial development bank are government owned bank. Other development banks like Nepal development bank ltd malika bikas bank ltd, Udyam Bikas bank ltd, Nirdhan Utthan Bank Ltd rural micro finance development center and cottage and small industries development bank ltd, and other 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 customers deposits therefore it is of almost importance that the subsequent leading should be of minimal risk. Banks have often been criticized for not lending more freely. But higher risk of 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 than 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 Charter 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 bank of Katmandu has just introduced the mobile banking services.

**Table 1.1**  
**Lists of Licensed Commercial Banks**

S. N	Commercial Banks	Operation Date (A.D)	Head Office	Paid -up capital (Rs in million)
1	Nepal Bank Ltd.	1937/11/15	Kathmandu	380.4
2	Rastriya Banijya Bank	1966/01/23	Kathmandu	1172.30
3	Agriculture Development Bank	1968/01/02	Kathmandu	10777.50
4	Nabil bank Ltd.	1984/07/16	Kathmandu	14491.00
5	Nepal Investment Bank Ltd .	1986/02/27	Kathmandu	2407.10
6	Standard Chartered Bank Ltd.	1987/01/30	Kathmandu	1398.50
7	Himalayan Bank Ltd.	1993/01/18	Kathmandu	1600.00
8	Nepal SBI Bank Ltd.	1993/07/07	Kathmandu	874.50
9	Nepal Bangladesh Bank Ltd.	1994/06/05	Kathmandu	1860.30
10	Everest Bank Ltd.	1994/10/18	Kathmandu	8305.00
11	Bank of Kathmandu Ltd.	1995/03/12	Kathmandu	11822.00
12	Nepal Credit and Commerce Bank Ltd.	1996/10/14	Siddharthanagar, Rupandehi	1399.60
13	Lumbini Bank Ltd.	1998/07/21	Narayangadh, Chitwan	1288.00
14	Nepal Industrial & Commercial Bank Ltd.	1998/07/21	Biratnagar, Morang	1391.80
15	Machhapuchhre Bank Ltd.	2000/10/03	Pokhara, kaski	1700
16	Kumari Bank Ltd.	2001/04/03	Kathmandu	1304.90
17	Laxmi Bank Ltd.	2002/04/03	Birgunj, Parsa	1533.70
18	Siddhartha Bank Ltd.	2002/12/24	Kathmandu	1230.00
19	Global Bank Ltd.	2007/01/02	Birgunj , Parsa	1325.10
20	CitizenBank International Ltd.	2007/06/21	Kathmandu	1159.10
21	PrimeCommercial Bank Ltd	2007/09/24	Kathmandu	1163.80
22	Sunrise Bank Ltd	2007/10/12	Kathmandu	1419.40
23	Bank of Asia Nepal Ltd	2007/10/12	Kathmandu	1053.20
24	Development Credit Bank Ltd.	2008/05/25	Kathmandu	1655.30
25	NMB Bank Ltd	2008/06/05	Babarmahal, Kathmandu	1430.00
26	Kist Bank ltd	2003/02/21	Anamnagar	2000.00

*Source: - Banking and Financial Statistics, as Mid July 2009*

## 1.2 Profile of the Concerned Banks

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

### **1.2.1 Everest Bank Limited**

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

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

The main purpose of EBL is to extend professional banking services to various sectors of the society in the Kingdom of Nepal and thereby contributing in the economic development of the country. It provides following facilities and services to their customers;

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



Everest Bank Ltd. is moving towards to the consumer finance and providing different types of loans like; Housing Loan, Home Equity Loan, Education Loan, Professional Loan, and Vehicle Loan etc. The authorized capital of the bank was Rs.240 million, issued capital Rs.120 millions and paid-up capital Rs.117.5645 millions in the beginning of 2051/52.

### **1.2.2 Kumari Bank Limited**

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 3 branches including main branch (head office) in Nepal. It was established fully investment made by Nepalese investors and its 100% equity is held by the Nepali promoters and public.

KBL is providing following facilities and services to their customers;

- ) Internet Banking
- ) Electronic Bill Payment System
- ) Mobile Banking
- ) Debit Card, Credit Card

### **1.3 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. 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 considering 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 the situation 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. Commercial banks in Nepal have been facing various challenges and problems. Financing in industries and productive sector is very risky project. Banks are investing in house loan, auto loan, hire-purchase loan etc. due to lack of good lending opportunities banks are facing problem over housing finance. 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?

#### **1.4 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., EBL and KBL). This study is also concerned with whether the banks are adopting efficient housing finance policy or not. The main objectives related to this study are presented as below:

- ) To analyze the trend of Total Loan and Housing Loan.
- ) To evaluate the relationship between Total Loan and Advances and Housing Loan.
- ) To examine the position of Housing Loan of sample commercial banks.
- ) To provide suggestions for the improvement of Housing Loan schemes on the basis of findings.

#### **1.5 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 10<sup>th</sup> five-year plan the financial institutions are joining hands by venturing different housing schemes. The private developers initiating the construction of different housing projects, people in general are still derived of the facility to own their houses. So, an independent study in this sector will help people find their way to the solution for their investment for the houses.

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

1. By the help of this study, general public can know the housing financing activities of the banks.
2. It is also beneficial for the government while formulating policies and rules regarding housing finance.

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

### **1.6 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. The study is only confined to housing loan, total loan and advances of EBL & KBL, so all the findings may or may not be applicable to all commercial banks of Nepal.
2. Only two commercial banks have been selected as sample for the study, i.e. EBL and KBL.
3. This study covers last seven years data.
4. Non-availability of the various references of sources acts as constraints for the study.
5. Only the housing financing aspect is analyzed. While providing suggestion, other performance of the organizations is fully neglected.

### **1.7 Organization of the Study**

This study has been organized into five chapters each denoted some aspects of the study of credit practices of commercial bank. The title of these chapters is as follows:

#### Chapter I: Introduction

This introduction chapter covers general background of the study, glance of the bank, statement of problem, objective of the study, limitation of the study, importance of the study and organisation of the study.

