CHAPTER - I
INTRODUCTION

1.1 Background of the Study

The history of banking is nearly as old as civilization. In the ancient Rome and Greece, the practice of storing precious metals and coins at safe places and loaning out money for public and private purpose on interest was prevalent. In England, banking had its origin with the London goldsmith who in the 17th century began to accept deposits from merchants and others for safe keeping of money and other valuables. As public enterprise, banking made its first appearance in Italy in 1157 AD when the "Bank of Venice" was founded.

In the year 2063 as per Nepalese calendar, a new 'Bank and Financial Institution Ordinance' (BAFIO) has been passed by Nepal Rastra Bank (NRB) which redefines the activities/functions of the various financial institutions. The major implication to the commercial banks' has been to increase their paid-up capital amount to 'Two Arabs' which previously used to be only 'One Arab' which has brought a mind boggling situation for the commercial banks in present day context

This study is basically conducted to give a light on the relationship between house loan and the growth of housing sector (housing complex), to relate remittance and increased financial capability of people to take house loan, and finally to understand the effect of various attractive house loan schemes on the consumers.

Banks funding to house loan can also be justified with the fact that more than 80 percent of Nepalese people live in their self owned houses. It has always been a dream for each Nepali live in a self owned house, whereas people living in the American, and European society believe that its worthless investment to own a house i.e. investment with no return.

The Kathmandu Valley experiences a high growth of housing sector via various housing complex and the concept of apartment living. Also the involvement of banks in this

sector via financing the people for house loan is reflected in the various schemes offered by various financial institutions.

Keeping these facts in mind, this study tries to reflect the relevance behind banks increased funding to the housing sector.

This report allows us to obtain insights into career opportunities through interaction, observation and work experience in a real life banking environment. It also becomes a platform to develop basic research and decision making skills and to undertake independent analysis and appraisal of different situation.

1.2 Statement of the Problem

From the late 1980's or especially from the beginning of 1990's the concept of liberalization and globalization was adopted to achieve rapid economic growth market policy, the Nepalese Financial Institutions have boomed in the economy since last throughout the world. In this respect, to get the maximum benefit from such measures, Nepal has been adjusting its policies from 7th plan onwards, but it could accomplish full gear only after the completion of 8th plan. After the adoption of liberalized and open market policy, the Nepalese Financial Institutions have boomed in the economy since last few years.

With the rapid growth in the banking sector, consumer lending has increased and become more and more competitive in the market. Consumer lending specifically housing loan and home-loan has increased rapidly due to the lesser risk and higher profit involved.

Now a days the demand for home loan is increasing not just due to the increase in the living standard of the people, but also due to the easy lending process, lesser EMI, longer tenure and more competitiveness and better service. The open market system has made the competition more rigorous and specifically due to less risk and more return, financial institutions are aggressively marketing the product home-loan.

Moreover the interest rates charged on home-loans are not stable. It is negotiable between the bank and its customers. Thus interest rates fluctuate from customer to customer depending on the bargaining power of the customer.

Besides these, the major problem that banks are facing is the events of default from customers. In order to minimize such defaults, many banks have formed collection unit but the recovery seems to be minimum. Thus in spite of the competitive environment of the home-loan market, banks should undertake measures to minimize risk of default.

The variable of the primary interest in this research is the dependent variable of the home loan market. Five independent variables are used in an attempt to explain the variance in home loan market environment. These five variables are: Interest and other charges, loan tenure, equal monthly installments (EMI), down payments Interest rate is the most important variable for determining the position of the bank providing home-loan. It is the most visible and more effecting factor while making choice of banks for home-loan.

Loan tenure is another important variable that affects the competitiveness of banks providing home-loan. It refers to the term or the time period for which loan is provided. So longer the loan tenure lesser will be the equal monthly installment (EMI) to be paid to the bank. EMI is the monthly amount of loan to be repaid by the borrower. It is agreed with the customer before disbursal of loan. It generally starts after completion of moratorium period or subsequent month of the drawdown, which ever is earlier. Lesser EMI with longer loan tenure makes the home loan scheme more attractive to the customers.

The amount of down payments to be made to the bank after the purchase of house through loan also affects the home loan market. If down payments are lesser, it is more likely for the people to purchase house through loans.

Another variable is the moratorium period. It is the time between disbursal and start date of repayment of loan. Moratorium period is decided at the time of approval of the loan.

Research Questions:

⟩ What are the probable reasons for banks increased funding to the housing sector business?

⟩ How has the funding to housing sector by banks justified in terms of profitability from the funds allocated for consumer finance?

⟩ What are the factors that determine the demand for house loan?

⟩ What are the major sources of income for people to purchase their dream house?

⟩ How will the banks synchronize its house loan services with the growing housing sector business in the coming future?

⟩ What regulatory changes are required so that to make banks investment in the housing sector more lucrative?

⟩ What are the major reasons for high growth in housing sector.

1.4 Objective of the Study

In general terms, this study focuses and examines the increasing concern of banks towards house loan. The research and findings shall be beneficial to NIBL and any other financial institution involved in house loan business. The recommendations and conclusion part of this report shall be the bottom line results which shall enhance the understanding and help the bankers develop strategies that best suits their future decisions regarding house loan.

⟩ 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 examine interest rate structure on housing loan of different banks.

1.5 Significance of the Study

The study tries to identify the major issues relating to the house loan portfolio among the banks. This report tries to reflect on the relationship that exists between the house loan and the growth of housing sector especially in the Kathmandu Valley. The reason behind banks funding proportion to house loan is due to its medium term nature and a low percentage of provisioning is required as per NRB.

The major issues governing the study could be summarized as follows:

- The study of commercial banks lending to the housing sector
- To understand the relationship between the housing sector growth and house loan portfolio of banks out of their total lending funds
- Understanding the impact of house loan on society
- This report helps realize the various factors leading to increased growth in the housing sector in the Kathmandu Valley. i.e. urbanization, remittance etc
- The existing competition in the market plus the competition to be resulted due to new entrants
- To analyze the various schemes offered by various banks

1.6 Limitations of the Study

Though there are certain guidelines to provide funds to the customers; the differences can be reflected in the interest rates, percentage of financed limit, maturity and other fees and conditions because of which the banks cannot be transparent in this field. Also these data's are of critical importance to the banks, the employees never wanted to express their views in terms of their banks internal policy towards different clients.

- Funds segregation for house loan was rare to find in the statement of financial performance of the banks.
- It was the toughest thing to do: arranging appointments with the consumer finance manager of various banks, and the reasonable officer at the site of housing complex.
- Difficulty in time management
- Very difficult to find thesis on housing loan.

1.7 Organization of the Study

The study is accomplished according to approved general format of thesis of Tribhuvan University. Formalities and style are those adopted in the study is not new but followed the senior which makes the study possible come in this form and format. This study includes five chapters i.e.

Chapter-I   -   Introduction

Chapter-II   -   Review of Literature

Chapter-III   -   Research Methodology

Chapter-IV   -   Data Presentation and Analysis

Chapter-V   -   Summary, Conclusion and Recommendations.

Chapter-I   Introduction

The first chapter includes background of the study, history of bank, overall industrial growth in Nepal, statement of problems, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter-II   Review of Literature

The second chapter deals with review of literature, which consists of conceptual framework, review of the books , journals and review from thesis.

Chapter-III   Research Methodology

The third chapter deals with interpretation and analysis of major findings. Its main scheme is to describe about the methods and procedures of the study.

Chapter- IV   Data Presentation and Analysis

The fourth chapter is the heart of the study in which all the relevant collected data are analyzed and interpreted. Mainly different financial and statistical tools are used for the analysis purpose.

Chapter-V   Summary, Conclusion and Recommendations

The fifth chapter contains summary and conclusion in accordance of analysis and interpretation of data. After that all necessary recommendations for the concerned authorities and institutions is made.

CHAPTER - II
LITERATURE REVIEW

This chapter is focused on brief discussion about the abstract regarding the theories of housing loan. To make the research more realistic, review of literature is required. It provides significant knowledge in the field of research. Thus, the review of books, research studies and articles has been used to make clear about the concept of housing loan of NIBL.

The purpose of literature review is to find what research studies have been conducted in one's area of study and what remains to be done. It provides foundation to the study.

2.1 Concept of Consumer Finance

Consumer finance in the most basic sense of the word refers to any kind of lending to consumers. However, in the financial services industry, the term "consumer finance" often refers to a particular type of business, sub prime branch lending (that is lending to people with less than perfect credit).

Amongst the various types of loans made by banks some of them are:

) **Personal/Consumer Loans**

The bank provide limited amount of loans to their customers to meet their personal needs, for example to purchase car, motorbike, and repair a house.

) **Hire Purchase Advances**

Banks provide loans to the customers who are involved in the hire purchase business of car, motorbike, washing machine. Banks also provide loans to the financial institutions which make available loans to such businesses.

Consumer finance is defined as lending of loans to individuals for purchase of consumer durables for their personal or household consumption purposes. The great advantage of

consumer finance is that it enhances the mobility of people towards costly products on a scheme of "Buy Now and Pay Later" to be repaid in Equal Monthly Installments (EMI).This facilitates to satisfy needs such as electronic goods, automobiles, real estate, etc. These examples have become a dire necessity of life.

Figure 2.1

Consumer Loan by Purpose Wise and Loan Type
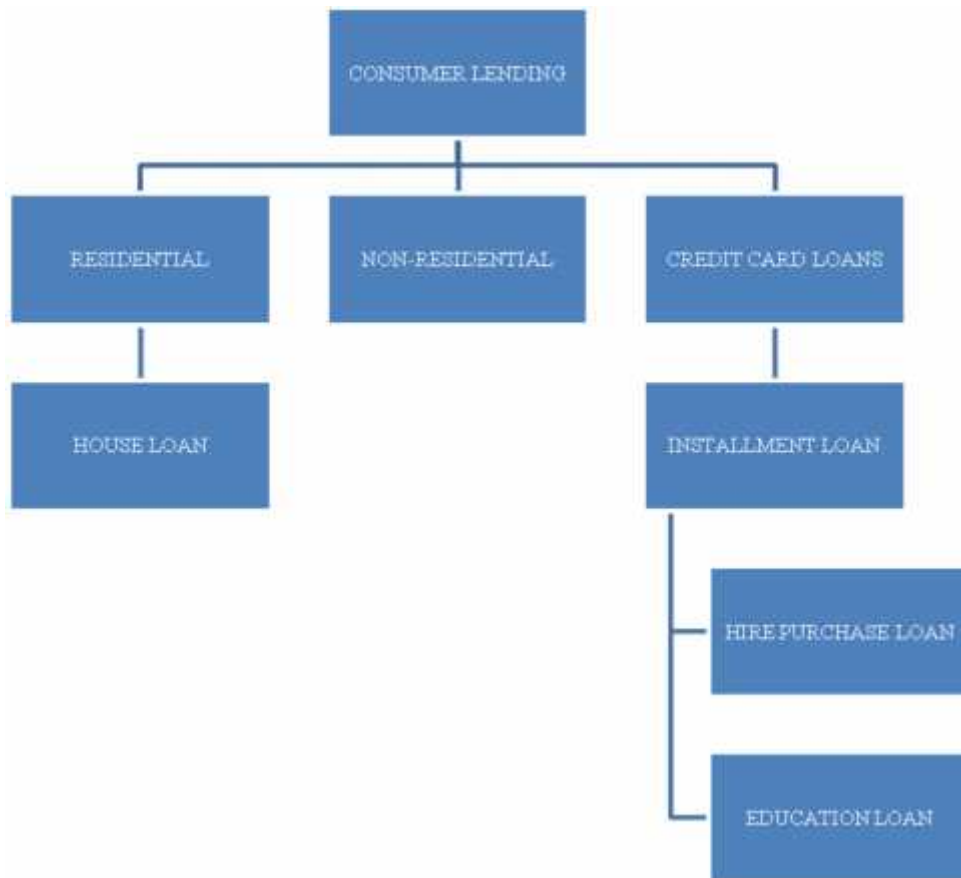
In this fast changing scenario of urbanization the necessities of households are increasing and income is still limited. In this situation, an individual or household are attracted towards financing options. Instead of paying the entire amount upfront, an individual can purchase one product without paying the full amount at one time. For example, if an individual is going to purchase a piece of real estate for Rs. 10,000,000.00 and select the consumer finance option, then he/she can usually make a small down payment in advance, say 1% to 10% or more, of the total amount and the rest can be paid in EMI along with interest for a particular period of time. Not only are consumer loans among the

most profitable of all types of bank credit, but as consumers become better educated they are making more aggressive use of credit to upgrade their standard of living and to match their spending plans with expected future income. Consumer finance may be provided in various forms such as:

- ） Housing loans
- ） Vehicle loans
- ） Consumer Durable loans
- ） Education loans

With the inclusion of various types of such loans, the banks will be able to attract a lot of customers because the need for small loans is felt by almost everyone today living in the consumerism era.

2.1.1 Consumer Finance at NIBL

The rising trend of workers migrating for foreign employment has been a positive economic factor in these trying times. There has been a sustained growth in inward remittances adding to the country's foreign exchange reserves.

The bank previously had earned the reputation of a wholesale bank dealing only with the corporate clients. Thus there was not much exposure in the consumer loan area. It has recently started the practice of providing consumer loans. The loans in this sector are, in majority of the cases, of a small amount and fully backed with securities to cover the probable losses. Under such circumstances, the bank has nothing to lose.

Here are some of the consumer loans provided by NIBL along with their interest rates.

Table 2.1

Interest Rates at NIBL for Consumer Loan

| Loan Category	Interest Rates (Percentage)
House Loan	7.5-9
Vehicle Loan	9-11
Education Loan	10.5
Personal Loan	13

Source: Kantipur Daily

NIBL being not so aggressive in the consumer finance business has to face a cut-throat competition. In terms of house loan its major competitors are Nepal Industrial & Commercial Bank Ltd, and Rastra Banijya Bank with annual interest rates as (6.99 to 9.99) percent and (6.5 to 9) percent respectively.

Though the government owned commercial banks offer lower interest rates than other commercial banks, they are still less aggressive because of their police and operations for the same. The processing of loan among these governments owned banks is very slow and time consuming.

The figure given below clearly conveys the message that NIBL is quite less aggressive in terms of its lending in the form of consumer loans.

This very little amount of funding in the consumer loan section gives anyone an idea about how small is its investment in the house loan.

Figure 2.2

Consumer Loan Types at NIBL
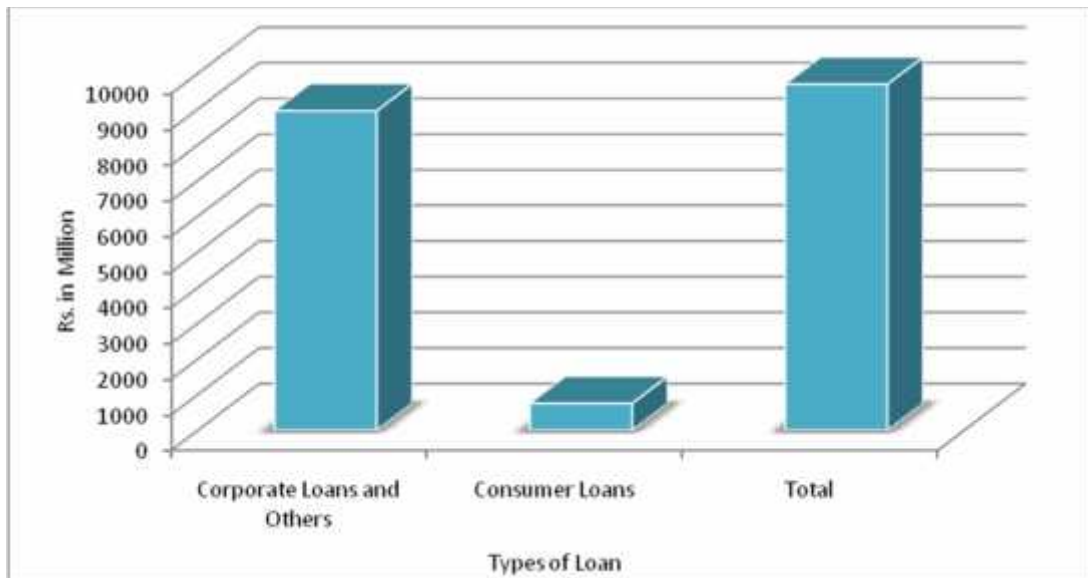
2.1.2 The Beginning of Home Loan in Nepal

Previously, housing loan was not available from the financial institutions to commoners. It was available to employees of financial institutions such as Banks as an incentive.

Karmachari Sanchaya Kosh (KSK) started providing housing loan in 1971/72 A.D. for the depositors with the interest rate ranging from 8 to 12 percent. The loan period was up to 25years or until the age of retirement. The collateral of land title and personal guarantee of 2-year salary was required for this purpose.

Presently KSK provides housing loan to the depositors for the areas in Pokhara, Biratnagar, Lekhnath, all municipalities of Kathmandu valley and the adjacent villages. The maximum amount of loan is calculated as the salary amount equal to ten years with the salary of the first year as the basis. The interest rate is 8 per cent and the loan duration is a maximum of 25years.

Everest Bank Ltd. (A joint venture with Punjab National Bank, India) started home loans in Nepal during the year 1999/2000. Everest Bank was the first bank to come up with various schemes for providing home loans so it is also called as a pioneer for home loans in Nepal. The rapid growth of the commercial banks, savings institutions, finance companies, co-operative finance companies and loan association, brought a boom in the credit market. The home loan market is mostly adopted by the finance companies and few banks have also ventured into it and have shown interest in the possible market. The market for home loans in Nepal was not very competitive until government owned banks decreased their interest rates. But now this sudden change in the interest rate has made the market of home loans more competitive and potential.

Nepal Housing Development Finance Company (NHFDC), established in the year 1989, is the first finance company completely focusing on the housing sector set up in Nepal. It grants loan for improvement of existing housing arrangement, launching new housing schemes, and providing housing related services. The loan amounts and the monthly installment of the loan are as follows:

Table 2.2
House Loan Amount, Duration and EMI

Loan Amount (Rs.)	Loan Duration		
	5 Years	**10 Years**	**15 Years**
100000	2224.44	1434.71	1200.17
500000	11122.22	7173.55	6000.84
1000000	22244.45	14347.09	12001.68
1500000	33366.67	21520.64	18002.52

Source: Annual Reports of Bank

The above figure reveals the fact that as the loan amount increases the monthly installments also increases and as the duration increases the equal monthly installment (EMI) declines. But anyone as a house loan client should access the interest payment when at higher maturity period and when at lower maturity period. Also the EMI declines in case of a high maturity loan.

The loan giving institutions were very few in the past but now their number is increasing. Presently, most of the financial institutions including cooperatives are offering housing loan. But the interest rate is still high even though many banks have appeared recently in the market as follows:

Table 2.3
Various Banks with Interest Rates on Home Loan

Bank	Interest Rates (Percent)
Nabil Bank Ltd.	8.5 to 10
Himalayan Bank Ltd.	7.5 to 9
Standard Chatered Bank Ltd.	8 to 9.5
Kumari Bank Ltd.	9 to 10
Nepal Investment Bank Ltd.	7.5 to 9
Nepal Industrial & Commercial Bank Ltd.	6.99 to 9.99
Bank of Kathmandu Ltd.	7.9 to 9.5
Everest Bank Ltd.	8.5 to 10
Nepal Bank Ltd.	7.5
Rastra Banijya Bank	6.5 to 9
Nepal Credit & Commerce Bank	11 to 12.5
Machhapucchre Bank Ltd.	8.5 to 9.5
Siddhartha Bank Ltd	8 to 11
Lumbini Bank Ltd.	8 to 10
Global Bank Ltd.	8.5 to 9.5

Source: Annual Reports of Various Bank

The desire for a safe and secure home is timeless and universal. Still, different nations have different policies on home ownership and different systems to support housing. But one clear emerging issue is that private capital is imperative to create permanent and supportive housing solutions.

From a regional perspective, the formal housing finance sector continues to elude the lower income groups. Governments have to withdraw from direct participation in the housing and housing finance sector and instead need take on the role as facilitators to create the enabling environment to encourage private sector capital. Small steps such as encouraging credit bureaus, introducing mortgage insurance, allowing real estate mutual funds and creating a favorable environment to facilitate foreign direct investment in housing will help stimulate the housing finance sector.

2.1.3 Nepal Rastra Bank Regulations Regarding Home Loan

-) Firstly, home loan is regarded as a medium-term loan.
-) Determining the Non-performing assets (NPA) and its classification.
-) Loans to promoters: Any kind of loan can't be given to the promoters if they hold a share of more than 1% in the same bank.
-) Single borrower limit: When loan is given to a real estate developer or a housing complex developer than the bank has to follow certain guidelines i.e. 25 percentage of fund based and 50 percentage of non-fund based.

The provisioning for house loan as per NRB guidelines is comparatively low than any other loans so this is also one of the major reasons for commercial banks aggressiveness towards house loan.

2.1.4 House Loan and its Purposes

A housing loan is inherently different from any other retail loan. This is because a house is probably the single largest investment a person makes in his/her lifetime. It has been noticed that a customer seeking a housing loan does not just require finance – they also need ancillary services like loan counseling or legal advice to ensure the title of the

property is clear or technical advice to ensure that the structural aspects of the property are in order. It is these add on services that distinguish the caliber of services rendered.

Today with high levels of automation and off-the-shelf availability of software and other technology to support the business of housing finance, it is virtually effortless to replicate loan products. At the end of the day, the only product patent that distinguishes one player from another is the quality of customer service rendered.

Today, customers are significantly more discerning. With a rise in the number of players in the housing finance industry, banks and housing finance institutions have to reach out to customers rather than vice versa. Banks have the inherent advantage of capitalizing on their large network, but the quality of service rendered may lack focus as housing loans are one of the many activities performed by a bank. For a dedicated housing finance company, building up a large network is often time consuming and expensive.

There are different purposes of home loans tailored to meet people needs. They are as follows:

) **Home Purchase Loans**

This is the basic home loan for the purchase of a new home.

) **Home Improvement Loans**

These loans are given for implementing repair works and renovations in a home that has already been purchased.

) **Home Construction Loan**

This loan is available for the construction of a new home.

) **Home Extension Loan**

This is given for expanding or extending an existing home. For e.g. addition of an extra room or floor.

⟩ Home Conversion Loan

This is available for those who have financed the present home with a home loan and wish to purchase and move to another home for which some extra funds are required. Through home conversion loan, the existing loan is transferred to the new home including the extra amount required, eliminating the need of pre-payment of the previous loan.

⟩ Land Purchase Loans

This loan is available for purchase of land for both construction and investment purposes.

⟩ Bridge Loans

Bridge loans are designed for people who wish to sell the existing home and purchase another one. The bridge loans help finance the new home, until a buyer is found for the home.

2.1.5 Home Loan Disbursements in the Capital

In terms of the amount disbursed by various banks Everest Bank Ltd stands first, as its disbursements are very much higher than any other banks. Second, comes the Standard Chartered Bank Ltd and than other banks like the Nepal SBI Bank and Kumari Bank.

The above facts also reveal that Nepal Investment Bank Ltd is not aggressive in terms of house loan, as the amount disbursed during the year 2004-2005 is Rs 74 million only which is very low when compared among other banks involved in the same kind of disbursement.

Table 2.4

Home Loan Disbursements in the Kathmandu Valley

Name of Bank	2002-03	2003-04	2004-05*
Laxmi Bank	23	79	149
NIC Bank	NA	NA	130
NB Bank	NA	NA	104
Nabil Bank Ltd.	36	141	321
Nepal Bank Ltd.	NA	NA	50
Bank of Kathmandu	NA	80	183
Rastriya Banijya Bank	NA	NA	70
Everest Bank	349	688	925
Standard Chartered Bank	317	356	460
Machapuchchre Bank	NA	NA	100
Kumari Bank Ltd.	200	300	400
Nepal Investment Bank	41	61	74
Nepal SBI Bank	26	177	443
Devt. Credit Bank Ltd.	95		
Nepal Development Bank	NA	73	116
Total (in millions)	**1035**	**2048**	**3620**

The growth rate of funds disbursed for house loan seems to be very high year by year.

From the year (2002-03) to (2003-04) the growth rate of funds disbursed into the house loan is around 97.8 percent and from (2004-05) to (2005-06) the growth rate comparatively declines to 76.75 percent only.

The above figure clearly shows that Everest Bank is the pioneer in house loan services, with its funding as Rs 925 million in the year (2004-05) and secondly comes the Standard Chartered Bank with its funding to house loan as Rs 460 million for the same year.

NIBL seems to be least aggressive with its funding only as Rs 74 million.

2.1.6 Types of House Loan

The huge selections of home loan packages available today have all been named and bundled with different features, benefits, interest rate, conditions and fees. Most of them will fall into one of the categories listed below.

⟩ Fixed Rate Home Loans

This type of loan has a fixed interest rate for a certain period of time, most often between 2 and 5 years. Once the fixed rate period ends, customers may be offered another fixed rate period or the rate will convert over to a Variable interest rate, which can rise and fall.

⟩ Basic & Standard Variable Home Loans

A loan with a variable interest rate means that the rate will fluctuate during the loan term. As interest rates rise and fall in the market, so will the interest rate on your Home Loan. Standard variable home loans usually offer more features than the basic variable home loan- such as being able to make extra payments or being able to redraw money from the Home Loan than the Basic Variable.

⟩ Line of Credit

Lines of Credit home loans allow you borrow against the equity in your home, at an interest only variable rate. This may enable you to; for example, invest in shares or managed funds, investment property, or home renovations.

⟩ "Lo Doc" Home Loans

This type of loan assists customers who do not have the full documentation normally required for a traditional "full doc" home loan. The Lo Doc loan normally assists the self-employed or people that may have had credit difficulties in the past.

⟩ Split Home Loans

It combines different loan types into one Home Loan. For example some loans allow you to have one portion of your home loan at a fixed rate, and another portion on a variable interest rate. Another example would be a fixed rate home loan and a line of credit. Some loans allow for multiple splits.

⟩ Consolidation Home Loans

It's about refinancing your existing Home Loan and paying off other debt- such as credit cards or personal loans. Putting a package together that puts all of your debts, including

your mortgage and other debts, into one home loan. This can be beneficial as credit card interest rates for example, can be much higher than your home loan interest rate.

) **Interest Only Home Loans**

This type of home loan allows customers to make payments in the form of interest only. This means that no payment is put toward the principal balance of your home loan. Many people see this as a good option to keep their payments at a lower level while speculating that their property value is going to increase.

2.1.7 Home Loans at NIBL

According to the data available of the year (2004-05) the total lending of NIBL is Rs 10,453 and out of this amount only Rs.74 million is segregated for the house loan portfolio only. This amount of house loan is only 0.708 percentage of the total lending amount of NIBL.

It has not been a long time since NIBL started providing consumer finance. NIBL has started providing home loans from August 2002. NIBL is not at all going about doing its marketing for consumer finance in an aggressive manner. It is not selective in providing any types of loans whether it is home loan or vehicle loan. Thus, the main finance that is provided by NIBL in the area of consumer finance is in the form of vehicle loan and then the home loan that the bank provides in a reasonable amount. We, hereby, concentrate on the home loan section of the bank.

Table 2.5

Consumer Loan Composition at NIBL

Types	Rs. In Million	Percentage (%)
Vehicle Loan	520	69%
Home Loan	150	20%
Others (loan against gold & silver & credit card loan)	80	11%
Total	**750**	**100%**

The above figure clearly reflects NIBL's exposure to vehicle loan, home loan, loan against gold and silver, and credit card loan in the total consumer finance portfolio at NIBL. Vehicle loans cover 69% of the total consumer loan with NPR 520 million while home loans cover only 20% of the total consumer loan with NPR 150 million. Loan against gold and silver and credit card loan stand at the lower position occupying 11 % of the total consumer loan with 80 million.

2.1.8 Features of Home Loans at NIBL

a) **Purpose**
- Purchase a plot of land
- Purchase a plot of land and construct a building on it
- Construction of house on land already owned by us/me
- Renovation and/or extension of building
- Buying building, readymade apartment, bungalow, or duplex
- Refinance

b) **Loan Amount**
- NIBL finances 70% of the total value or a minimum of Rs. 350,000 and a maximum of Rs. 7,000,000.

c) **Interest**
- Interest @ 9% up to 5 years
- Interest @ 9.5% above 5 years

d) **Maturity**
- Tenure maximum up to 15 years

e) **Mode of Repayment:**
- The borrower shall furnish interest only for the loan outstanding until the disbursement of the last installment (or for the amount paid within the maturity of the grace period) at the end of every Nepali Calendar.

⟩ Thereafter, repayment of the loan shall be made in EMI for a quoted period as per the repayment schedule. EMI starts immediately after the full disbursement of the loan amount or the maturity of the grace period for the amount paid till that time.

f)   Security

⟩ Registered mortgage of Land and Building in favor of NIBL

⟩ Personal guarantee of the concerned staff for the loan disbursed amount

⟩ Insurance of the proposed house, making the bank as the first beneficiary of the insurance policy

⟩ Letter of Undertaking

⟩ Demand Promissory Note

⟩ Letter of Set Off

⟩ Deeds of consent

g)   Documentation

⟩ Reliable income sources supported by documentary evidence

⟩ The original title deed of the land/building has to be in the concerned authority name. The land area should be adjacent to a minimum 8 feet motor able road.

⟩ Copy of the house design approved by the concerned municipality/VDC

⟩ Exact location of the site and approved layout from the concerned authority reflecting the plot

⟩ Cost of the house to be constructed/repaired duly certified by an engineer

h)   Eligibility

⟩ A Nepali Citizen

⟩ Age 18 years and above

⟩ The age of the Borrower should not exceed 60 years at the last installment

i)   Target Market

⟩ Middle and upper middle class people

⟩ Professionals, Salaried individuals and Self-employed individuals

〗 Proprietorship, Partnership, Private Limited Companies, and Public Limited Companies

Loan Admission Fee

The admission fees of the entire bank found to be 1% of the finance amount. No variation is made regarding the admission fees by the bank.

Financial Limit

The financial limit of the fund does vary from bank to bank. Some finance up to only 50% and the bank like Nepal Industrial Commercial Bank is even funding 110% of the required amount to customers in the specific purpose like construction.

Payment Method

From the table we can see that all the banks are following the equal monthly installment method of repayment. This match with our finding that majority of the customers prefers to make their payment in equal monthly installment method.

Privileges

Most of the banks are making various kinds of privileges to attract its customers. The bank like Standard Chartered Bank Nepal Provide Privileges of Attractive Property protection plan (insurance) at affordable and easy payment method, Speedy Approval Process and Quick turnaround time to customers and the Bank like Nepal Industrial and Commercial Bank is providing Free ATM/Debit Card, 25% discount on safe deposit locker and Automatic approval of other loan-AUTO, EDUCATION Offers as privileges to its customers.
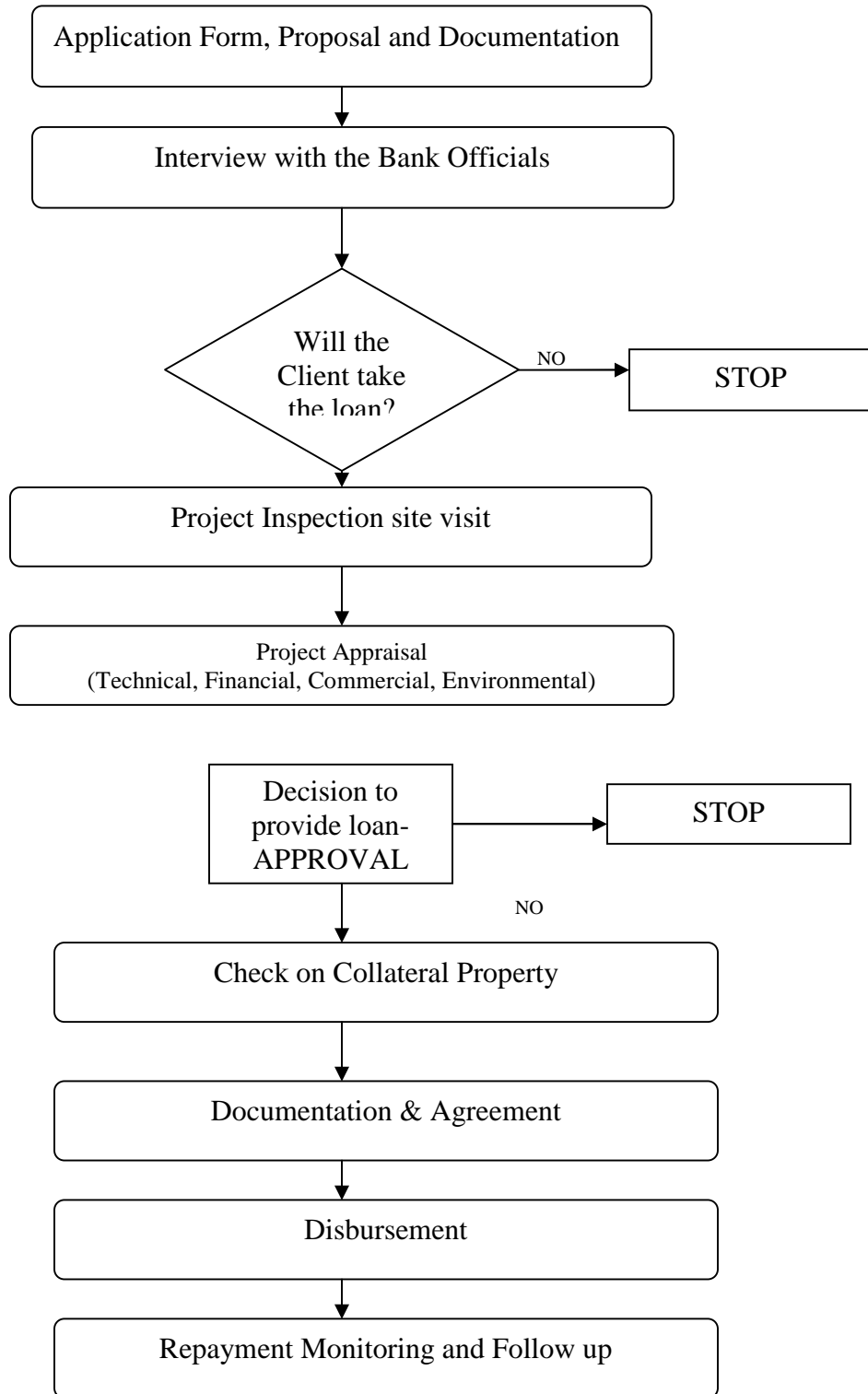
Other charges

Other charges include Documentation Fee-NPR.3000, Prepayment charge With in 5 years-1% and After 5 years-0.5% by Nepal Investment Bank and 2% of amount prepaid before 1 year, 1% of amount prepaid after 1 year and Partial payment allowed after only 1 year by the NABIL Bank Ltd.