#### Chapter II: Review of literature

The second chapter focuses on review of literature. It contains the conceptual framework and review of related studies.

### Chapter III: Research Methodology

The third chapter deals with research methodology to be adopted for the study consisting research design, source of data, data gathering procedure, population and sample research variables and data processing procedures.

### Chapter IV: Data Presentation and Analysis

The fourth chapter deals with presentation, analysis and interpretation of data. It consists analysis of primary as well as secondary data, major finding of the research.

### Chapter V: Summary, Conclusion & Recommendations

The fifth chapter includes the summary, conclusion and recommendation of the study.

Bibliography and other annexes used in statistical result have been attached at the end of the document. The rational behind this kind of organisation is to follow a simple research methodology.

## **CHAPTER - II**

### **REVIEW OF LITERATURE**

This chapter is basically concerned with review of literature on the housing finance of two banks i.e. Everest bank Limited and Kumari Bank limited that describes the conceptual framework and highlights the literature that is available in concerned subject.

#### **2.1 Conceptual Frame Work**

##### **2.1.1 Introduction of Commercial Bank**

The commercial banks are those banks that pool together the savings of the community and arrange for their productive use. In the process of such intermediation, commercial bank plays funds raised from different sources into different assets with a prime objective of profit generation 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 together the savings of the community and arrange for their productive use. They supply financial needs of modern business.

The commercial bank has its own role and contribution in the economic development. It is a resource for the economic development, it maintain economic confidence of various segments and extends credit to people. These banks are established to improve people’s economic welfare and facility, to provide loan to offer banking services to the people and the country. It provides internal resources for developing countries economic. It collects diversified capital from different parts of country through its own branches. American institution of banking (1972 AD) defines commercial bank as; corporation which accepts demand deposits, subjected to cheque and makes short term loans to business enterprises, regardless of the scope of its other services (Singh, 2004:5).

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.

### **2.1.2 Functions of Commercial Bank**

Bank can be defined according to the function they performed. Bank established with prime objective of profit maximization. To achieve this, Bank performs various functional activities. “Principally, commercial bank accepts, deposits, provides loan, primarily to business firms there by facilitating the transfer of funds in the economy”. However, in the previous years, banks were viewed as acceptor of deposits and provider of loan but modern commercial banks have to perform for overall development of trade commerce, industry, agriculture, including priority and dependent upon banking. So, we do not have doubt to say that the main objective of commercial banks is to earn profit by performing various functions. Following are the main function performed by the commercial banks.

#### **2) Accepting Deposits**

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

##### **a) Current Deposit**

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

##### **b) Saving Deposit**

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

##### **c) Fixed Deposit**

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

### **3) Advancing Loans**

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

#### **a) Overdraft**

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

#### **b) Cash Credit**

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

#### **c) Direct Loans**

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

#### **d) Discounting Bills of Exchange**

If a creditor holding a bill of exchange wants money immediately, the bank provides him money by discounting bill of exchange. It deposited the amount of the bill in the



current account of the bill holder after deducting its rate of interest for the period of loan. The length is generally 90 days. When the bill of exchange matures, the bank gets its payment from the banker of the debtors who accepted the bill.

#### **4) Agency Service**

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

#### **5) 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.

#### **6) General Utilities Services**

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

##### **a) Assist in Foreign Trade**

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

##### **b) Safekeeping of Valuables**

The bank receives valuables such as securities 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.

**c) 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.

**d) 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.

**e) 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.

**f) 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.

Asian Development Bank’s involvement in housing in Mongolia is justified by (i) a large demand for adequate housing and shelter, which is essential for survival of the households, particularly for the poor, given the extremes of the Mongolian climate; (ii) the significant health benefits that will accrue from better and improved basic infrastructure; and (iii) the inter-linkages between the financial, banking, housing and

construction sectors that will be strengthened, and substantial employment opportunities that will be created.

Basically, conceptual framework describes the following areas of the study, which are closely related to the research work.

## **2.2 Concept of Loan**

The term credit has been defined as the amount of money lent by the creditors to the borrower either on the basis of security or without security. Loan means a thing that is lent especially a sum of money. Loan management is the most important aspect of every bank and different financial institution. Loan is the sum lent to others for certain time period with the agreement to charge interest on principal. The interest is charged calculating certain percentage on the principal. When money belonging to one is advanced to another to be used for certain period of time, it is called loan.

### **2.2.1 Types of Loan**

Banks make a wide variety of loans to a wide variety of customers for many different purposes. For customers, the cause of loan purchasing may be investment in business, purchasing automobiles, taking dream vacations, purchasing college education, construction homes and office building etc. on the basis of the purposes loan can be divided into following categories:

#### **) Housing Loan**

It is the credit extended to purchase or improve real, property, such as land and buildings. Such loans are secured by real property-land and other structure. Housing loan include long term loan to finance the purchase of farmland, houses, apartments, commercial buildings.

#### **) Financial Institution Loan**

It is the credit extended to banks and other financial service providers such as finance companies, insurance companies, co-operative firms etc.

#### **) Agricultural Loans**

Such types of loans are given to support farmers in planting crops, harvesting, storing and marketing agricultural products.

) Commercial and Industrial Loans

These types of loans are extended to business firms to support production and distribution of their product and services.

) Individual Loans

This is the loan extended to individuals for house hold purposes. They include purchase of automobiles, machinery, kitchen appliances etc.

) Miscellaneous Loan

All those loan that are not included in above classified loan fall in this category.

### **2.2.2 Principle 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.

### **2.2.3 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 number 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 ' $\sigma^2$ '. 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 ' $\sigma$ '.



### **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;

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

### **Mean**

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

#### **2.2.4 Assets and Liabilities of Commercial Banks**

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

##### ***Assets of a Bank***

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.

The success of a bank depends on the maintenance of adequate cash reserve required to honour 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 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, 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.