The home loan process has been identified as below:

Figure 2.3

Flow Chart

```
┌─────────────────────────────────────────────┐
│  Application Form, Proposal and Documentation │
└─────────────────────────────────────────────┘
                    ↓
┌─────────────────────────────────────────────┐
│       Interview with the Bank Officials       │
└─────────────────────────────────────────────┘
                    ↓
              ◇ Will the
               Client take      ──NO──→   ┌──────────┐
               the loan?                   │   STOP   │
                                           └──────────┘
                    ↓
┌─────────────────────────────────────────────┐
│           Project Inspection site visit       │
└─────────────────────────────────────────────┘
                    ↓
┌─────────────────────────────────────────────┐
│              Project Appraisal                │
│ (Technical, Financial, Commercial, Environmental) │
└─────────────────────────────────────────────┘

        ┌──────────────┐
        │  Decision to │ ──────→   ┌──────────┐
        │ provide loan-│            │   STOP   │
        │  APPROVAL    │            └──────────┘
        └──────────────┘
                    ↓        NO
┌─────────────────────────────────────────────┐
│          Check on Collateral Property         │
└─────────────────────────────────────────────┘
                    ↓
┌─────────────────────────────────────────────┐
│           Documentation & Agreement           │
└─────────────────────────────────────────────┘
                    ↓
┌─────────────────────────────────────────────┐
│                 Disbursement                  │
└─────────────────────────────────────────────┘
                    ↓
┌─────────────────────────────────────────────┐
│        Repayment Monitoring and Follow up     │
└─────────────────────────────────────────────┘
```

2.1.9 A Basic Understanding

Housing is understood as a place of human habitation, which has physical, social and cultural infrastructure, however, with a very thin line of separation among them. The land, building and roads fall under the physical realm. Hospitals, Schools fall under the social arena. The temples, churches, the mosques, prayer halls each fall on the cultural avenue. All the three infrastructures have to be available in order to be recognized as a good housing. The absence of one leads to an incomplete housing. Housing can be classified as rural and urban housing.

Housing has been recognized as one of the three basic needs, the other two being food and shelter. Most of the countries round the globe have developed because of the priority given to the housing needs. China for instance spends 6 per cent (ADB, 2004) of its GDP on housing and India 4 percent (Planning Commission Report, 2002. It is no wonder then that they are attaining high-level growth, double-digit growth in the case of China every year. Nepal in turn spends only 0.05 per cent of GDP in housing (NPC 2002 The Tenth Plan: 427).

Over two-fifth of the population (44%) in Kathmandu and Lalitpur district live on rent (Population Census 2001, National Report, CBS) and the urban population is growing at a rate of 6.4 percent relative to the national population growth rate of 2.4 percent. A survey conducted by Orion Associates for New Business Age to evaluate the market potential among SEC A, B and C population with a personal monthly income of more than Rs.10, 000 per month in Kathmandu also points out that the growth is here to stay in housing development as 93% of the respondents stated that they were planning on acquiring a new residential place although 44 percent of them already had family owned and 17% personally owned houses.

Company	Complex	Type	No. of housing units	Sold	Price Range (Rs. in 00,000)	Status
l Chaudhary	Kathmandu Residency	Apartment	180	All sold	7 to 13	Completed
	Mount View Residency - 1	Independent	70	99% sold	18 to 29	Completed
	Mount View Residency – 2	Independent Expendable	106	95% sold	21 to 35	Under construction
l Homes	Bhaisepati	Independent	56	All sold	23 to 30	Completed
	Tinthana, Kalanki	Independent	107*	72 sold	21 to 85	Under construction
	Sunakothi	Independent	213*	47 sold	33.6 to 77.5	Under construction
	4 th phase	Independent	NA	NA	NA	Planning Phase
o Housing Developers	Euro Housing, Tahachal	Independent	36	All sold	36 to 41	Completed
fort Housing	Sitapaila	Independent	76	All sold	32 -52	Completed
	Budhanilakantha	Independent	42	All sold	40 to 80	Completed
	Ichungu	Independent	70*	65 sold	40 to 90	Under construction
	Lazimpat	Apartment	NA	NA	NA	Planning Phase
	Dharan	Independent	NA	NA	NA	Planning Phase
ntal Construction & elopers	Balkumari, Lalitpur	Independent	57	52 sold	59 to 61	145 completed 20
	Balkumari, Lalitpur	Apartment	108	100 sold	20	under construction
ntal Builders & elopers	Oriental colony, Kuleshwor - 1	Apartment	105	All sold	7 to 9.5	Completed
	Oriental colony, Kuleshwor - 2	Apartment	132	90% sold	8.55 to 12	Completed
	Dhunbarahi Apartment	Apartment	170	60% sold	16 to 26.3	50% completed & finishing stage
	Kohinoor Hill, Baphal	Independent	120	-	45 to 55	Planning phase
dshow	Chandol	Independent	9	All Sold	-	Completed

Estate	Dhumbarahi	Independent	18	15 sold	-	50% completed Under construction
	Manbhawan	Independent	9	NA	-	Under construction
	Naxal	Apartment	48	NA	-	Planning Phase
	Soaltee Mode	Apartment		NA	-	Planning Phase
vakamana Housing elopers	Indreni Apartmnets, Bhatbhateni	Apartment	32	20 sold	65 to105	Under construction
Apartments	Ace Apartments	Apartment	56	43 sold	49 to 59	Completed

Table 2.6: Major housing developers of Nepal

2.2 Review of Related Studies

In this section, literature related to the housing loan of commercial banks is reviewed. The framework of the theory structure includes previous writing, research and studies related to housing loan problems.

The quotes and findings are based on the primary source of data i.e. original research report or writing. This topic includes the review of related books, journals, articles, thesis and research gap.

2.2.1 Review of Articles

In the Himalayan Times 30 July, 2009 issue, the article published with the topic "Safe Niche for Investment" emphasizing the consumer finance sector of the banking system. The article starts with the word BOOM and this word tickle the rapid development and growth of the housing loan in urban part of the country.

Surendra Man Maharjan of Universal Finance (UF) said that What is good for the customers is that the banks are offering a variety of financial scheme that allows them a lot of flexibility and options. Some have 90 per cent financing while some offer flexibility rules for repayment. These schemes are sure to encourage a large number of customers to buy house and bring healthy competition in the home loan sector. Consumerism, more importantly, consumers are the winners.

Abhishesh Dhakal, manager at Everest Bank says, "The emphasis is not just on the house but on the environment as well. The appeal of home loans has increased not just in the capital but in other districts such as Ittahari, Biratnagar, Butwal and Dhangadi". Dhakal says that 80 per cent of Everest Bank's consumer banking is based on home loans.

While some are highly critical of this booming investment in housing an official at the central bank says this is good for the economy because of the downstream effect on creating employment in the brick, cement, iron, paint and furnishings industries.

But if remittances from those working overseas continues to decline, middle class consumers will have difficulty re- paying their loans. Bhupendra Pandey, head of corporate banking in Rastra Banijya Bank says: "Families use the money to buy land and houses in the districts. Some come into the capital and turn to the banking sector for additional financing. With remittances seeing a slowdown, the housing sector will surely be affected." The fall in remittances will also decrease the loan capacity of the banks as deposits drop.

Some believe the banking sector is sound and will not be buffeted by a potential bursting of the property bubble. In the 1990s the buyer had to put down a 20 per cent cash deposit before getting an 80 per cent loan. Now buyers have to put down a 60 per cent deposit. But Himalayan Bank's Thamel branch manager, Rabindra Pradhan concedes: "The whole financial sector is after the housing business and so the risk is increasing."

It is not just the private and new banks that have turned their attention to the housing sector, the country's oldest Nepal Bank and Rastra Banijya Bank are also investing in this area. Binod Atreya, CEO of Nepal Bank says, "Although the sector is an attractive investment option, we have to investigate thoroughly before making any decision." Nepal Bank has granted home loans of over Rs1 billion to more than 900 customers.

Home loans are the chief focus at Nabil Bank as well. Raveena Joshi of Nabil says: "A few years ago our focus was on car loans, now it has shifted to housing." Nabil offers an interest rate of 10 -10.5 per cent for a period of five to 20 years. Everest bank, which was probably the first bank to introduce home loans, has helped over 2,800 homeowners. It offers 8.5 per cent interest for five years and at 10 per cent for 20 years.

With such high interest rates, it is not surprising that commercial banks are inclined towards home loans. Forty per cent of the total loans by newly opened banks are for home loans. With government spending on development low and the financial sector channeling all its investment in one area, bankers admit that this is like putting all our eggs in one basket *(Nepali Times).*

When the real estate bubble bursts, it shouldn't take banks down with it Banks in Nepal seem to be thriving. According to Nepal Rastra Bank, Nepali commercial banks hold close to Rs 470 billion in deposits, but for banks to be profitable they have to put this deposit to work.

Given the poor business climate and soaring property prices, it is a fair guess? this cash is feeding the real estate bubble. Such a bubble driven by excess credit fueled liquidity is exactly what brought many US banks to their knees, and there is a good lesson there for us.

As property prices went up, banks in the US found increasing their real estate loan portfolio an easy way to boost earnings. They not only kept loans in their own balance sheet, but packaged them into securities which were sold to investors worldwide, further increasing the demand for mortgage loans. Borrowers were approved for loans they were not capable of paying and many jumped on the bandwagon assuming that real estate prices could only go up.

What initially started as a problem in the subprime loans or loans made to risky borrowers, has spread to prime loans as decreasing real estate prices and increasing unemployment rate are putting even credit worthy borrowers at risk. As a result, banks are now stuck with hundreds of billions of dollars in real estate loans, some of which are practically worthless, and are thus forced to book billions of dollars in losses. The massive loans are threatening the solvency of some US banks. The FDIC has seized more than 21 failing banks so far in 2009 alone.

We are inside a real estate bubble in Nepal, and this bubble could burst. Among other things, the excess cash available to drive prices higher may not be there in the future. The global economic slowdown is already impacting on the remittance flow into Nepal which will reduce the liquidity in the banking sector and the money chasing real estate assets.

When the bubble bursts, not only will many Nepalese feel much poorer from reduced property prices, but their deposits in banks could also be at risk if banks that are overexposed to real estate lending face defaults, threatening their ability to meet obligations to depositors. The margin of error for Nepali financial institutions, and the public, is very small. Unlike most other countries,

there is no established deposit insurance program in Nepal and it is questionable that Nepal Rastra Bank has the ability to manage a run on the banks.

Outstanding loans of commercial banks to the real estate sector grew at a staggering rate to Rs 17.9 billion in February from Rs 6.6 billion just a year earlier. The questions to ask the banks are: what percentage of outstanding loans is real estate related, including both direct and indirect loans where real estate asset is kept as collateral? How will the real estate price reduction affect the performance and recovery of these loans? Have the banks done a sensitivity test for the worst case scenario and are they adequately capitalized if that scenario materializes?

The government and Nepal Rastra Bank should also look into the feasibility of instituting a deposit insurance program up to a certain threshold. Such a program can be funded from the premium paid by the deposit-taking institutions and the premium should be based on the risk assessment of each participating institution.

It is not too late for Nepal, but it is time to ask tough questions to the banks and the regulator and focus on risk management so that when this real estate bubble ultimately bursts, it doesn't take the banking sector down with it (Nepali Times).

2.2.2 Review of Thesis

Many researchers have conducted their research on the field of commercial banks especially on their financial performance, and fund mobilization policy, compliance with NRB directives etc. Besides this, there are some books articles desertions & other relevant study concerned with the lending & investment. Some of the relevant studies, their objectives, findings and conclusions & other literature relating to the topic have been reviewed below.

A study conducted by Upendra Shrestha regarding the investment practices of the joint venture banks in Nepal with special reference to Nabil Banks Limited, Standard Chartered Bank Limited and Nepal SBI Bank Limited has figured out the problem. Conclusion and recommendation as follows.

Commercial Banks are more emphasized to be loan on short term basis against movable merchandise. Commercial Banks have a lot of deposits but very little investment opportunity.

They are even discouraging people by offering very low interest rate and minimum threshold balances.

Commercial banks invest their funds in the limited areas to achieve higher amount of profit. This is regarded as a very risky step, which may lead to loss in profit as well as principle. The credit extended by commercial banks to the agriculture and industrial sector is not satisfactory to meet the growing needs of the present day.

He has concluded that since the liquidity position of Nabil and SCBNL have not found satisfactory it therefore suggested them to improve cash and bank balance to meet the current obligations. SCBN's loan and advances to total deposits ratio is lower at all, it is recommended to follow liberal lending policy for enhancement of the fund mobilization.   It is recommended to NSBIBL that it has to invest its fund on share and debentures of other companies. it is suggested to enhance off balance sheet transactions diversifying their investments ,open new branches play merchant banking role and invest their risky assets and shareholder's find to gain higher profit margin----Nabil and SCNL are recommended to increase cash and balances to meet current obligations and demand.

The above shows that Shrestha has concluded some conflicting statements which are obviously not matching with his statement of problem. His recommendation ignores the industry average and also fail to figure out what I right in the industry like banking among excess investment or loans and advances. And he thinks that liberal lending polices the problem to increase the level of loan and advances. But somewhere in his recommendation he has warned commercial banks to increase the level of loans and advances and suggested them to increase the level of investment in the government securities or in other safe instrument just to avoid the risk arising from lending from this it can be conclude that Shrestha has made his entire conclusion absolutely and has not made any relative analysis of the pros and cons of the entire factor affecting his study.

A thesis conducted by Ram Prasad Sharma with objectives of highlighting the priority sector investment and repayment state of commercial banks in Nepal through intensive banking

program and to show the repayment position of the has concluded "All the three commercial banks covered in this study have contributed to the credit to the priority sector. But the efforts made by different banks agriculture and cottage industry. Nepal bank limited has contributed highest amount to service sector. So far the loan repayment from priority sector is concerned Nabil has very satisfactory performance whereas NBL has very low performance or loss repayment overdue loan have been observed more in agriculture."

He has further suggested, "Commercial Banks should improve the repayment loan by generating the income of the rural farmers. Reinvestment and right utilization of the bank loan are the cost of the commercial banks. Since there is need to increase in assets better arrangement of the institution and organization, the manager and loan staff of the branches should be provided with adequate training so that they could identify right burrowers, right project and ensure correct project appraisal. Reinvestment is the available sources to increase in paying capacity of the burrowers."

A thesis conducted by Narayan Prasad Subedi on "*A comparative study of financial performance between Himalayan Bank Limited and Everest Bank Limited*" of the period from 1996-2000 has outlined his major finding conclusion as follows:

"The mean and total loss and advances to total saving ratio of EBL is greater than that of HBL and the coefficient of variation between the ratios of HBL is less than EBL. It means that the variability of the ratios of HBL is more uniform than EBL. According to analysis, it is found that EBL is more employing its saving deposits in term of loans, advances than that of HBL. So loans and advances to total savings, deposits ratio appear better in EBL than HBL.

The mean total investment to total deposits ratio of EBL is significantly greater than that of BHL but the coefficient of variation between the ratios of HBL is less than EBL. It means that the variability of ratios of HBL is more consistent than that of EBL. According to analysis, it is found that EBL is more successful in utilizing resources on investment.

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However, he failed to give his overall conclusion regarding the superiority of the financial performance of these two banks during the period of his study (1996-2000). He has also put several recommendation out of which few important recommendation are outlined here.

The liquidity of the bank may be affected by the external as well as internal factors such as the interest rate supply and demand position of the loan, saving to investment position, central bank requirements, and the growth or slackening tending polices management capability. HBL has maintained the ratio of cash and bank balances to total deposits considerably lower than that of EBL. So, HBL is recommended to increase cash and bank balances to meet loan demand.

Subedi's recommendation that HBL should increase its cash and bank balances to meet loan demand does not sound logical since no where in his study he has concluded that HBL has failed to meet its demand loans. Being the low level of cash and bank balance as compare to other specific bank does not necessarily conclude the necessity of increasing this asset.

Raja Ram Khadka in his thesis on "*A study on the Investment Policy of Nepal Arab Bank Limited in comparison to Other Joint Venture Banks in Nepal*'' has recommended ,the bank must utilize depositor's money as loans and advances to get success in comparative banking environment. The largest items of the bank in the asset side are loans and advances. Negligence in administrating this asset should be the main cause of liquidity crisis in the bank and one of the main reasons of the bank failure.

Anju Khadka in her research on "*A Comparative Study on Investment Policy on Commercial Banks*'' has made the following conclusion while comparing the performance of NBL with SCBNL, and NBL.

There is not much difference between mean ratio of loans and advances to current assets of NBL and other commercial banks. The mean ratio of NBL is slightly higher than that of other commercial banks. However NBL's ratio are found to be less uniform in comparison to other commercial banks.

She has further concluded, "NBL is comparatively less successful in one balance sheet as off balance sheet operation than that of other commercial banks. It predicts that in the coming days if it could not mobilize and its resources as efficiently as other commercial banks to maximize the return it would tag behind competition market of banking.