#### 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 form 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 form Other Banks**

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

**(vi) Other Liabilities**

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

**(vii) Profit and Loss Account**

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

**2.2.5 Consumer Lending and Borrowing**

Among the most important of all financial markets are the markets providing savings instrument s and credit to individuals and families. Many financial analysts have referred to the period since word war II as the age of consumer finance of loanable funds flowing into the financial markers 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.

### **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.

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.

### **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, which comes due on consumer borrowings.

### **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 coven 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 from 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 relived 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 consume credit includes single payment loans, charge accounts, and credit for services, such as medical care and utilities. The total amount of non-installment loans outstanding is difficult to estimate because many such loans are made by one individual to another or by department stores, oil and gas companies and commercial banks, however, make a substantial volume of non-installment loans to consumers and are considered the lending lender in this field.

### 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 or presenting a credit card for purchases made up to a stipulated maximum amount known as the borrowing base. The borrowing base usually equals the difference between the appraised market value of the borrower's home and the unpaid amount of the mortgage against that home multiplied by a fraction (of 70%).

Most home equity loan rates are linked to the bank prime interest rate plus and 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 for, 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 reason. 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 amore stable value. Moreover the cost of making home equity substantially lower than the cost of a series of short-term loans made to the same customer. In addition, these loans usually carry rates that adjust to the market, whereas, many other consumer loans have fixed interest rates. Finally home equity credits help the lender to build a working relationship with a customer better than most other types of consumer loans, creating more opportunities for the lender to sell that customer additional services.

The borrower can repeatedly borrow, repay and borrow again because most home equity credit lines are revolving credits. However, if the borrower cannot make the loan payments his or her home may be repossessed and sold to pay back the lender.



Many financial experts recommended that consumers use home equity credit with caution, particularly when their future employment prospects are uncertain.

### **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 in 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 most 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.

### **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.

### **2.3 Review of Research and Articles**

#### **Study undertaken by the Nepal Housing Development Finance Company**

The Nepal Housing Development Finance Company (NHDFC) 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 NHDFC 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 NHDFC 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 Survey Studied by the institution revealed that families rely on cash saving as the most important source of funding for the purchase of land for housing and for housing construction. Savings as the principal source of funding were almost three times as large as the second most common source the sale of land. Other important sources include loans from employees, sale of ornaments; remittances and the sale of one house to by 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.

## **ICICI Home Finance**

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. The main objective of this home loan was to facilitate loan 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 borrowers on the basis of loan period

## **2.4 Review of 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:-

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

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

In this study, he has concluded the following findings

- ) Mean current ratio of NGBL is slightly higher than that of other banks i.e. NABIL and HBL. Liquidity position of NGBL is less than that of the other two JVBs.
- ) Mean of cash and bank balance to current ratio of NGBL is less than of NABIL and HBL.

- J Mean of loan and advances to total deposit ratio of NGBL is less than that of other two JVBs.
- J Mean of investment on government securities to working fund ratio of NGLB is better than that of other two JVBs.
- J NGBL has the largest profit margin in comparison with other two JVBs.
- J 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.

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

**Shrestha (Pradhan) (2003)**, conducted a study on, “*Housing Finance by Commercial Banks*” tried to identify the convenient housing finance schemes out of the commercial banks. According to this thesis, the objectives were as follows:-

- J To find the means for people to find a convenient housing finance schemes out of the commercial institutions.
- J To find out the possibility for financing organization to launch these schemes.
- J 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 must 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.

**Poudel (2004)**, in his thesis, "*A study on Lending Practices of joint Venture Commercial Banks with reference to Nepal Bangladesh Bank Ltd. and Himalayan Bank Ltd.*" has made comparative study of these two banks in different lending aspect.

The basic objective of his research is to determine the impact of deposit collection and its effect on lending practices, to know the volume of contribution made by both banks in lending, to analyze loan disbursement and its recovery and to analyze the performance of credit and its contribution in total profitability.

According to his findings, the liquidity position of NBBL is comparatively better than HBL because the mean current ratio of NBBL is higher than that of HBL. The mean ratio of loan and advances to total assets of NBBL is higher than that of HBL. But the mean ratio of investment to total loan and advances of HBL is higher than that of NBBL. He has concluded that NBBL is able to manage its assets to compete in this competitive banking business than HBL.

**Gautam (2006)**, has submitted her thesis on "*loan Disbursement and collection of Lumbini Bank Limited*". Her objective of study are to analyze the different types of loan Disbursed, to measure the percentage of performing and non performing loan on tional loan and to study the status of loan recovery.

the major findings of her study shows that out of total deposit collection, 82.7% in an average is disbursed as loan during the seven year of study and about 73.86% of the total loan disbursed has been recovered.

**Gupta (2007)**, conducted a research study entitled "*comparative Analysis of Financial Performance of commercial Banks in Nepal.*" The researcher's major objective of the study was to evaluate the liquidity ratios, Activity ratios, Profitability Ratios and other market related ratios of Everest Bank Limited, Bank of Kathmandu and Nepal Standard Chartered Bank Limited.

The main finding of his study was that among the three sample banks Bank of Kathmandu maintained highest liquidity position during the research period and Nepal Standard Chartered Bank had excellent assets utilization in order to achieve the goal of maximizing the share holder's wealth.

**Limbu (2008)**, in his dissertation "*Credit Management of Nabil Bank Limited*" highlighted the objective of evaluation of liquidity position of the sample bank within 5 year study period.

The objectives are:

- ) To examine the reason behind the banks increased funding in the housing sector.
- ) To examine the various factors that determines the demand for house loan.
- ) To explore the strategies of bank to match with the high growth of housing sector.
- ) To understand and determine the competitiveness among the banks in the housing sector development business.

His findings concluded that Nabil Bank Limited has been maintaining a steady growth rate over this period.