2.3 Research Gap

There have been several researches done in loan. All of these researchers have many useful findings and their own limitations. In most of the studies, the samples are taken from same sector which may not represent different sectors. The tools used for analysis have been limited to ratio analysis. So this study tries to explore the determinants of housing loan. Furthermost this study will be helpful to the interested groups. At last this study will be different from the above in terms of samples, data presentation as well as statistical tools used for interpretation and analysis of data.
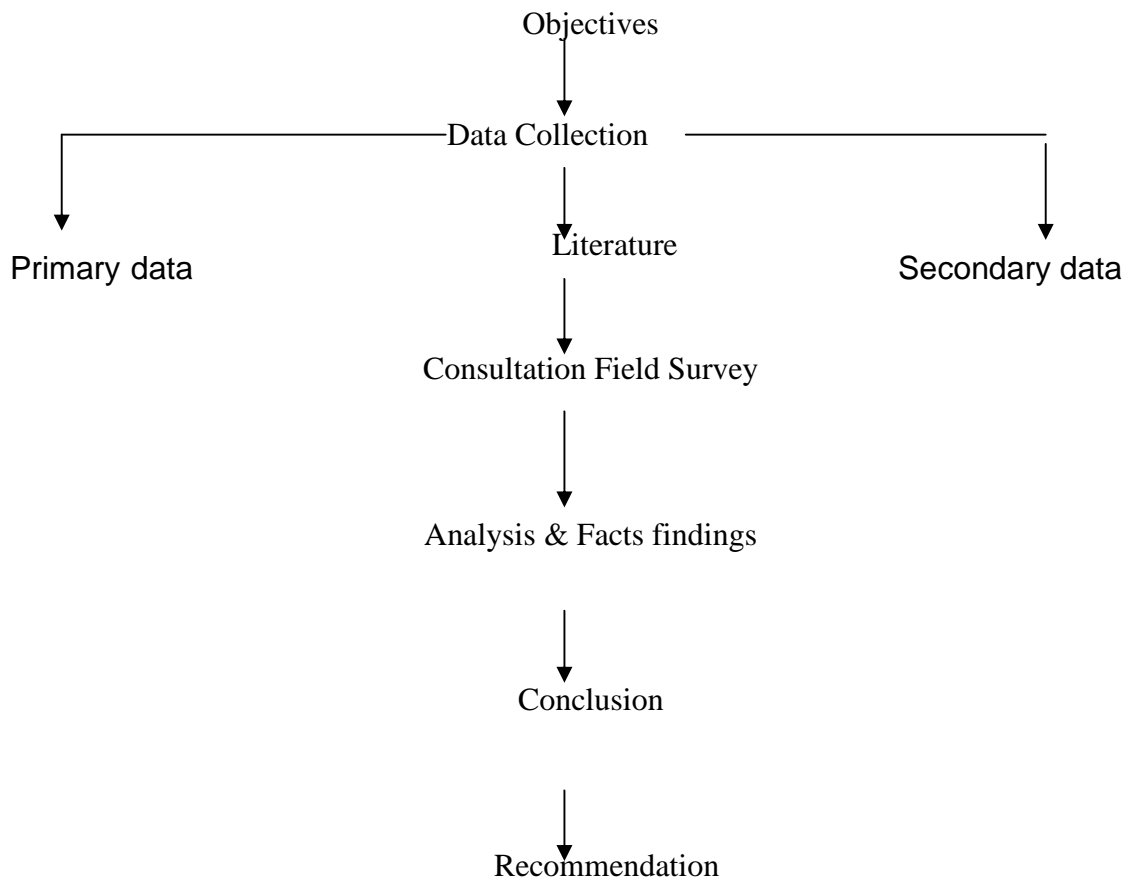
CHAPTER – III
RESEARCH METHODOLOGY

3.1 Introduction

This chapter mainly focuses on analyzing i.e. conducting the survey on that show relationship between the services provided by bank in terms of house loan and the growth of the housing loan in as per the market in order to enhance banks funding toward the house loan and to enhance the market share. The study is based on both qualitative and quantitative approach.

Flow figure given below shows the entire methodology of this study.

Flowchart of Entire Methodology

```
                              Objectives
                                  │
                                  ▼
              ┌───────────── Data Collection ─────────────┐
              │                   │                        │
              ▼                   ▼                        ▼
       Primary data          Literature             Secondary data
                                  │
                                  ▼
                       Consultation Field Survey
                                  │
                                  │
                                  ▼
                       Analysis & Facts findings
                                  │
                                  │
                                  ▼
                             Conclusion
                                  │
                                  │
                                  ▼
                           Recommendation
```

3.2 Research Design

The term "research" refers to the systematic and organized effort to investigate a specific problem that needs a solution. "Design" means planning to carry out investigation conceived to obtain an answer to reason question. Thus research design is a plan, structure and strategy of investigation conceived to obtain possible solution to the research problem in one's area of study.

The study is concerned with the market scenario of increasing fund toward the home loan by the bank and the reports summaries the output whether NIBL should invest more in the house loan sector. There are various banks providing the home loan services in the competitive environment and thus the major subject to find out whether the funding toward such services is increasing and whether NIBL should concentrate on the house loan sector of the banking sector. In addition, study also focuses on the reason related to the public financing through loan for various purpose related to housing sector and the boom in housing complex business. The finding and the

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analysis is related with the banking services, housing company and the consumer living in the housing sector.

3.3 Population and Sample

As this report is mainly focused on questionnaire both structured and unstructured for customer responses towards banking services. The sampling process framework can be further classified as:

Sampling Framework

<div align="center">

Table 3.1

Sampling Framework

S. No	Type of Questionnaire	Sample Size
1.	Unstructured Questionnaire	5
2.	Structured Questionnaire	84

</div>

3.4 Sources of Data

There are various key sources of the data/information without which the report would not have been completed successfully. The data that have been collected for the purpose of data analysis is divided into two parts.

3.4.1 Primary Source

Primary source of data have been collected through structured and unstructured questionnaire and in-depth interview with employees of related department at NIBL, Newroad branch and other banks like SCBNL and EBL.

Unstructured Questionnaire with sample size of 5 was conducted regarding the banks aggressiveness in lending to the housing sector in two other different bank and the personnel with in the NIBL relating to the housing loan. Further unstructured questionnaire guided us to come up with structured questionnaire by eliminating unwanted questionnaire and adding up more questions as per requirement of the information.

Further Structured Questionnaire was conducted with a sample size of 84.

3.4.2 Secondary Source

Collection of data is based on the sources that were accessible to us. The various secondary sources of data that we have used to collect all the information for the completion of this report are Annual Report 2006-2007 Fiscal Year – NIBL, Brochures, Customers Report, Financial Statement of the Commercial banks, The statistical Publication on commercial banks by NRB, Annual report- SCBL, EBL, NABIL, Economy Survey- 2005-2006 Fiscal Year, The BOSS Magazine, Oct-Nov, 2006 issue and New Business Age, issue June 2008.

3.5 Data Analysis & Processing

The raw data were collected through the primary and secondary sources of information. In order to extract meaningful information proper care was taken while analyzing and presenting the obtained raw data. The Statistical Package for Social Science (SPSS) version 10 has been used to analyze the data collected through the structured questionnaire. Data analysis involved coding and interpretation of the data. The raw data were encoded and fed to the software to generate various graphical figures to represent the data pictorially.

For the analysis of the secondary data Excel, word office tools were used to generate graphical figures so that raw data could be easily interpreted. Analysis of secondary data helped us to understand the major competitors for NIBL and also to identify market share for the bank.

Environmental scanning was conducted through PEST analysis. Various political-legal, economical, socio-cultural and technological aspects were studied in detail for analysis and their impact on the corporation was allocated from low to high.

In order to scan external environment Porter's approach was also used in which various competitive forces, (New entrants, substitute product/services, existing competitors, government, bargaining power of suppliers and bargaining power of buyer), we analyzed and how would this factors affect the bank.

Similarly, in order to do competitive scanning, SWOT analysis was undertaken to understand bank strength and weakness as well as corporate value chain Analysis was done to scan the operating procedure of the bank.

	Primary	Secondary
Qualitative Data	Interview with the bank personnel of SCBL, EBL with respect to crucial issues and question	Nepal Rastra Bank Directives on Commercial Bank
	Unstructured interviews with the Personnel of NIBL, Newroad branch Mr. Sandeep Shrestha, Relationship officer Mr. Ankit Pradhan, , Relationship Manager	The BOSS Magazine
	Questionnaire Survey on the existing and potential customers living in various housing complexes such as Ansal Choudhary, Comfort Complex, Ace, Mount View Residence, Civil Home etc.	New Business Age
	Unstructured interview through questionnaire to the authorized personnel of Housing Complex -Comfort Housing	
Quantitative Data	Questionnaire Survey on the existing and potential customers living in various housing complexes such as Ansal Choudhary, Comfort Complex, Ace, Mount View Residence, Civil Home etc.	Financial Statement of the Commercial banks
		The statistical Publication on commercial banks by NRB
		Annual report-NIBL, SCBL, EBL, NABIL
		Economy Survey- 2005-2006 Fiscal Year

Data Analysis Techniques

The data analysis techniques used during the study were as follows:

〕 **Frequency Distribution**

It summarizes the number of times different values of a variable occur. It further includes calculation of mean, median, mode etc.

）Chi Square Test

It tests the hypothesis that the row and column variables are independent, without indicating strength or direction of the relationship

）Cross Tabulation

The Cross-tabs procedure forms two-way and multiway tables and provides a variety of tests and measures of association for two-way tables. The structure of the table and whether categories are ordered determine what test or measure to use.

CHAPTER –IV
DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter deals with the presentation, analysis and interpretation of relevant data of Investment Bank Ltd, Standard chartered bank Ltd, Everest bank Ltd in order to fulfill the objectives of this study. To obtain best result, the data have been analyzed according to the research methodology as mentioned in third chapter. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. With the help of this analysis, efforts have been made to highlight the comparative financial strength of selected organizations. For analysis, different types of analytical methods and tools such as financial ratio analysis as well as statistical analysis are used.

4.2 Financial Analysis Tools

Financial statements of respective organization are analyzed by using various financial ratio analyzing tools to draw the meaningful conclusion and to meet the objective of the study. In the direction of financial statement analysis, research has incorporated all respective information from published material from the respective organization. Mainly annual report is used to get the information**.**

4.3 Analysis of Banks in Terms of House Loan
4.3.1 Analysis of Housing Complex

The housing company is strongly associated with the banks like NABIL Bank, standard chartered bank and Everest bank limited. The associated banks is shown below in figure by rank

THE BANK ASSOCIATED WITH THE COMFORT

The housing companies are strongly associated with the banks like NABIL Bank, standard chartered bank and Everest bank limited. The associated banks is shown below in figure by rank.

THE BANK ASSOCIATED WITH ANSAL CHAUDHARY,MVR-II
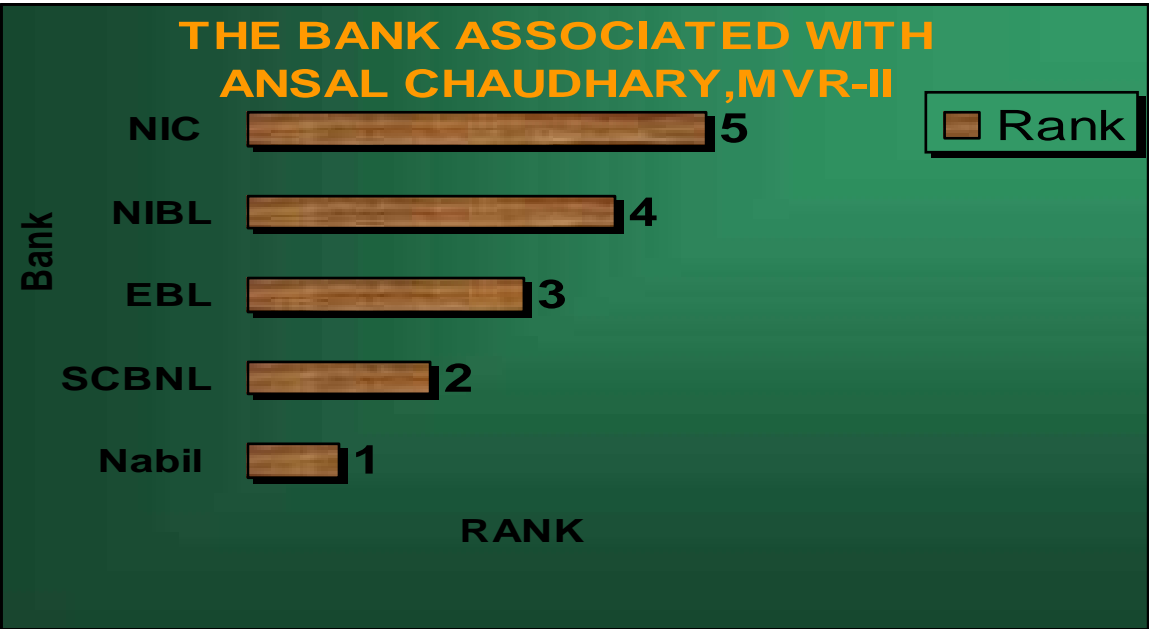
4.4 Customer Analysis

Customer Analysis is one of the major practices to know the increasing trend of banks funding toward house loan. The Structured Questionnaire was designed for conducting this analysis. As mentioned in earlier sections the populations for the customer survey are the existing and potential customer of various housing complex in Kathmandu and Lalitpur district, who have taken loan from bank and who are willing to take loan from bank. However, the sample chosen was as follows:

〕 **Category 1**

Those individuals living in the various housing complex and have purchased their dream house on cash basis.

〕 **Category 2**

Those individuals who have taken loan from the bank and financial institutions and,

The overall questionnaire printed was 100 and the total questionnaire filled by the housing customers is 84 which is also our sample size. The sample size includes 28 respondents from category 1 and 56 respondent from category 2. The data collected from the survey was analyzed using different tools and techniques. The tools used were Microsoft Excel and SPSS.

4.5 Data Analysis Techniques

The data analysis techniques used during the study were as follows:

〕 **Frequency Distribution**

It summarizes the number of times different values of a variable occur. It further includes calculation of mean, median, mode etc.

〕 **Chi Square Test**

It tests the hypothesis that the row and column variables are independent, without indicating strength or direction of the relationship.

〕 **Cross Tabulation**

The Cross-tabs procedure forms two-way and multiway tables and provides a variety of tests and measures of association for two-way tables. The structure of the table and whether categories are ordered determine what test or measure to use.

Analysis of Findings

The analysis presented out here is basically in the form of simple bar figures, clustered bar figures, cross tabulations and chi square tests.

Explanations

Chart 1:

The figure presented below clearly shows the composition of the respondents in the various housing complexes. The highest respondents who were keen to know about us and the research topic were from Civil Homes and than The Comfort Housing.

Civil Homes being one of the oldest and reputed housing complexes is the major reason for our respondents greater in number when compared to others.

Figure 4.1

Respondents from Housing Complexes

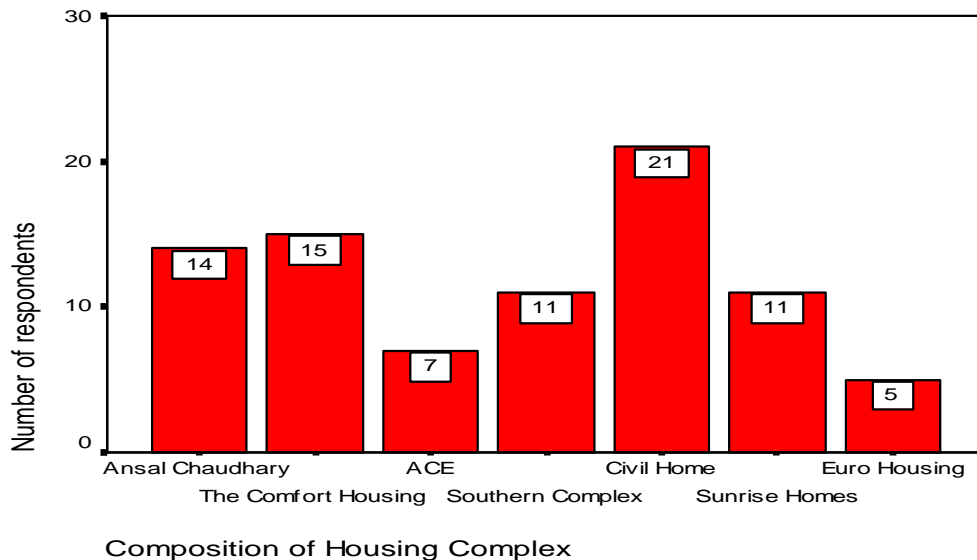
Composition of Housing Complex

Figure 4.2: While categorizing our respondents in terms of their profession or designation, we found that most of the people living at housing complexes were business people, army personnel and than individuals working at banks. Out of 84 respondents 27 are business people and 16 are army personnel.

Figure 4.2

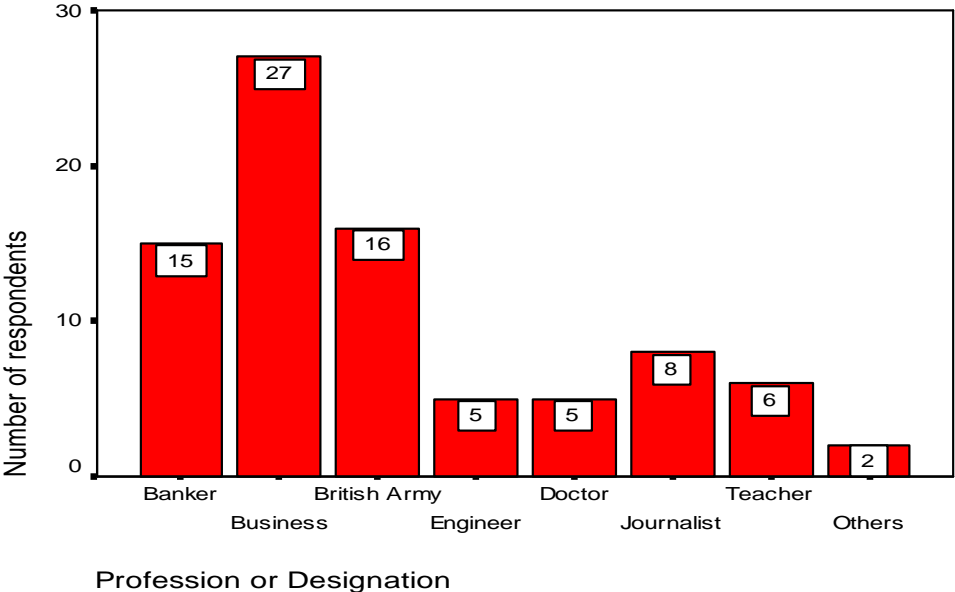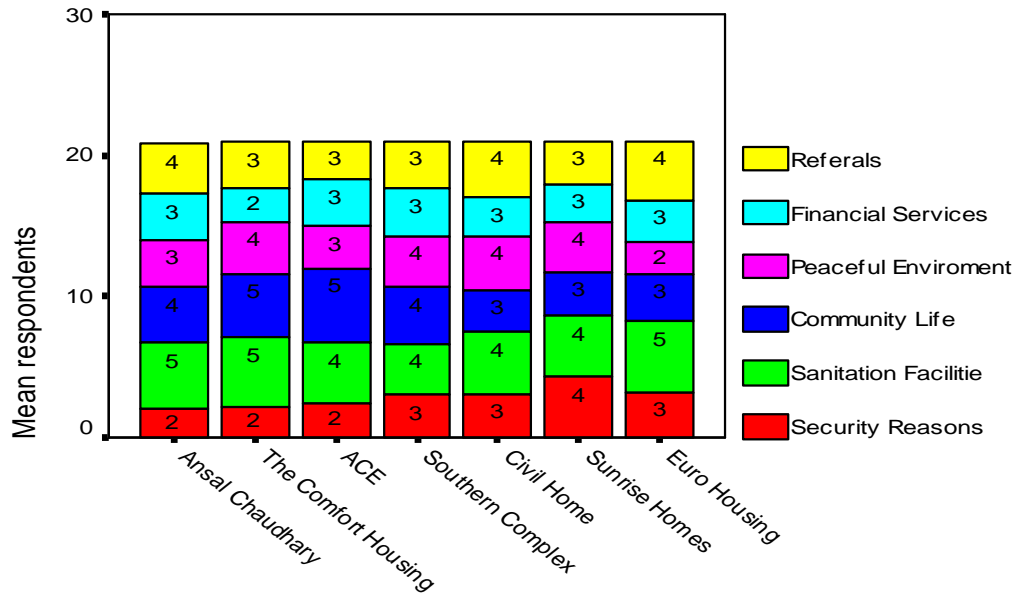**Respondents Composition in Terms of Designation**

Figure 4.3: During the survey we had asked people for their reason behind living in a housing complex or in apartments. Most of them were highly conscious about community life and sanitation facilities. The culture of life in Kathmandu is that we many a times do not recognize our neighbors, so in a housing complex where we share common physical environment will definitely lead to better communication and help to one another. Also there are people who are highly conscious about sanitation facilities and security reasons being the most critical reason for today in the Kathmandu Valley.

Figure 4.3

Reasons affecting People to Live in Housing Complexes

Figure 4.4: Out of 84 respondents there are 56 loan taking and 28 respondents who have purchased their house with cash. This composition shows that there are more people taking loan who are living at housing complex than purchasing house on cash basis.

Figure 4.4

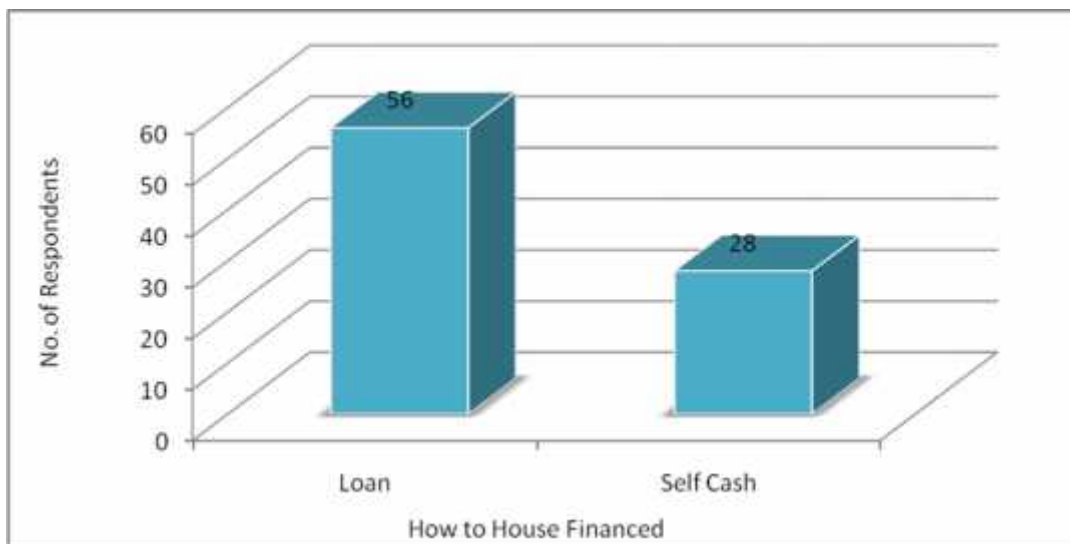**House Finance Via Cash & Loan**

Figure 4.5: Among the respondents, the maximum preference of banks is observed as EBL, NABIL, SCBNL and NICBL. There were 12 respondents from EBL, 10 respondents from NABIL and 9 respondents from SCBNL out of our sample size of 84.

Figure 4.5

Respondent Preference to Banks

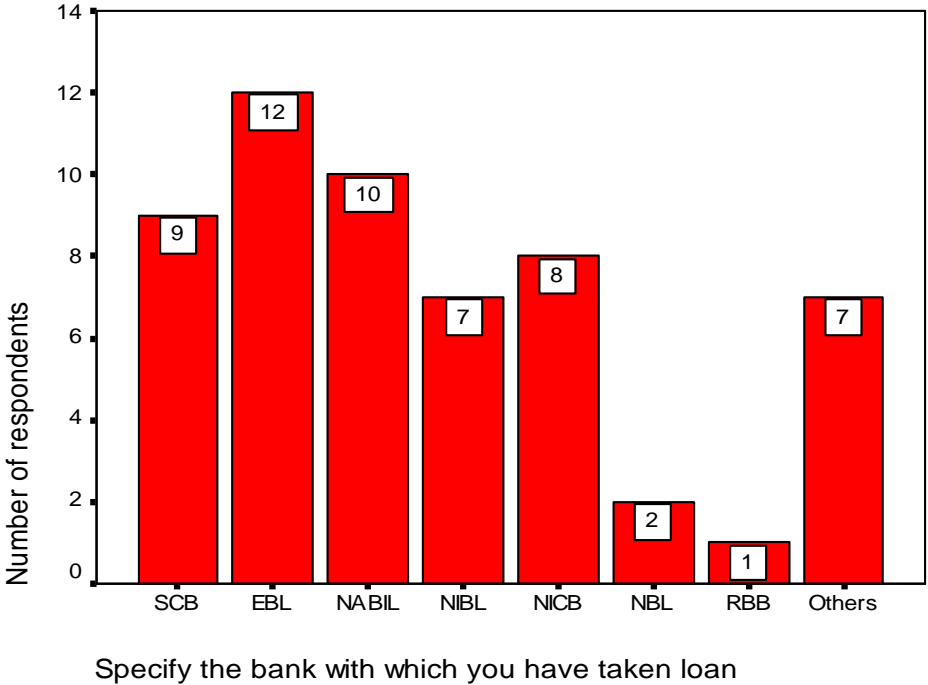Specify the bank with which you have taken loan

Figure 4.6: It is the financial services provided by various banks and financial institutions that encourage people to purchase their houses. Also savings, salary, business, sale of property are also a major source of income for purchasing a house. A maximum of 18 respondents believed in the financial services of banks as a major source of funds to purchase their houses.

Figure 4.6

Income Source to Purchase the House
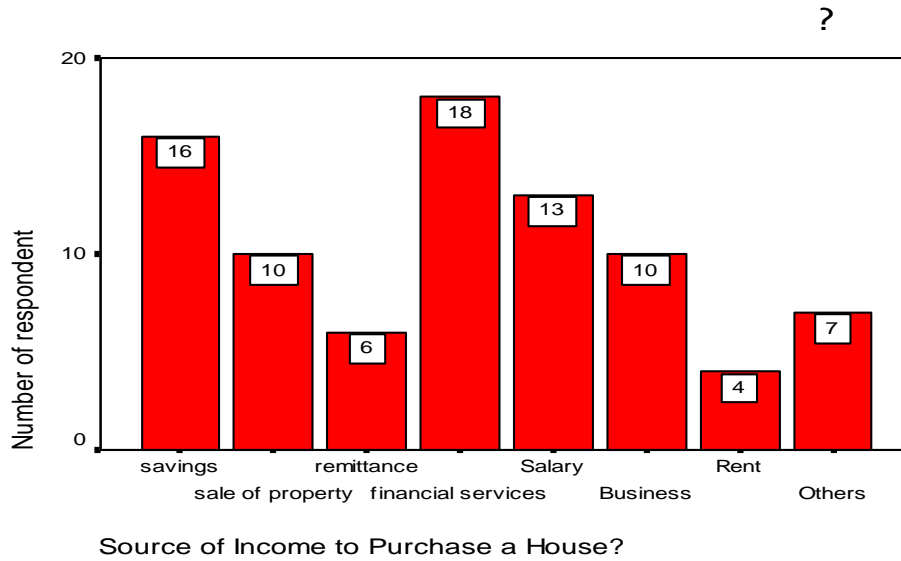

Source of Income to Purchase a House?

Figure 4.7: The figure below explains that SCBNL is preferred less in terms of easy EMI, highly preferred in terms of simple documentation process and high maturity. EBL is less preferred in terms of interest rate and highly preferred in terms of hassle free services. NABIL and NICBL are highly preferred for their simple processes.

Figure 4.7

Service Preference of Respondents Among Banks

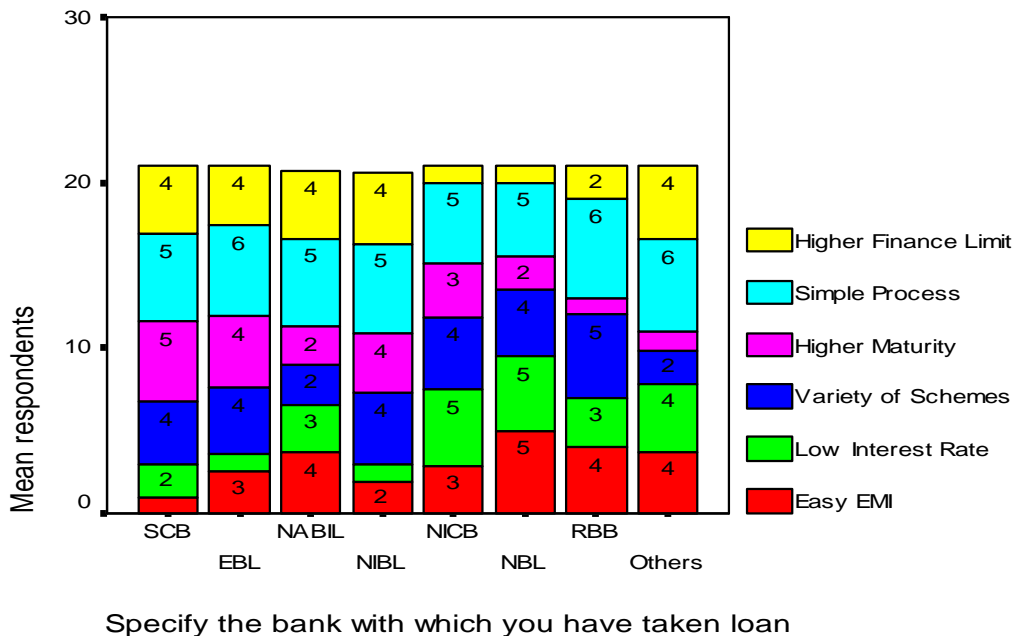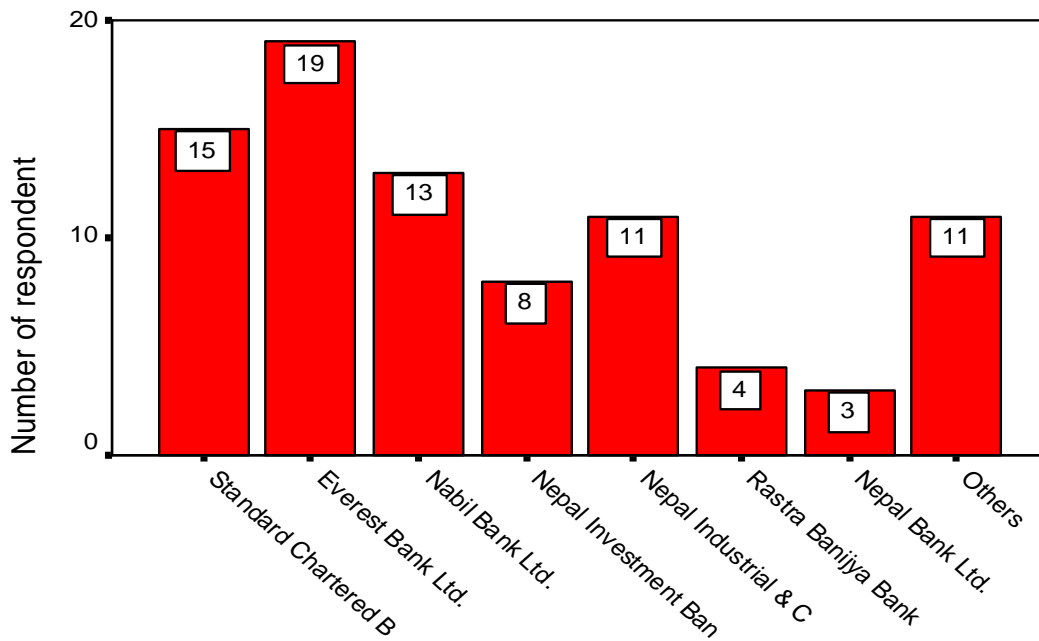Specify the bank with which you have taken loan

Figure 4.8: Most of the respondent's preferred to deal with EBL for their home loan as well as other financial services and than the SCBNL and NABIL.

Figure 4.8

The Most Preferred Bank

If you ever think of home loan, then which bank will you approach f

Figure 4.9: A maximum of 11 respondents answered their house loan amount to be amount around/ between 25 to 30 lakhs. 9 respondents answered their amount to be in the range of 20 to 25 lakhs and another 9 respondents answered that their amount to be in the range of 30-35 lakhs.

Figure 4.9

Composition of House Loan Amount
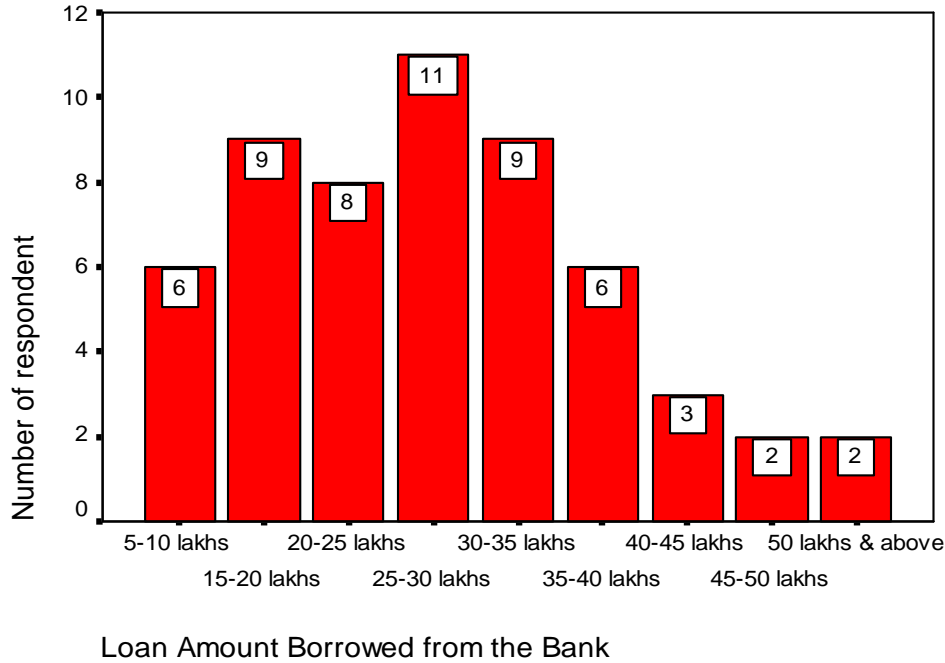

Loan Amount Borrowed from the Bank

Figure 4.10: Out of the 56 respondents who have taken loan from banks and financial institutions, 31 respondents fall under the category of 5-10 years of maturity of their loan, 16 respondents fall under the category of 10-15 years of maturity of their loan and only 9 respondents fall under the range of 1-5 years of maturity.

Figure 4.10

Maturity Period of the Loan
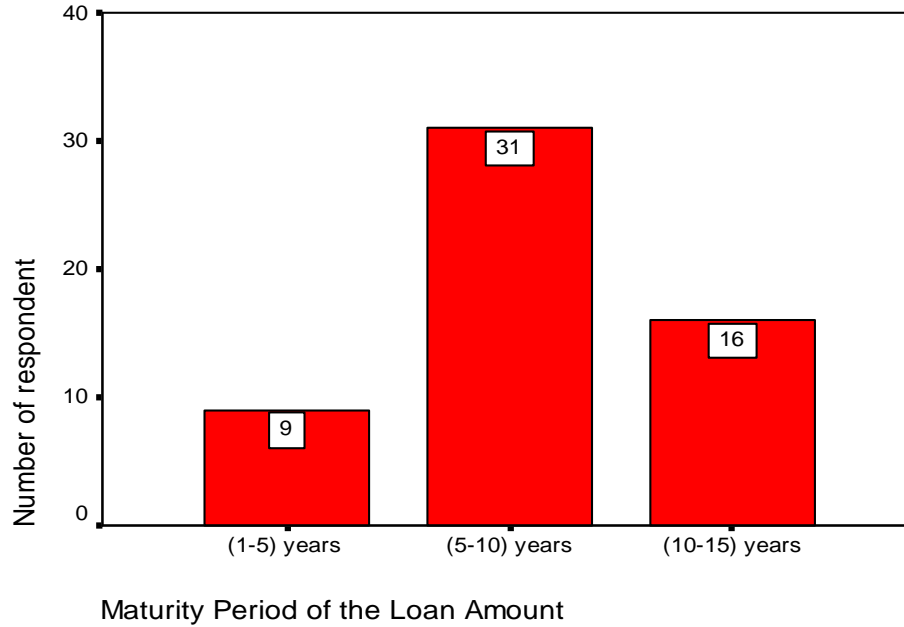
Figure 4.11: We had asked people that when they purchase their house on loan than do they themselves choose the financial institution or the housing complex developers already have their own financial institution in contact for providing financial help to the house loan customers? The answer was easy; the housing customers always have their choice of financial institution, though the housing complexes also provide such services to help people. There are around 44 respondents who believe that the choice of financial institution is their own.

Figure 4.11

Figure 4.11

The Choice of Financial Institution

:e?