- ) People were highly conscious about community life and sanitation facilities.
- ) This composition shows that there are more people taking loan who are living at housing complex than purchasing house on cash basis.
- ) Also savings, salary, business, sale of property are also a major source of income for purchasing a house.
- ) Most of the respondent's preferred to deal with NABIL for their home loan.
- ) The housing customers always have their choice of financial institution, though the housing complexes also provide such services to help people.
- ) The increasing trend in the housing sector is due to the remittance factor, Nepalese spending pattern, which is high in house purchase and construction and internal migration of people due to conflict.

## **CHAPTER - III**

### **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. Thus the overall approach to the research is presented in this chapter.

#### **3.2 Research Design**

A research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. It is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern or framework for the project that stipulates what information is to be collected, from which sources and by what procedures. Thus a research design is a plan for the collection, presentation, analysis and interpretation of data.

This study is analytical in nature. A true research design is basically concerned with various steps to collect the data for analysis and draw a relevant conclusion. The research design allows the researchers to take an appropriate measure and direction towards the predetermined goals and objectives. The research examines the facts and postulates in certain frameworks on details and supplies the important information on subject matter, summary of the study, major findings of the study, recommendation among them, they were derived with the help of some statistical tools were adopted to evaluate the housing finance of commercial banks. They are EBL and KBL in consideration not only to research about them but also to facilitate among them.

#### **3.3 Population and Samples**

The term population or universe for research means the universe of research study in which the research is based. At present there are 26 commercial banks operating in Nepal and most of their stocks are traded actively in the stock market. Due to the lack of suitable investing opportunity, all banks are involved in Housing Finance. So



precisely saying, all 26 commercial banks are the population of this study. Among them 2 commercial banks are chosen as sample from total population.

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

) Everest Bank Ltd.

) Kumari Bank Ltd.

### **3.4 Sources of Data Collection Techniques**

This study was mainly based on secondary data. These data were 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 has been used which was 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 was collected through the personal visit and from their respective web sites.

### **3.5 Data Processing and Presentation**

Data are collected from two sources i.e. both the primary and secondary data are used for the study. The information and data obtained from the different sources were in row form. The annual reports of the concerned bank are the major sources of data of the study. From that information, direct presentation was not possible. So it was necessary to process data and converts it into required form. After then only, the data were presented for this study. This process was called data processing. For the study, only required data were taken form the secondary source and presented likewise, in some case graphical presentation has also been made. For presentation, different table was used. Likewise, in some cases graphical presentation was also made. The calculations that were related to this study was 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 were 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 were used.

### **Arithmetic Mean**

Arithmetic mean is the sum of all the observations divided by the number of observations. In such cases all the items are equally important. As arithmetic mean is most common, popular and widely used tools for data analysis, here in this study also, arithmetic mean is used. It is computed by using following formula.

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

Where  $\sum X$  = 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. Correlation may be positive or negative and range from  $-1$  to  $+1$ . Simple correlation between the total loan and advance and housing loans is computed in this thesis. For this research work, following reference is used.

- ) 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.

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

Where,

r = Karl person's coefficient of correlation

n = number of observation in series X and series Y

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

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

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

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

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

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

### **Trend Analysis**

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

$$Y_c = a + bx$$

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

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

Here,  $Y_c$  was 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 was 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.

$$\text{P.E.}(r) = 0.6745 \left| \frac{1 Z r^2}{\sqrt{n}} \right|$$

Where,  $\frac{1 Z r^2}{\sqrt{n}}$  = 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  $r < \text{P.E.}(r)$  is not significant (i.e. insignificant)
- 2) If  $r > \text{P.E.}(r)$ , then is definitely significant.

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

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

#### **4.2 Analysis of Housing Finance scheme and Features of the Sample**

##### **Banks**

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 Everest Bank Limited**

Everest Bank Limited is the pioneer in retail banking which includes auto loan, education loan, housing loan and consumer products. Housing finance scheme was launched in the market in the month of April 2001. Since the bank primarily focuses on retail banking, the budget authorized for housing loan does not have any limitation. In view of customer's convenience, it has modified its scheme regarding the loan amount, the interest rate and loan repayment period. The interest rate has been revised from 12% to 10% and the loan amount has been increased from Rs. 1,500,000 to Rs. 4,000,000. 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. And the age limit is 55 years.

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

**Table 4.1**  
**Features of Home Loan Scheme by EBL**

S.N	Particular	Features
1	Finance	Commercial Building / Non-commercial Building
2	Finance in Housing Colony	Agreement with Kathmandu Residency and so on.
3	Loan Amount	NRs. 20,00,00 to NRs. 4,00,00,00
4	Interest Rate	10%
5	Payback Time Period	Maximum up to 15 years
6	Mode of Repayment	Equal Monthly Installment
7	Loan disburse	NRs. 7503.4 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	Authorized capital for Housing Loan of the total budget in %	No limit
12	Scheme launched date	April 2001
13	Number of customer till 2063	1250 (Approximately)

*Source: Department of Loan of Everest Bank Limited*

#### **4.2.2 Kumari Bank Limited**

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. 500,000 to Nrs. 4,000,000 and are disbursed at a very competitive rate of interest of 10.5%. Repay tenure is flexible to suit the need of the customers ranging from a minimum of 12 months to maximum of 84 months with a charge of 1% as prepaid amount on the outstanding amount. KBL has already attracted 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 65 years.