Is the Financial Institution of your own choice?
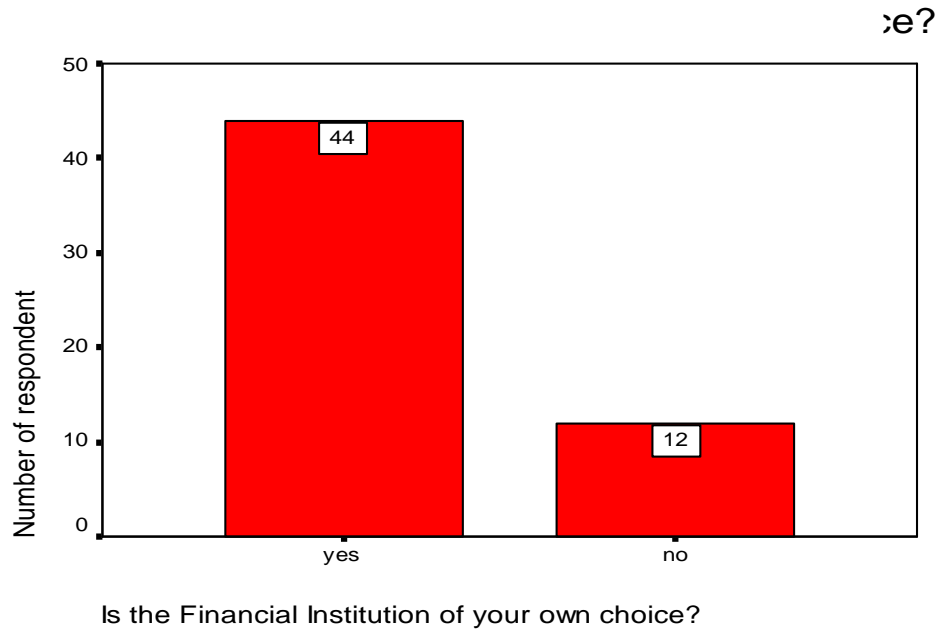
Figure 4.12: The complex also provides the right choice of financial institution for their clients. There are 49 respondents who are extremely satisfied with the financial services provided by the housing complexes themselves.

Figure 4.12

Housing Complex Financial Services
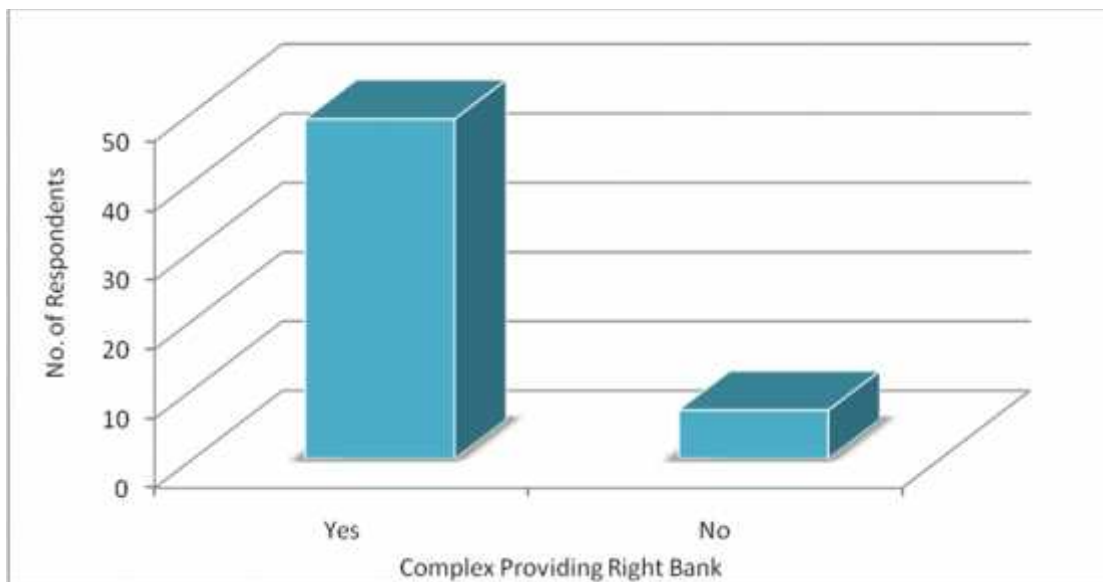
Figure 4.13: Majority of teacher's doctors and engineers believe that the increasing trend in the housing sector is due to the remittance factor. Majority of teachers and doctors believe that the increasing trend in the housing sector is due to the Nepalese spending pattern, which is high in house purchase and construction. A majority of bankers, army personnel and engineers believe that the major reason is due to internal migration of people due to conflict.

Figure 4.13

Reasons for Rapid Growth in the Housing Sector
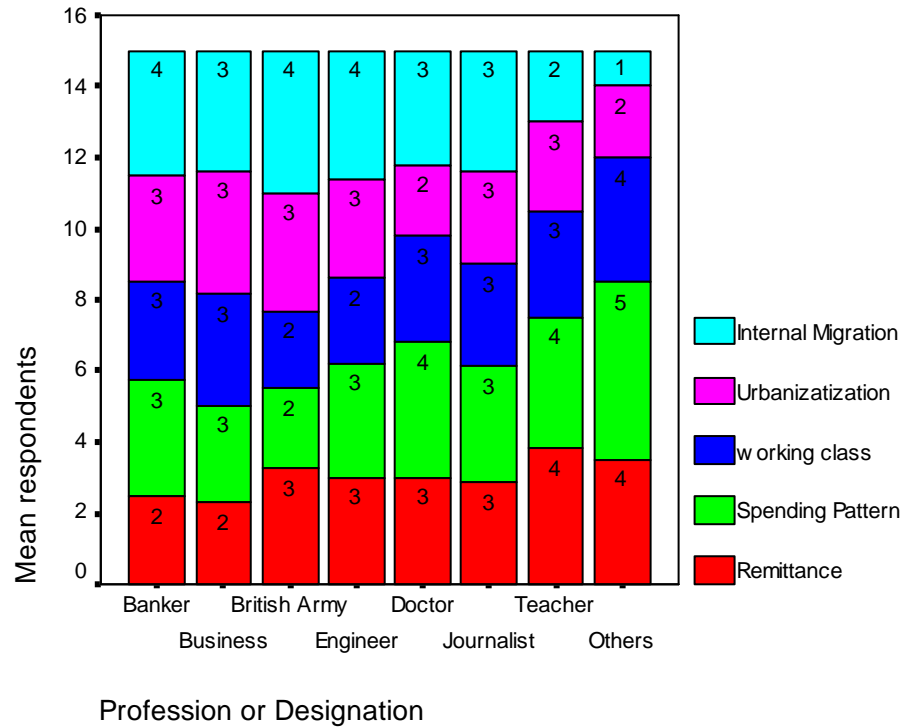
CAMELS

CAPITAL ADEQUACY

Sr.No	Bank	CAR (%)	Rank	D/E	Rank
1	NIC	12.3	5	11.7	7
2	NABIL	13.4	2	8.72	1
3	SCB	18.06	1	11.23	6
4	HBL	11.64	6	12.34	8
5	NIB	11.2	10	12.63	10
6	NSBI	12.94	4	13.07	11
7	EBL	11.33	7	15.1	12
8	BOK	13.39	3	12.49	9
9	LUMBINI		13		
10	KBL	11.23	9	10.58	4
11	MBL	11.26	8	10.76	5
12	LAXMI	11.11	12	9.74	3
13	SBL	11.17	11	8.95	2
14	RBB	-42.14	14		

CAR= Capital Adequacy Ratio

D/E= Debt Equity Ratio

C for Capital Adequacy

Capital Adequacy reflects the overall financial condition of the bank. It also reflects the bank's leverage. In this category, Capital Adequacy Ratio (CAR) and Debt- Equity Ratio are used to rank the commercial banks.

Asset Quality

Sr.No	Bank	NPL/TL	Rank	LLP/NPL	Rank
1	NIC	2.3	8	141.5	6
2	NABIL	1.8	5	139	7
3	SCB	1.89	6	144.94	4
4	HBL	4.68	11	113.13	8
5	NIB	1.9	7	144.5	5
6	NSBI	5.08	12	93.86	13
7	EBL	0.91	2	100	12
8	BOK	3.21	10	104.3	10
9	LUMBINI	20.94	13	101.89	11
10	KBL	2.56	9	82.78	14
11	MBL	1.26	4	187.92	2
12	LAXMI	0.49	1	307.85	1
13	SBL	0.99	3	154.36	3
14	RBB	31.81	14	106.44	9

NPL= Non Performing Loan

TL= Total Loan

LLP=Loan Loss Provision

A for Asset Quality

The prime objective behind measuring the Asset Quality is to ascertain the component of non-performing loan as percentages of total loan. In this category, the ratio of non-performing loan to total loan and the ratio of loan loss provision to non-performing loan are used to rank the banks.

M for Management Quality

Though it involves a subjective analysis for measuring the efficiency of the management, the ratio of total advance to total deposit and Return On Net Worth (RONW) are used to compare the commercial banks to avoid being subjective.

Management Quality

Sr.No	Bank	TA/TD	Rank	RONW	Rank
1	NIC	0.92	3	0.1	6
2	NABIL	0.87	5	0.2	3
3	SCB	0.42	13	0.22	2
4	HBL	0.64	11	0.16	5
5	NIB	0.78	7	0.2	3
6	NSBI	0.93	2	0.24	1
7	EBL	0.75	8	0.17	4
8	BOK	0.74	9	0.17	4
9	LUMBINI	0.88	4		
10	KBL	0.85	6	0.1	6
11	MBL	0.71	10	0.05	8
12	LAXMI	0.85	6	0.06	7
13	SBL	0.96	1	0.1	6
14	RBB	0.5	12		

TA=Total Advances

TD= Total Deposit

RONW= Return On Net Worth

E for Earnings Quality

This parameter gains importance in the light of the argument that much of a bank's income is earned through the non-core activities like investments, treasury and so on. In this category, the percentage growth of Profit After Tax (PAT) and the ratio of Interest Income to Total Income is used to rank the banks.

Earning Quality

Sr.No	Bank	PAT Growth in Percentage	Rank	II/TI	Rank
1	NIC	61.48	4	0.86	3
2	NABIL	36.22	6	0.78	9
3	SCB	1.71	13	0.72	10
4	HBL	32.01	7	0.81	8
5	NIB	27.76	8	0.81	8
6	NSBI	20.44	10	0.88	4
7	EBL	19.33	11	0.85	6
8	BOK	24.11	9	0.81	8
9	LUMBINI	136.36	1	0.84	7
10	KBL	56.8	5	0.91	1
11	MBL	-14.09	14	0.86	5
12	LAXMI	117.03	2	0.9	2
13	SBL	66.92	3	0.91	1
14	RBB	8.51	12	0.85	6

II= Interest Income

TI= Total Income

L for Liquidity

In this category, the ratio of Liquid Asset to Total Deposit (LA/TD) and Liquid Asset to Total Asset (LA/TA) is used to rank the banks. LA/TD measures the ability of a bank to meet the demand from the demand deposit in a particular time. Further, LA/TA measures the liquidity available to the deposits of a bank.

Liquidity

Sr.No	Bank	LA/TD	Rank	LA/TA	Rank
1	NIC	0.11	6	0.1	7
2	NABIL	0.19	2	0.12	5
3	SCB	0.19	2	0.16	2
4	HBL	0.08	8	0.07	10
5	NIB	0.09	7	0.07	10
6	NSBI	0.11	6	0.08	9
7	EBL	0.13	5	0.11	6
8	BOK	0.14	4	0.12	5
9	LUMBINI	0.11	6	0.09	8
10	KBL	0.11	6	0.1	7
11	MBL	0.27	1	0.24	1
12	LAXMI	0.15	3	0.13	4
13	SBL	0.11	6	0.08	9
14	RBB	0.19	2	0.15	3

TA= Total Advances

TD= Total Deposits

RONW= Return On Net Worth

Additional Indicators

Sr.No	Bank	Operating Profit	TI	II	Deposit	Advance	TA
1	NIC	143283	599085	534937	9393047	8631830	11163209
2	NABIL	733986	1441809	1122261	18119889	15786400	28405611
3	SCB	787893	1440802	1040289	24623026	10264109	28523851
4	HBL	562883	1539395	1250905	28613194	18344657	33938053
5	NIB	520808	1387344	1129178	21680132	16870565	25012577
6	NSBI	196657	650182	570813	10486778	9758593	15443088
7	EBL	311880	949394	805324	17221094	12946089	20455190
8	BOK	268297	731817	591864	12028302	8943999	14264081
9	LUMBINI	163509	407701	341062	6007196	5296531	7313975
10	KBL	153558	628612	573705	10134142	8640923	11515373
11	MBL	78375	563229	486801	10463294	7474002	11713085
12	LAXMI	64022	360452	324820	6965083	5886686	7987669
13	SBL	107033	379549	345183	5613989	5396989	7127559
14	RBB	150422	1820282	1548367	47834136	24095608	59023284
	TOTAL				229183302	158336981	281886605

TI= Total Income

II= Interest Income

TA= Total Assets

4.6 Banking Sector's Lending and Deposit

Table 4.1

Banking Sector's Lending and Deposit

(Rs. In Billions)	Financial Year			Change Percent	
	2002/03	**2003/04**	**Mid-April 2007**	**2003/04**	**2004/Mid-April 2007**
Total Deposit	179.6	207.8	**321.5**	15.70%	54.7%
Total Lending	118.9	127.3	**221.1**	7.06%	73.68%

Source: Annual Report of Nepal Investment Bank Ltd

Table 4.2

Banks Deposit and Lending

S.N	Bank	Deposit	% of total deposit	Advance	% of total advance	TA	% of total assets
1	NIC	9393047	4.098486634	8631830	5.451556513	11163209	3.960177178
2	NABIL	18119889	7.906286733	15786400	9.970128204	28405611	10.07696375
3	SCB	24623026	10.74381326	10264109	6.482445816	28523851	10.11890969
4	HBL	28613194	12.4848511	18344657	11.58583224	33938053	12.03961181
5	NIB	21680132	9.459734549	16870565	10.65484822	25012577	8.873276188
6	NSBI	10486778	4.575716428	9758593	6.163179908	15443088	5.47847529
7	EBL	17221094	7.514113746	12946089	8.176288899	20455190	7.256531399
8	BOK	12028302	5.248332621	8943999	5.648711339	14264081	5.060219516
9	LUMBINI	6007196	2.621131622	5296531	3.34510041	7313975	2.594651491
10	KBL	10134142	4.42185007	8640923	5.457299328	11515373	4.085108265
11	MBL	10463294	4.565469608	7474002	4.72031357	11713085	4.155247107
12	LAXMI	6965083	3.039088336	5886686	3.717821297	7987669	2.833646175
13	SBL	5613989	2.449562839	5396989	3.408546106	7127559	2.528519934
14	RBB	47834136	20.87156245	24095608	15.21792815	59023284	20.9386622
	TOTAL	229183302	100	158336981	100	281886605	100

As banking industry have registered growth in both lending and deposit, commercial banks definitely have scope to improve.

4.7 Major Competitors

Competition in banking sector is getting tougher day by day. Banks are trying to attract more and more clients by offering new facilities and convenient services. Banks are launching new products so that people switch their current bank.

As such all the existing banks are competitors for NIBL but it is facing a huge competition with joint venture banks.

From analysis, SCBNL, NIBL, EBL and HBL are found to be the major players. The introductions of these major players are included below:

Standard Chartered Bank Limited Nepal

Standard Chartered Bank was established in 1987. SCB is currently the market leader in terms of profitability. The current market share value is more than RS. 4500 which is the highest market share value in terms of all other listed banks and industry.

S.no	Particulars	Amount (RS in Lakhs)
1	Share capital	17553
2	Deposits Liabilities	246231
3	Loans, Advances and Bills Purchased	102641
4	Net Profit	5000

The figures show that SCBL has been profitable and functioning properly. It has efficiently utilized its deposits into loans and advances. Among the existing commercial banks SCBL is the leading bank until now.

Market share of SCBNL in terms of Total Deposits among Commercial Banks

8%

92%
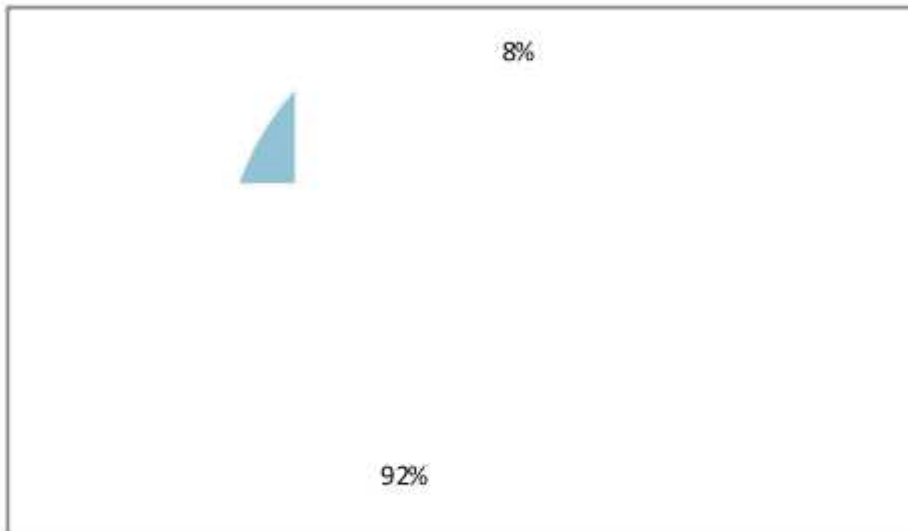
Market share of SCBNL in Terms of Total Loans and Advances Among Commercial Banks
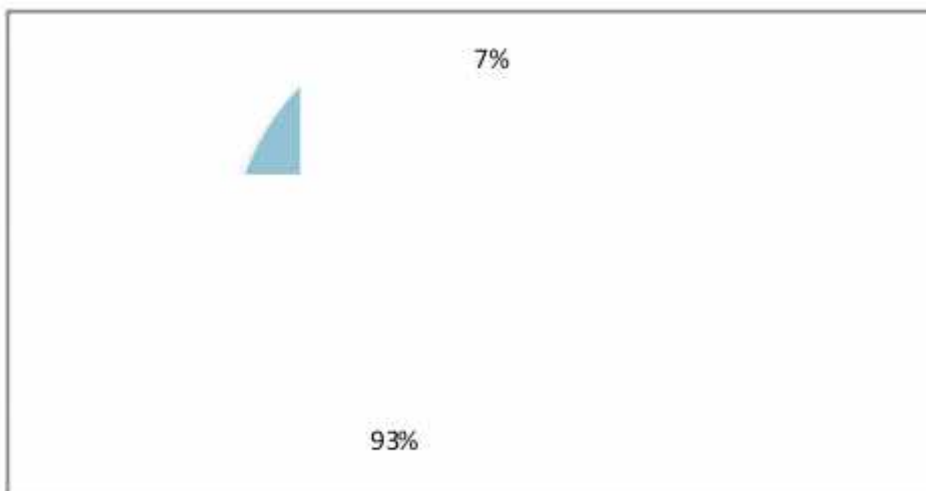

4.60%

95.40%
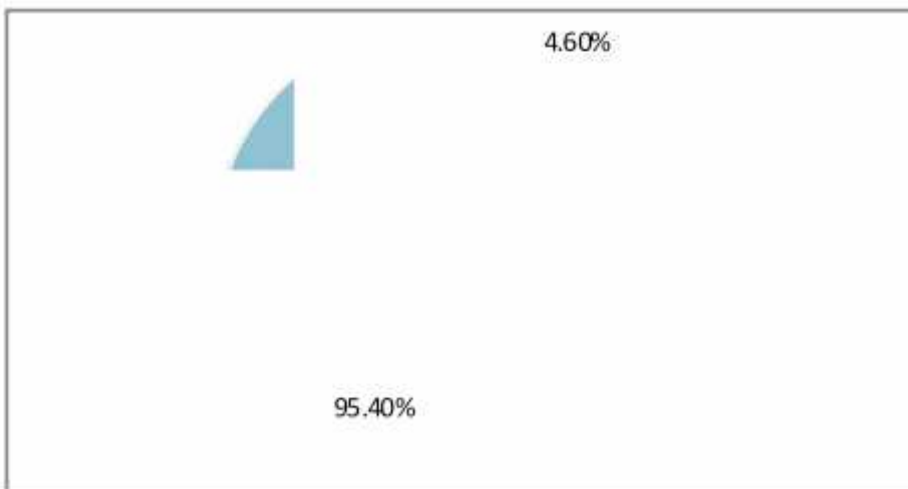
SCBL occupies 8% of the total deposits of commercial banks and 4.6% of the total loan and advances of the commercial banks. The interest rates provided by SCBL are the least in the industry i.e. less than 2%. Despite this it has highest deposits among its competitors because of its reputation and quality service.
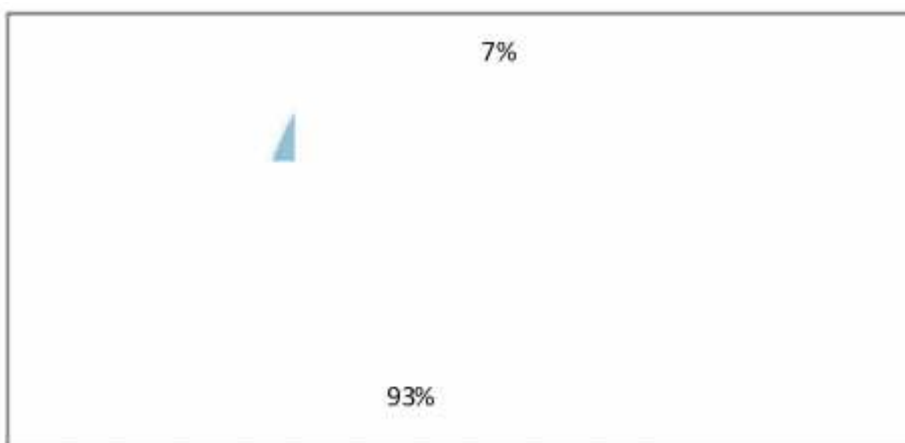
Nabil Bank Limited

Nabil Bank Limited was initially established as Nepal Arab Bank Ltd. It had a joint venture with Arab bank. Nabil Bank is considered to be a major player in the market. The bank is known for its innovative products and services in the market.

S.no	Particulars	Amount (RS in Lakhs)
1	Share capital	18747.4
2	Deposits Liabilities	225052.9
3	Loans, Advances and Bills Purchased	157614.6
4	Net Profit	4715.7

Market share of NABIL in Terms of Total Deposits among Commercial Banks

Market share of NABIL in terms of Total Loans & Advances among Commercial Banks
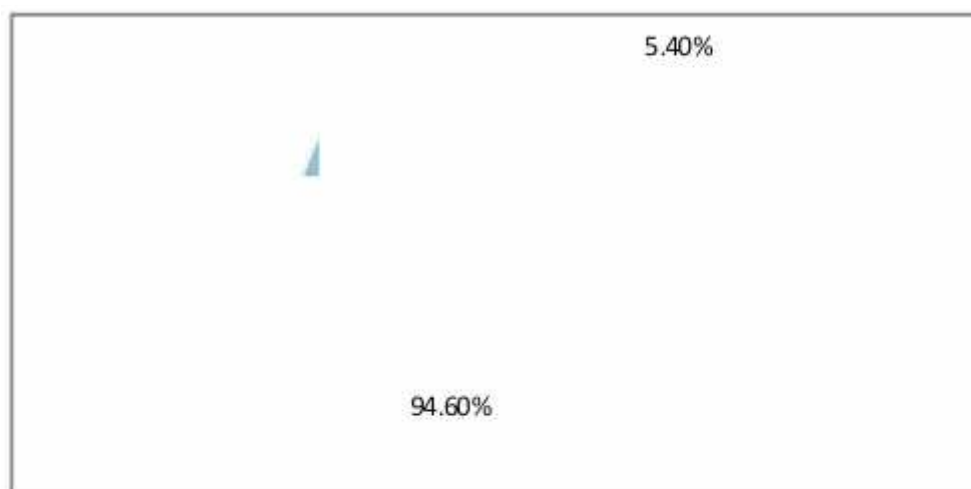
Another competitor Nabil bank occupies 7% of the total deposits of commercial banks and 7% of the total loan and advances of the commercial banks. The interest rate provided by Nabil in the savings account is 2% which is similar to the industry average.
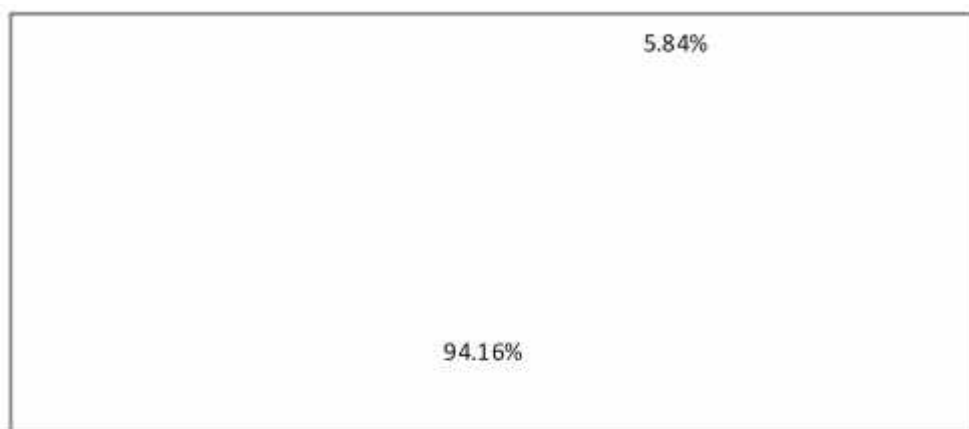
Everest Bank Limited

Everest Bank Limited was initially established in joint venture with Punjab National Bank of India. Everest Bank is considered to be a major player in the market. The bank is known for its innovative products and services in the market.

S.no	Particulars	Amount (RS in Lakhs)
1	Share capital	9628.1
2	Deposits Liabilities	172210.9
3	Loans, Advances and Bills Purchased	129460.88
4	Net Profit	3167.9

Market share of EBL in terms of Total Deposits among Commercial Banks

5.40%

94.60%

Market share of EBL in terms of Total Loans & Advances among Commercial Banks


5.84%

94.16%

Another competitor Everest Bank Limited occupies 5.40% of the total deposits of commercial banks and 5.84% of the total loan and advances of the commercial banks.

Market Share of the Company

Nepal Indosuez bank limited, now known as Nepal Investment Banks is amongst the oldest private venture banks in the country. Nepal Investment Bank facilitates its customers with innovative products and services. With its excellent service of Nepal Investment Bank makes a distinct image in the market. Nepal Investment bank holds the major market share in the deposit portfolio and loan portfolio of the entire banking industry. In fact it holds 6.74% in total market deposits and 7.50% in terms of total market loans and advances.

Market share of Commercial Banks in terms of Deposits
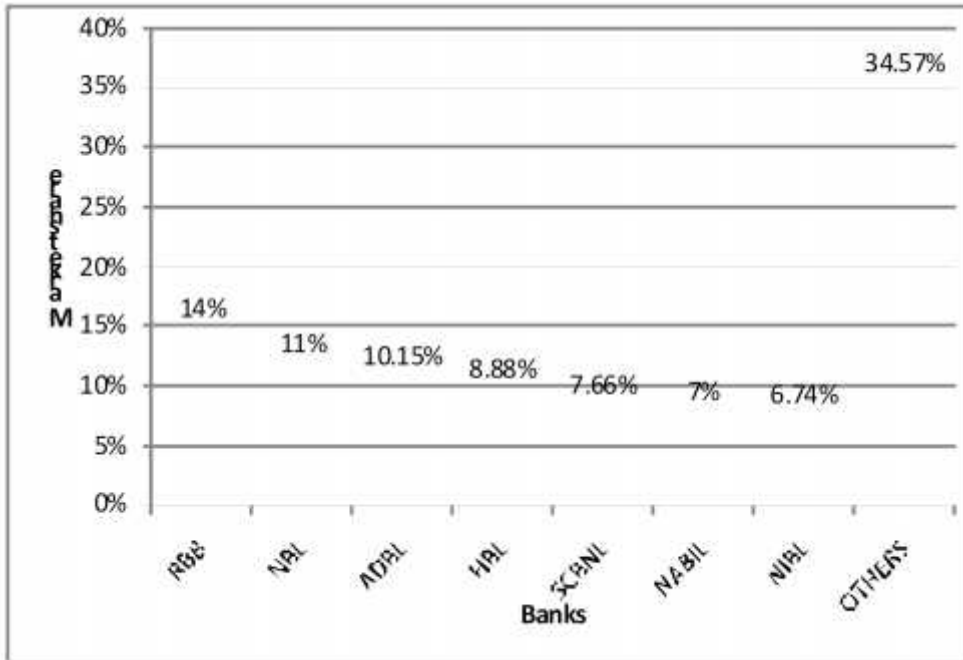
Market share of Commercial Banks in terms of Loans & Advances
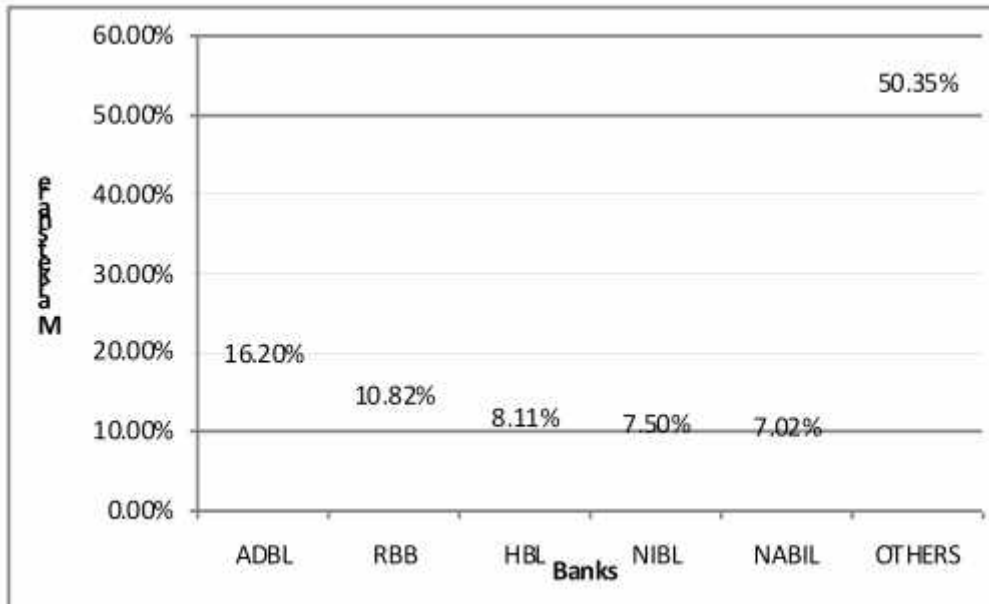
From the above figure, it is clearly shown that Nepal Investment bank holds major market share in terms of deposits after RBB, NBL, ADBL, HBL, SCBNL, and NABIL. RBB holds 14% the

market followed by NBL holding 11% of the market, ADBL holding 10.15% of the market, HBL holding 8.88%, SCBNL holding 7.66%, NABIL holding 7% and finally NIBL holding 6.74%.

It also shows that Nepal Investment bank holds a major market share in terms of loans and advances after ADBL, RBB, and than comes NIBL. ADBL holds 16.20%, RBB holds 10.82%, HBL holds 8.11% and than comes NIBL which holds 7.5% of market share in terms of loans and advances.

4.8 Major Findings

⌡ It was found that most of the people living at housing complexes were business people, army personnel and than individuals working at banks. Out of 84 respondents 27 are business people and 16 are army personnel.

⌡ 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.

⌡ Among the respondents, the maximum preference of banks is observed as EBL, NABIL, SCBNL and NICBL

⌡ Also savings, salary, business, sale of property are also a major source of income for purchasing a house.

⌡ SCBNL is preferred less in terms of easy EMI, highly preferred in terms of simple documentation process and high maturity. EBL is less preferred in terms of interest rate and highly preferred in terms of hassle free services. NABIL and NIBL are highly preferred for their simple processes.

⌡ Most of the respondent's preferred to deal with EBL for their home loan as well as other financial services and than the SCBNL and NABIL.

⌡ 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 -V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Liberalization policy, created a new financial tools with the open market operation concepts in the business environment. These kinds of Economic reforms initiated by the government have changed the industrial and business environment in Nepal significantly. This kind of changes in the economic reform has not only brought many opportunities but also the greater challenges to business house. Besides this, economic transformation has been taking place in Nepal as the economy slowly pacing toward the development. Industrialization in Nepal began only after the country opened its border to the outside world in 1951. Since then the development in the industry and service sector is increasing.

With such trends and impacts, the banking sector reforms and regulation has been kept on changing. The change in such sector is the road map toward the development of the economy of the country. However, such trend of frequent change in the reform has put a greater challenge to the bank. Today all the financial institution are regulated under the new "Bank and financial Institution Ordinance" i.e. BAFIO. The new Ordinance promotes the concept of universal banking over specialized banking. With the transformation in the various aspects, there has been tremendous changes appeared in the banking service and the business environment of the country with response to economic, social and political changes. The banks today provide the home loan services to the customers and the environment is competitive. Similarly there has been a change toward the housing sector of the company. The rising popularity of housing colonies has not only gripped the housing sector growth but also the banking services at the same time. The opposite is also true as the easy and convenience service from the bank and lower interest rate has boost up the housing sector business.

Home loan has become an important area of the retail lending. This sector needs proper strategic decision to be made for the increased corporate profitability and corporate social responsibility. The trends toward emphasizing on this sector by the various banks are common. Thus, this study intends Nepal Investment Bank to decide the volume of funding toward the house loan with the

study of market trend in the funding toward the house loan. The study has also been conducted with the competitor analysis in this. The research is based on pioneer players in the House loan market, the anticipated immediate competitors for NIBL – Standard Chartered Bank Nepal Limited and Everest Bank Limited. The study is also done with the housing complex like Comfort Housing and Ansal Choudhary. The market research further included customer survey of 84 existing and potential customers living in the housing complex covering both the district.

The processing of the raw data collected from the market like editing the questionnaire, coding, entering into the computer and tabulating the data for analysis are done through SPPS software and Microsoft Excel. For the statistical outputs, the data analysis techniques used were frequency distribution, cross tabulation, graphical representations and trend analysis

The overall study results that the trend toward the house loan is increasing. With the greater interest income and secure loan with the 100%security and collateral, various banks are increasing funding to this area of banking services. The banks are with the value added services and offer in the market and the acquirement of the larger market share is a greater challenge to the banks. The favorable scheme and large market penetration with the efficient relationship with the customer are a critical success factor. The study results that there exists potentiality for Nepal Investment Bank to penetrate the market with the efficient strategic planning. And the bank can fulfill the corporate social responsibility (CSR) of the banks toward stakeholder with the more profitability and better services to the customers.

5.2 Conclusion

"Opportunities come once and one who is able to grasp it is an ultimate winner". The thorough study is resulted to this statement.

The analysis on market trend and the proven fact resulted that the banks are massively increasing funds toward the home loan. The thorough research and the outcome of the study i.e. funding toward the house loan by the bank is increasing must provide the road map for the Nepal investment bank in formulating the strategic plan and strategic decision regarding the home loan area of lending.

The solution to the problem is backed by various data and information collected from primary and secondary sources. The solution is supported by various analyses like an environmental analysis, an industry analysis, a company analysis, competitor analysis, related industry analysis and a customer analysis. The findings of all these analyses provide the context in which the decision problem of investing in the home loan sector is fair regarding the profitability, risk and the income. The study of the context could make a bank to make a decision regarding expected allocation of the fund, formulation of the favorable scheme and the services that the customers expected from the bank regarding the subject matter.