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. 50,00,00 to NRs. 4,00,00,00
4	Interest Rate	10.5%
5	Payback Time Period	Maximum up to 15 years
6	Mode of Repayment	Equal Monthly Installment
7	Loan disburse	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 2063	700(Approximately)

*Source: Department of Loan of Kumari Bank Limited*

### **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 EBL and KBL are shown in the table 4.3 below.

**Table 4.3**  
**Position of Housing Loan**

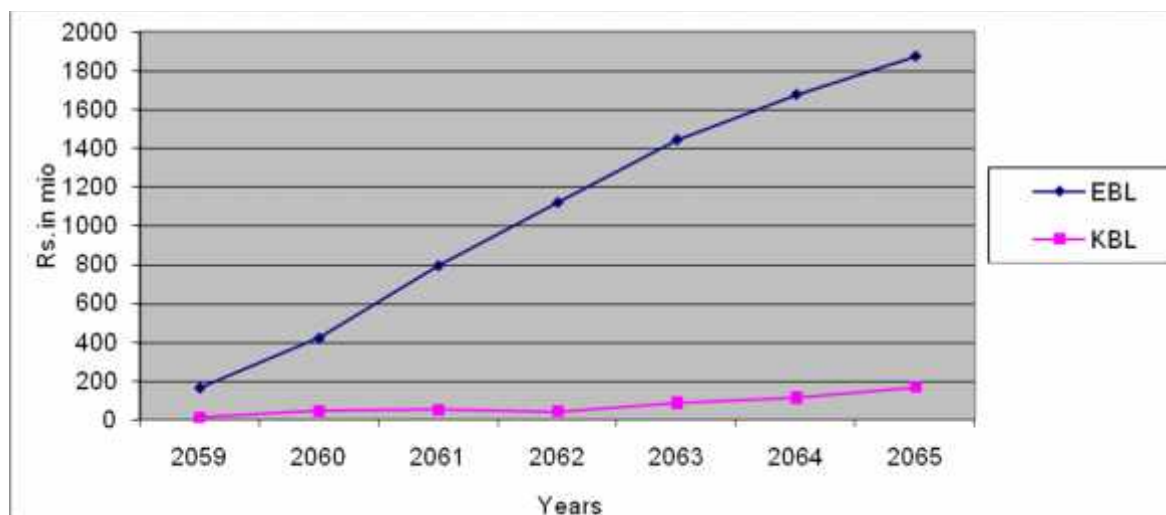
(Rs. In million)

Years	Housing Loan	
	EBL	KBL
059/3/32	165	10.65
060/3/32	421.4	42.32
061/3/31	795.5	48.62
062/3/31	1121.5	40.94
063/3/32	1445.1	83.79
064/3/32	1679	110.39
065/3/31	1875.9	165.58
<b>Total</b>	<b>7503.4</b>	<b>502.29</b>

*Source: Loan Department of EBL & KBL*

From the table 4.3, it is seen that the amount of housing loan for EBL is in increasing trend. The amount is seen to be increased more within past seven years period. 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 4.1

**Figure 4.1**  
**Trend of Housing Loan for EBL and KBL**





#### 4.4 Position of Total Loan and Advance

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

**Table 4.4**  
**Position of Total Loan and Advance**

(Rs. In million)

Years	Total Loan and Advance	
	EBL	KBL
059/3/32	8361.6	578.01
060/3/32	9025.1	947.58
061/3/31	10576.2	1158.15
062/3/31	11908.9	1715.03
063/3/32	12768.6	1933.97
064/3/32	14929.7	2739.55
065/3/31	17121.5	2851.37
<b>Total</b>	<b>84691.6</b>	<b>11923.66</b>

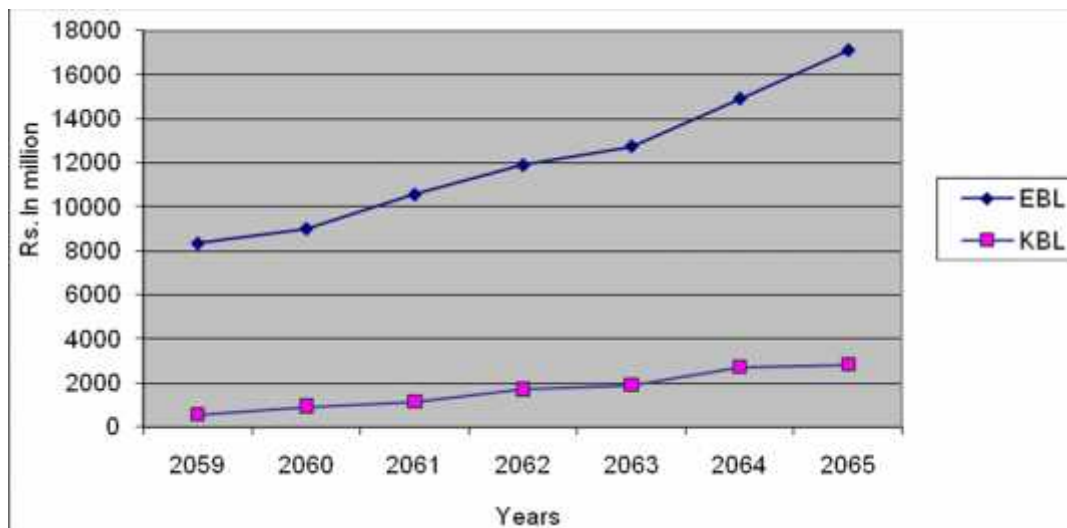
*Source: Annual Reports*

From the table 4.4, it is seen that the amount of Total loan for EBL is in increasing trend. The amount is seen to be increased by more than double amount in past seven years. 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 4.2**

**Trend of Total Loan and Advance for EBL and KBL**



**4.5 Relationship between Housing Loan and Total Loan**

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

**4.5.1 Correlation between Housing Loan and Total loan for EBL**

To find out the relationship between housing loan and total loan, it is necessary to know the magnitude of relationship. The better measure to know the magnitude of relationship is to calculate correlation coefficient. Following table shows the value of  $r$ , P.E between the housing loan and total loan of Everest Bank Limited. (For detail see appendix V (a))

**Table 4.5**  
**Correlation between Housing Loan and Total Loan for EBL**

(Rs in million)

Bank	Correlation co-efficient	Probable Error
Everest Bank Limited	0.972	0.014

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 indicates EBL has increased its housing loan scheme each year in its total loan.

#### **4.5.2 Correlation between Housing Loan and Total Loan for KBL**

Following table shows the value of r, P. E. between the loan and housing loan of Kumari Bank Limited during the study. (For detail see appendix V (b))

**Table 4.6**  
**Correlation between Housing Loan and Total Loan for KBL**

(Rs in million)

Bank	Correlation co-efficient	Probable Error
Kumari Bank Limited	0.922	0.038

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

#### **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,

$$Y_c = a + bx$$

Where,  $a = \frac{\phi y}{n}$  and  $b = \frac{\phi xy}{\phi x^2}$

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 EBL

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

**Table 4.7**  
**Trend Analysis of Housing Loan of EBL**

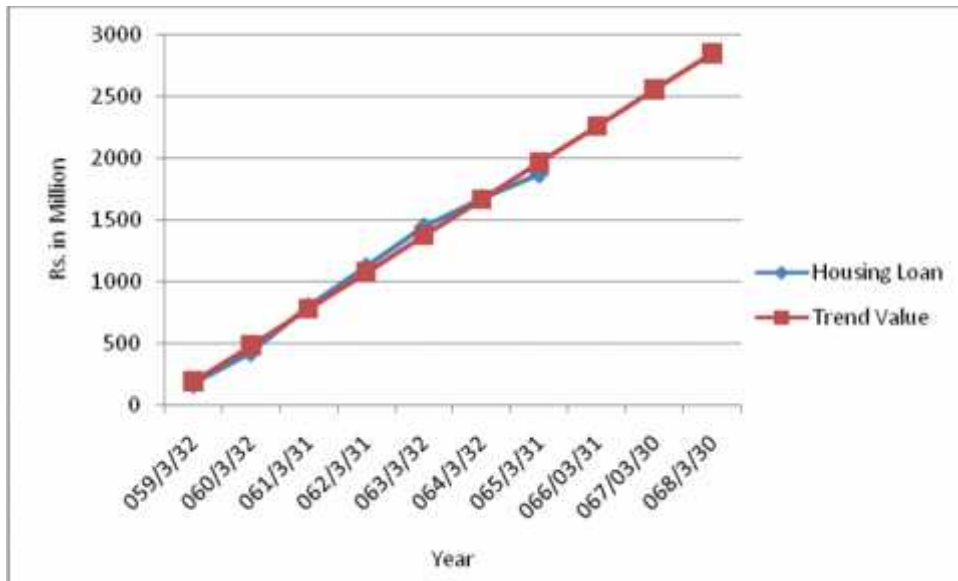
(Rs. in million)

Years	Housing Loan	Trend Value
059/3/32	165	182.89
060/3/32	421.4	479.23
061/3/31	795.5	775.57
062/3/31	1121.5	1071.91
063/3/32	1445.1	1368.25
064/3/32	1679	1664.59
065/3/31	1875.9	1960.93
066/03/31	Forecasted value	2257.27
067/03/30	Forecasted value	2553.61
068/3/30	Forecasted value	2849.95
<b>Mean (a)</b>		<b>1071.91</b>
<b>Rate of Change (b)</b>		<b>296.34</b>
<b>Trend Equation</b>		<b>1071.91+296.34x</b>

Source: Appendix I

From the table 4.7, it is found that the amount of housing loan of EBL is in increasing trend. The rate of change is Rs. 296.34 million. i.e.  $b=296.34$ . The mean housing loan of 6 months period is Rs. 1071.91 million in the study period. If other things remains same, the housing loan for period ending 2066, 2067 and 2068 will be Rs. 2257.27 million Rs. 2553.61 million and Rs. 2849.95 million respectively. These facts can be presented in diagram to make clear as following.

**Figure 4.3**  
**Trend Analysis of Housing Loan of EBL**



#### 4.6.2 Trend Analysis of Housing Loan of KBL

The trend of amount of housing loan for KBL and its forecasted housing loan amount for the seven year period are presented in table 4.8.

From the table 4.8, 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 one year period is Rs. 71.75 million in the study period. If other things remaining the same, the housing loan for the period 2066, 2067 and 2068 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**

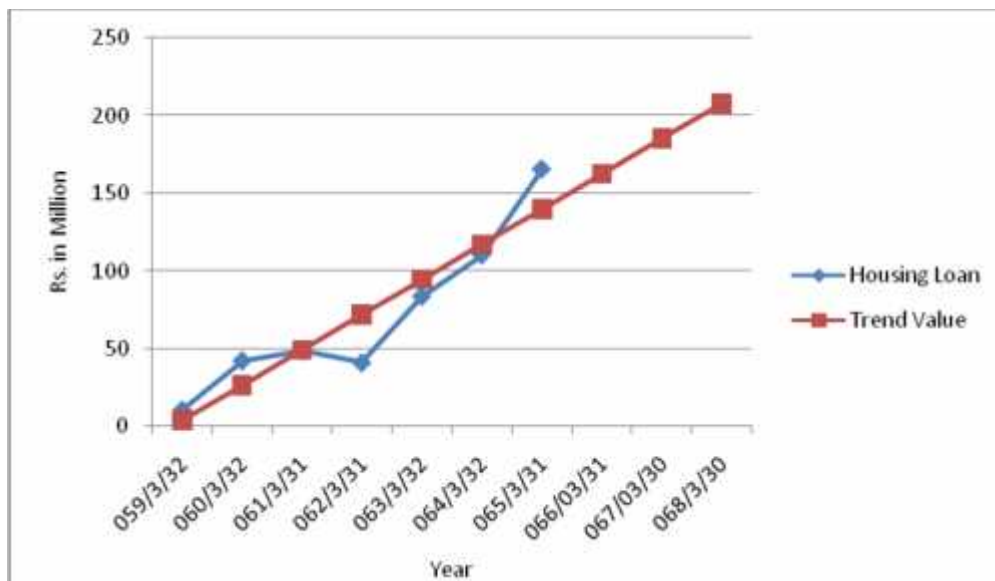
(Rs. in million)

Years	Housing Loan	Trend Value
059/3/32	10.65	3.59
060/3/32	42.32	26.31
061/3/31	48.62	49.03
062/3/31	40.94	71.75
063/3/32	83.79	94.47
064/3/32	110.39	117.19
065/3/31	165.58	139.91
066/03/31	Forecasted value	162.63
067/03/30	Forecasted value	185.35
068/3/30	Forecasted value	208.07
<b>Mean (a)</b>		<b>71.75</b>
<b>Rate of Change (b)</b>		<b>22.72</b>
<b>Trend Equation</b>		<b>71.75+22.72x</b>

Source: Appendix II

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

**Figure 4.4**  
**Trend Analysis of Housing Loan of KBL**



#### 4.6.4 Trend Analysis of Loan and Advance of EBL

In this section, an attempt is made to analyze the trend of loan and advance of EBL and to forecast the loan and advance for the last seven year period.