Another issue to be taken into account is the formulation of any plan must be related to the situational scenario like social, political and economical. Dynamic environment have higher level of uncertainty. Dynamic environment influenced by the changes in the social, economical, political and technological aspects of the country. The greater the environmental uncertainty, the greater is the differentiation within the business firm. Business firm should deal with the environmental uncertainty by adding a new services and product in their product line. Today, the changes in social, political and economical environment of the country demands the home loan service from the bank and the banks profitability lies on adapting the services and the product extensively. Thus the implementation of this study would not only be to adapt dynamic environment but implement strategy on the basis of market and the environment.

5.2 Recommendations

Based on the research work, the following recommendations are made on the above findings and conclusion. Certain recommendation can be made here so that the

The funding toward the house loan should be increased. Bank should establish a process for the ongoing measurement and monitoring of net funding requirements for the house loan as per the market environment. Continuously monitor the current market trend and impact. The feasibility of the house loan scheme must be measured to lead in the market.

The advertisement and promotion technique must be adopted by the bank to penetrate the market rapidly.

The service must be provided quicker as the loan is backed by the less provision and the cent percent collaterals and security. If possible certain offer and the privileges must be providing to the customer along with the home loan services. The well formulated contract must be formulated with the various housing company.

Bank should periodically review its efforts to establish and maintain relationships with the housing developers to sell out the maximum number of services. Assess the performance progress and give feedbacks to all for improvement Change the strategies if they are not working Continues study of the market is must be done. The strategy formulated must be monitored and controlled Customer's perception towards the banks scheme must be regularly studied.

Global financial crisis is affecting the world in different ways directly and indirectly. Big Country like USA is affected very hardly, only this year's first quarter AIG loosed its another sixty billion dollar due to banks have grossly exposed their portfolio on real
estate sector. Sooner or later Nepal will also be affected because they have also grossly exposed their portfolio on housing and auto loan. Banks should wisely invest on non productive loan otherwise they will also face the consequences

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Appendix - 1

Questionnaire to the Customers

Dear respondent,

Me the MBS student of Shanker Dev Campus, Tribhuvan University, is conducting a research on, *"The housing loan of Nepal investment bank ltd."*. I request you to answer these questions as accurately as possible. Your responses will be of immense help to me in my research. All responses will be kept confidential and will be used for the purpose of this research only.

∫ Housing Complex and Phase:……………………………………………………

∫ Address:………………………………………………… ……………………………...

∫ Respondent Name:…………………………………………………………………..

∫ Profession or post hold in organization(s)…………………………………….

1. **What were the major influencing factors that encouraged you to own a house in a housing complex like this? (Rank as Max.1 & Min.7)**

	Security reasons
	Sanitation facilities
	Community life
	Peaceful environment
	Financial offers from various financial institutions
	Friends and family recommendations
	Others………………………………………………………

2. How is the house financed?

❭ Self cash

❭ Bank loan

3. If you have taken loan to finance your house than please specify the name of the bank?

	Standard Chartered Bank Ltd.
	Everest Bank Ltd.
	Nabil Bank Ltd.
	Nepal Investment Bank Ltd.
	Nepal Industrial & Commercial Bank Ltd.
	Nepal Bank Ltd.
	Rastra Banijya Bank
	Others (please specify)………………………………

4. What was your major source of income to purchase your dream house?

❭ Savings

❭ Sale of property

❭ Remittance

❭ Banks and financial institutions

❭ Salary

❭ Business

❭ Rent

❭ Others…………………………………………………

5. If the house is financed with home loan than what features will you prefer the most? (Rank as Max.1 & Min.7)

1	Easy Equal Monthly Installments
2	Lower interest rate
3	Choice of the best housing scheme

4	Higher Maturity
5	Simple documentation & legal procedure
6	Higher percentage of financing against the securities kept
7	Others………………………………………….

6. Which bank or financial institution will you approach if you have to take house loan?

1	Standard Chartered Bank Ltd.
2	Everest Bank Ltd.
3	Nabil Bank Ltd.
4	Nepal Investment Bank Ltd.
5	Nepal Industrial & Commercial Bank Ltd.
6	Rastra Banijya Bank
7	Nepal Bank Ltd.
8	Others (please specify)………………………………

7. Why do you want to approach the above mentioned bank as a first priority?

1	Bank scheme
2	Advertising and Promotion
3	Referrals
4	Personal Relation
5	Offers

8. What is the loan amount and maturity period granted to you from the financial institution concerned?

⌡ Loan amount……………………………………………………………

⌡ Maturity in a years………………………………………………..

9. Is the above specified bank or financial institution of your own choice?

⌡ Yes

⌡ No

10. **Does the Housing Complex themselves provide you the right choice of financial institution to ease your financial problem?**

) Yes

) No

11. **What may be the possible reasons that have increased the financial institutions concern towards house loan? (Rank as Max.1 & Min.6)**

1	Remittance
2	Spending pattern
3	Increase in working class population
4	Increasing Urbanization
5	Internal migration
6	Others……………………………………………………

12. **Rank the following features of the house loan which will widen the scope of house loan? (Rank as Max.1 & Min.6)**

1	Low interest rate
2	Higher maturity period
3	Higher percentage of financing against the securities kept
4	Easy Installments
5	Easy loan processing & disbursement
6	Others……………………

Thank You!

Appendix - 2

Commercial Banks Deposit and Loans Portfolio (Mid-June 2007)

Banks	Deposits	Deposit %	Loans & Advances	Loans & Advances %
NBL	371244.9	11.5483227	131015	5.925851105
RBB	475711	14.79795181	239308	10.82397875
NABIL	225052.89	7.000724856	155342.84	7.026207229
NIBL	216802	6.744064252	165513	7.486206877
SCBNL	246231	7.659512757	100889	4.563242317
HBL	285368.48	8.876963149	179391.22	8.113923285
NSBI	104867.79	3.26212449	95595.24	4.323803828
NBB	94540.28	2.940866425	87352.77	3.950994227
EBL	172210.94	5.356969236	129046.48	5.836814304
BOK	120283	3.741645743	89192	4.034183198
NC&CBL	65171	2.027275631	55535	2.511866131
Lumbini	60071.76	1.868653468	52763.99	2.386532446
NI&CBL	93930.46	2.921896742	86098.83	3.894278112
MBL	104631	3.254758659	74777	3.382188055
Kumari	101233.25	3.14906478	85810.58	3.881240471
Laxmi	69550.32	2.163503228	58451.93	2.643799824
SBL	56139.9	1.746345018	53969.9	2.441076148
ADBL	326417.52	10.15387648	357907	16.18825013
Global	25250.91	0.785480574	12946.26	0.585563555
Total	**3214708.4**	**100**	**2210906.04**	**100**

Appendix- 3

Banks and Their Housing Loan Interest Rates

Bank	Interest Rates (Percent)
Nabil Bank Ltd.	8.5 to 10
Himalayan Bank Ltd.	7.5 to 9
Standard Chatered Bank Ltd.	8 to 9.5
Kumari Bank Ltd.	9 to 10
Nepal Investment Bank Ltd.	7.5 to 9
Nepal Industrial & Commercial Bank Ltd.	6.99 to 9.99
Bank of Kathmandu Ltd.	7.9 to 9.5
Everest Bank Ltd.	8.5 to 10
Nepal Bank Ltd.	7.5
Rastra Banijya Bank	6.5 to 9
Nepal Credit & Commerce Bank	11 to 12.5
Machhapucchre Bank Ltd.	8.5 to 9.5
Siddhartha Bank Ltd	8 to 11
Lumbini Bank Ltd.	8 to 10
Global Bank Ltd.	8.5 to 9.5

Appendix - 4

Bank Housing Loan Schemes Analysis

Name of the Bank	Nepal Investment Bank Ltd.	NABIL Bank Ltd.	Standard Chartered Bank Ltd.	Everest Bank Ltd.	Nepal Industrial & Commercial Bank Ltd.	Rastra Banijya Bank
Name of the Scheme	"NIBL Home Loan"	"NABIL Housing Finance"	"Standard Chartered Home Loan"	"EBL Home Loan"	"NIC Ghar Subidha"	"RBB Home Loan"
Purpose	ʃ Land Purchase ʃ Land & Building Purchase ʃ Construction ʃ Renovation / Extension	ʃ Land Purchase ʃ Land & Building Purchase ʃ Construction ʃ Renovation / Extension ʃ Refinancing (loan take over)	ʃ Refinance ʃ Land Purchase ʃ House Purchase ʃ Apartment Purchase ʃ Construction ʃ Renovation/Extension ʃ Finance against property	ʃ Construction ʃ Acquisition ʃ Purchase ʃ Repairs ʃ Renovation ʃ Additions ʃ Alteration	ʃ House Purchase ʃ Construction ʃ Renovation/Extension ʃ Apartment Purchase ʃ Land Purchase ʃ Finance against owed ʃ House ʃ Refinance	ʃ Build ʃ Purchase ʃ Expansion ʃ Modernize
Interest Rates	ʃ Up to 5 yrs-7.50% ʃ Up to 10 yrs - 8.50% ʃ Up to 15 yrs -9.50%	ʃ Up to 5 yrs-8.50% ʃ Up to 10 yrs - 9.00% ʃ Up to 15 yrs -9.50% ʃ Up to20 yrs -10%	8%	ʃ Up to 5 years-8.50% ʃ 5-8 years - 9.00% ʃ 8-20 years -9.50%	ʃ Up to 5 yrs-7.49% ʃ Up to 10 yrs-7.49% ʃ Up to 15 yrs-8.49% ʃ Up to 20 yrs-9.99%	ʃ Up to 5 yrs-7% ʃ Up to 10 yrs- 8% ʃ Up to 15 yrs-9%
Amount of Loan	80% of the estimated cost	ʃ Land Purchase- 5 lakhs to 80 lakhs ʃ Land & Building - 5 lakhs to 80 lakhs ʃ Construction- 5 lakhs to 80 lakhs ʃ Renovation / Extension- 3 lakhs to 15 lakhs ʃ Refinancing (loan take over)- 5 lakhs to 80 lakhs	ʃ Maximum-Rs.15,000,000 ʃ Minimum-Rs.500,000	ʃ Maximum-Rs.25 lakhs or 50% of registered value ʃ Minimum-Rs.5 lakhs	ʃ Maximum-Rs.15,000,000 ʃ Minimum-Rs.500,000	ʃ 70% of the total estimated cost that is not to exceed 50 lacks or 5 million.

Tenure	⌡ Maximum up to 15 years	⌡ Up to 20 years	⌡ Maximum up to 18 years ⌡ Minimum 2 yrs	⌡ Maximum up to 20 years	⌡Maximum up to 20 years ⌡Minimum 2 yrs	⌡ Maximum up to 15 years.
Loan Administration Fee	1%	1%	1%	1%	1%	1%
Financial Limit	⌡ 80% of the Cost	⌡ 70% of the Cost	⌡Refinance-upto 100% ⌡Purchase of building-Rs. 5 lakhs to 1 crore and upto 70% ⌡Construction-Rs. 5 lakhs to 1 crore and upto 70% ⌡Land Purchase-Rs. 5 lakhs to Rs. 75 Lakhs and upto 70% ⌡Renovation & Extension of building-Rs. 3 lakhs to Rs. 30 lakhs and upto 75%	⌡Repairs/ renovation and for addition/ alteration- the maximum up to Rs. 10 lacs and Rs. 5 lacs respectively. ⌡purchase of land- maximum up to 50% of registered value of purchase or 25.00 lacs whichever is lower	⌡House Purchase-80% ⌡Construction-110% ⌡Renovation/Extension-110% ⌡Apartment Purchase-80% ⌡Land Purchase-80% ⌡Finance against owed House-80% ⌡Refinance-80%	⌡ 70% of the Cost
Payment Method	Equal monthly installments (EMI)	Equal monthly installments (EMI)	Equal monthly installments (EMI)	Equal monthly installments (EMI)	Equal monthly installments (EMI)	Equal monthly installments (EMI)
Privileges	N/A	N/A	⌡Attractive Property protection plan (insurance) at affordable and easy payment method ⌡Speedy Approval Process ⌡Quick turnaround time	N/A	⌡Free ATM/Debit Card ⌡25% discount on safe deposit locker ⌡Automatic approval of other loan-AUTO, EDUCATION ⌡Offers	N/A
Other Charges	⌡Documentation Fee-NPR.3000 ⌡Prepayment charge ⌡With in 5 years-1% ⌡After 5 years-0.5%	⌡2% of amount prepaid before 1 year ⌡1% of amount prepaid after 1 year ⌡Partial payment allowed after only 1 year	N/A	N/A	N/A	N/A

Appendix - V

Loan Scheme of Various Banks

NEPAL SBI BANK

Housing Loan Scheme

The purpose of Housing Loan Scheme is

i. To help purchase or construct a new house/flat, or extend an existing house

ii. To help purchase an existing house/flat

iii. To help repair or renovate an exiting house/flat .

iv. For taking over the existing housing loans from Banks/Financial Institutions.

Margin:

Minimum 25% of the project cost.

Interest Rate:

Presently 9.00% p.a. for loans up to 5 years and 9.50% p.a. for loans beyond 5 years and upto 15 years. The interest is payable on quarterly basis during moratorium period, thereafter on monthly basis (in Equated Monthly Installment basis)

Repayment Programme

Moratorium:

Maximum 1 year period from date of the first disbursement or one month after the completion of the house whichever is earlier

Repayment Period:

The Housing Loan shall be repaid in equated monthly installments within 15 years excluding the moratorium period.

Prepayment charges:

1% of the amount being prepaid if the borrower repays from his own source. Prepayment charge at the rate of 2% shall be levied if the loan is being swapped.

Everest Bank Limited

Home Loan

Amount of Loan

For repairs/ renovation and for addition/ alteration, the maximum amount of loan shall not exceed Rs. 10 lacs and Rs. 5 lacs respectively.

For purchase of land, finance shall not exceed 50% of registered value of purchase or 20.00 lacs whichever is lower

Margin Money

Minimum 25%

Interest Rate

upto 5 years - 9.00% p.a

5-8 years - 9.50% p.a

Above 8 years - 10.50% p.a

Payment

Period:

In equal monthly installments - maximum up to 20 years.

Repayment of the loan with interest shall not ordinarily extend beyond the age of 65 years of borrower.

NABIL Bank Limited

Home Loan

Land Purchase: 5 lakhs to 80 lakhs upto 20 years

Financial Ratio; 70% of distress value of property

Standard Chartered Bank

Home Loan

Minimum 30% equity contribution

Maximum tenor of 18 years

Maximum loan amount up to NPR 20 million

Himalayan Bank Limited

Home Loan

Housing Loan is available to purchase readymade / under construction building (including land cost), construct a building on an already owned land, for purchase of adjacent land or extension of existing building.

Global Bank Limited

Home Loan

 Interest Rate: @ 11.50% for up to 10 years; @ 12.0% for 10-15 years; @ 12.50% for 15-20 years; @ 13.0% for 20-25 years

 Repayment: Monthly (EMI) or quarterly basis.

 Maximum tenor of the loan: 25 years

Kist Bank Limited

Home Loan

Minimum loan Rs. 2,00,000 and Maximum loan Rs. 20 Million.

Financing of upto 90% of the distress value of the property/cost of construction as applicable or upto the maximum limit for a single borrower as prescribe by NRB whichever is less.

Maximum loan tenure of 15 years.

Interest Rate 10.50% - 12.00%

Repayment in equated monthly installments basis.

Table 2.6
Major Housing Developers of Nepal

Company	Complex	Type	No. of housing units	Sold	Price Range (Rs. in 00,000)	Status
Ansal Chaudhary	Kathmandu Residency	Apartment	180	All sold	7 to 13	Completed
	Mount View Residency - 1	Independent	70	99% sold	18 to 29	Completed
	Mount View Residency – 2	Independent Expendable	106	95% sold	21 to 35	Under construction
Civil Homes	Bhaisepati	Independent	56	All sold	23 to 30	Completed
	Tinthana, Kalanki	Independent	107*	72 sold	21 to 85	Under construction
	Sunakothi	Independent	213*	47 sold	33.6 to 77.5	Under construction
	4 th phase	Independent	NA	NA	NA	Planning Phase
Euro Housing Developers	Euro Housing, Tahachal	Independent	36	All sold	36 to 41	Completed
Comfort Housing	Sitapaila	Independent	76	All sold	32 -52	Completed
	Budhanilakantha	Independent	42	All sold	40 to 80	Completed
	Ichungu	Independent	70*	65 sold	40 to 90	Under construction
	Lazimpat	Apartment	NA	NA	NA	Planning Phase
	Dharan	Independent	NA	NA	NA	Planning Phase
Oriental Construction & Developers	Balkumari, Lalitpur	Independent	57	52 sold	59 to 61	145 completed 20
	Balkumari, Lalitpur	Apartment	108	100 sold	20	under construction
Oriental Builders & Developers	Oriental colony, Kuleshwor - 1	Apartment	105	All sold	7 to 9.5	Completed
	Oriental colony, Kuleshwor - 2	Apartment	132	90% sold	8.55 to 12	Completed
	Dhunbarahi Apartment	Apartment	170	60% sold	16 to 26.3	50% completed & 50% finishing stage
	Kohinoor Hill, Baphal	Independent	120	-	45 to 55	Planning phase
Roadshow	Chandol	Independent	9	All Sold	-	Completed

Real Estate	Dhumbarahi	Independent	18	15 sold	-	50% completed 50% Under construction
	Manbhawan	Independent	9	NA	-	Under construction
	Naxal	Apartment	48	NA	-	Planning Phase
	Soaltee Mode	Apartment		NA	-	Planning Phase
Shuvakamana Housing Developers	Indreni Apartmnets, Bhatbhateni	Apartment	32	20 sold	65 to105	Under construction
Ace Apartments	Ace Apartments	Apartment	56	43 sold	49 to 59	Completed