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

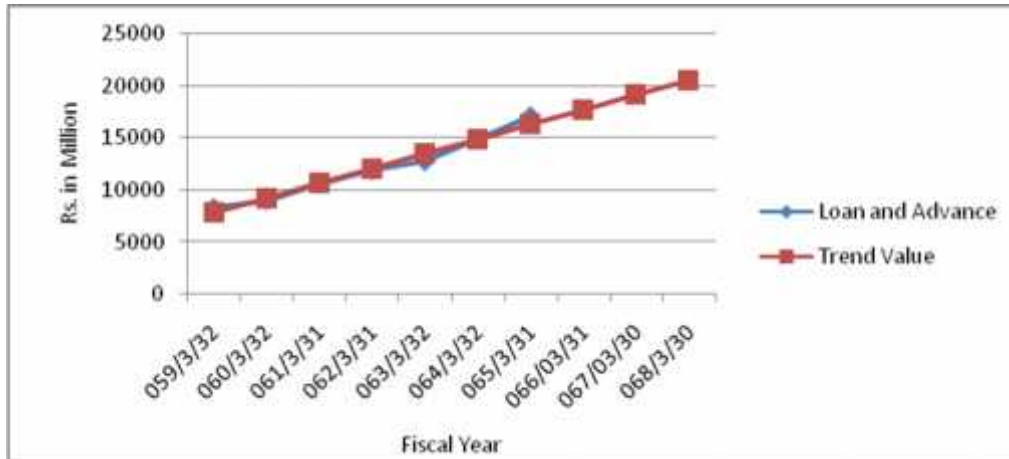
(Rs. in million)

Years	Loan and Advance	Trend Value
059/3/32	8361.6	7875.07
060/3/32	9025.1	9282.98
061/3/31	10576.2	10690.89
062/3/31	11908.9	12098.8
063/3/32	12768.6	13506.71
064/3/32	14929.7	14914.62
065/3/31	17121.5	16322.53
066/03/31	Forecasted value	17730.44
067/03/30	Forecasted value	19138.35
068/3/30	Forecasted value	20546.26
<b>Mean (a)</b>		<b>12098.8</b>
<b>Rate of Change (b)</b>		<b>1407.91</b>
<b>Trend Equation</b>		<b>12098.8+1407.91x</b>

*Source: Appendix III*

From the table 4.9, it is revealed that the amount of loan and advance of EBL is fluctuated in increasing trend. The rate of change is Rs. 1407.91 million. i.e.  $b=1407.91$ . The mean loan and advance of one year period is Rs. 12098.8 million in the study period. If other things remaining the same, the loan and advance for the coming year 2066, 2067 and 2068 will be Rs. 17730.44 million Rs. 19138.35 million and Rs. 20546.26 million respectively. These facts can be presented in diagram to make clear as following.

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



#### 4.6.5 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 loan and advance for the last seven year period.

From the table 4.10, 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 one year period is Rs. 1703.38 million in the study period. If other things remaining the same, the loan and advance for the year 2066, and coming year 2067 and 2068 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 million)

Years	Loan and Advance	Trend Value
059/3/32	578.01	505.54
060/3/32	947.58	904.82
061/3/31	1158.15	1304.1
062/3/31	1715.03	1703.38
063/3/32	1933.97	2102.66
064/3/32	2739.55	2501.94
065/3/31	2851.37	2901.22
066/03/31	Forecasted value	3300.5
067/03/30	Forecasted value	3699.78
068/3/30	Forecasted value	4099.06
<b>Mean (a)</b>		<b>1703.38</b>
<b>Rate of Change (b)</b>		<b>399.28</b>
<b>Trend Equation</b>		<b>1703.38+399.28x</b>

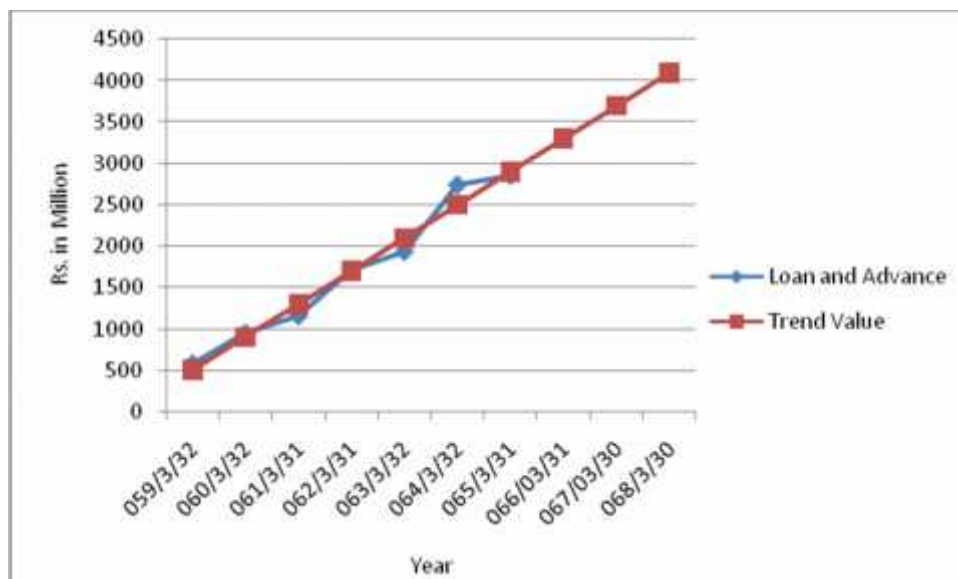
Source: Appendix IV



These facts can be presented in figure 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.

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

#### Housing Finance Scheme and Features

- ) The EBL has been providing the housing finance since April 2001. The interest rate on housing loan has been revised from 12% to 10%. Similarly the KBL and NBBL have been charging the interest of 10.5% and 11% respectively.
- ) The housing loan amount of EBL has been increased from Rs. 1,500,000 to Rs. 4,000,000. Likewise, the KBL has been granting Rs. 500,000 to Rs. 4,000,000. The maximum loan amount of the every sample banks is equal.
- ) The loan repayment period of EBL and KBL has maximum up to 15 to 20 years payback period.

- )] All the sample banks have no bad loans till now. The EBL has disburse Rs. 7503.4 million in housing loan while the KBL has disbursed the Rs. 502.29 million
- )] All the sample banks have been providing the loan to commercial building as well as non-commercial building.
- )] The age limit for the repayment of last installment is 55 years of age of the borrower for EBL while 65 years of age for KBL.
- )] The mode of repayment for every bank is equal monthly installment.
- )] The EBL has approximately 1250 customer till 2063 while KBL has 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 EBL is found sharply increased.
- )] The amount of housing loan for EBL was Rs. 165 million in 059/03/31 and it has increased to Rs. 1875.9 million in 065/03/31.
- )] Similarly, the ratio of KBL was Rs. 10.65 million in 059/03/31. And these amounts have increased to Rs. 165.58 million in 065/03/31.

From the above result, it is concluded that the position of housing loan for EBL 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 EBL and KBL is in increasing trend.
- )] The total loan amount for EBL was Rs. 8361.6 million in 059/03/31 and it has reached to Rs. 17121.5 million in 065/03/31.
- )] Similarly for KBL, the amount has increased from Rs. 578.01 million in 059/03/31 to Rs. 2851.37 million in 065/03/31.

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

### **Correlation between Housing Loan and Total Loan**

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

- ) It is found that the correlation between housing loan and of EBL is highly positive; i.e.  $r = 0.972$ . It means, the EBL has increased its housing loan scheme each year in the same proportion at which the amount of loan and advances are increased.
- ) 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 found that the amount of housing loan of EBL is fluctuated in increasing trend. The rate of change is Rs. 296.34 million i.e.  $b=296.34$ . The mean housing loan of one year period is Rs. 1071.91 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 one year period is Rs. 71.75 million during the study period.

## **CHAPTER - V**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

This chapter is concluding chapter. In this chapter, summary of the study and conclusions derived from the study are presented. At last recommendations on the basis of the major findings are presented for the implementation and improvement in the future.

#### **5.1 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 important 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 analyse the housing financing scheme adopted by the sampled banks, i.e. Everest Bank Ltd. and Kumari Bank Ltd. This study is also concerned with evaluation of the relationship between total loan and advance and housing loan.

## **5.2 Conclusions**

Housing finance scheme in EBL was launched in the market in the month of April 2001. Since the bank primarily focuses on retail banking, the budget authorized for housing loan does not have any limitation. The interest rate has been revised from 12% to 10% and the loan amount has been increased from Rs. 1,500,000 to Rs. 4,000,000. 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 55 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. 500,000 to Nrs. 4,000,000 may be disbursed at a very competitive rate of interest of 10.5%. Repay tenure is flexible to suit the need of the customers ranging from a minimum of 12 months to maximum of 84 months with a charge of 1% as prepaid amount on the outstanding amount. The finance is provided to commercial and non-commercial building and the age limit is 65 years.

While observing the past seven year periods data it is found that the proportion of housing loan in total loan and advance for two of the banks under study is in increasing trend. The ratio of EBL is found sharply increased. The amount of housing loan for EBL was Rs. 165 million in 059/03/31. The amount has increased to Rs. 1875.9 million in 065/03/31. Similarly, the ratio of KBL was Rs. 10.65 million in 059/03/31. The amount has increased to Rs. 165.58 million in 065/03/31.

It is found that the amount of total loan disbursed by EBL is in increasing trend. The amount was Rs. 8361.6 million in 059/03/31. The amount is seen to be increased by more than double amount in past seven year periods. The amount has reached to Rs. 17121.5 million in 065/03/31. Similarly for KBL, the amount is in increasing trend and the amount has increased from Rs. 578.01 million in 059/03/31 to Rs. 2851.37 million in 065/03/31.

It has found that the correlation between housing loan and total loan of EBL is highly positive, i.e.  $r = 0.972$ , which indicate that the relationship between two variables is very strong. In other word, EBL has increased its housing loan scheme each year in the same proportion at which the amount of loan and advances are increased.

It is found that Correlation coefficient between housing loan and total loan of KBL 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 found that the amount of housing loan of EBL is fluctuated in increasing trend. The rate of change is Rs. 296.34 million. i.e.  $b=296.34$ . The mean housing loan of one year period is Rs. 1071.91 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 one year period is Rs. 71.75 million during the study period.

### **5.3 Recommendations**

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

- J When there is less investment opportunity in the country, housing loan is one of the best avenues for investment. Regarding this, EBL has disbursed large amount of fund for housing loan. However, KBL has disbursed little amount as home loan. So it is recommended for them to increase the amount of house loan.
- J 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.
- J The procedure to get home loan is quite tedious and lengthy. So it is suggested to make the procedure easy.
- J 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.
- J Banks are suggested to be more aggressive in providing the housing loans with improved EMI, interest rate and pay back period.
- J More simplified legal procedure should be established by the commercial banks to cater the loans in efficient manner.
- J KBL is suggested to expand its branches and provide its banking services and facilities to the rural areas for economic development of the country.

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