EXECUTIVE SUMMARY :

STUDY ON THE PROSPECTS OF SETTING UP A HOUSING FINANCE COMPANY IN THE PRIVATE SECTOR

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TABLE OF CONTENTS

1.0 INTRODUCTION

1.1 Objectives

This paper summarizes the findings of the publication entitled **"STUDY ON THE PROSPECT OF SETTING UP A HOUSING FINANCE COMPANY IN THE PRIVATE SECTOR"** dated August, 1995 by Equity Resources Limited ("ERL").

The proposed housing finance company would aim to benefit from the growing demand for professionally administered house-financing services by providing housing loans to middle and upper middle income families at competitive rates of interest.

ERL was commissioned by Delta Life Insurance Company Limited ("DLI") to conduct this study in the backdrop of recent government policies favouring private sector involvement in housing finance.

1.2 Background

The idea of setting up a housing finance company in the private sector was originally conceived in 1990 by the International Finance Corporation, Washington ("IFC"), the Housing Development Finance Corporation Ltd of India ("HDFC") and the Industrial Promotion and Development Company of Bangladesh Ltd ("IPDC"). A number of investigations were conducted by these institutions and a foreign consulting firm commissioned by IPDC. The investigations, which were of an extensive nature, confirmed the viability of the project. However, for reasons unknown to ERL the project did not progress beyond that stage.

The introduction of the National Housing Policy 1993, a general improvement in the macro-economic situation of the country, a better investment climate and the government's recent call for more private sector involvement in development activities have encouraged private investors to play a more active role in the financial services industry. In the light of these changes there has been renewed interest from both IFC and HDFC regarding the establishment of a private housing finance company ("the company").

During the recent Euromoney conference held in Dhaka, IFC and HDFC had extensive discussions in this regard with a number of financial institutions. In subsequent visits to Dhaka by officials of both corporations DLI was identified as the lead local promoter of the company. An Aide Memoire was signed by HDFC and DLI in May, 1995 with regard to setting up the company.

At the invitation of DLI, Bangladesh Rural Advancement Committee (BRAC) has recently become involved as a potential local sponsor of the company.

1.3 Terms of Reference

The paper broadly covers the following :

- A brief background note on the main institutional sponsors
- Management and shareholding structure
- Funding requirements
- The nature of technical assistance required
- Major objectives and operational guidelines for the company
- The company's market and regulatory environment
- Financial projections, sensitivity analyses and underlying assumptions

1.4 Information Sources

To undertake the study ERL constituted a team of experts comprising members of its own consultancy division as well as external consultants associated with the firm. The external consultants engaged by ERL specialize in conducting feasibility studies on setting up companies in the financial services industry.

The ERL team drew upon the input received from senior officials of DLI whilst preparing the groundwork for the study. Vital information was also gathered through discussions with individuals representing major financial institutions, the House Building Finance Corporation of Bangladesh ("HBFC"), the Urban Development Directorate, developers and architects.

ERL gratefully acknowledges the co-operation and assistance received from all concerned.

The study entitled "PROPOSED PRIVATE SECTOR HOUSING FINANCE CORPORATION (HFC) IN BANGLADESH - A NOTE ON THE PROJECT VIABILITY" of 1990 jointly prepared by the HDFC and IFC ("the HDFC/IFC study") forms the starting point of ERL's investigations. Besides this, critical information has also been extracted from the following sources :

- The National Housing Policy Act 1993
- The proposed Housing Authority Act
- The Asian Development Bank-sponsored Report on Housing Sector Institutional Strengthening Project ("the ADB report")

1.5 ERL's Approach

Although the conclusions drawn in the HDFC/IFC study remain largely valid ERL has taken into account the changed scenario of the mid-90's in carrying out the financial analysis of the project. For instance, the HDFC/IFC study assumed an average loan size of Tk. 200,000 whereas ERL has found that the average size of loans likely to be disbursed by the company is Tk. 500,000 in view of higher construction costs.

Furthermore, the parameters used by ERL in conducting the sensitivity analyses of the project are different from those employed in the HDFC/IFC study.

2.0 THE PROMOTERS

2.1 DLI

DLI was established in 1986 when the government opened up the insurance industry to private sector investment. Over the years DLI has developed into one of the largest private life insurance companies boasting an accumulated life fund of Tk. 130 million and a net income of almost Tk. 233 million in 1994. It has recently gone public with an offering of Tk. 15 million which was 30 times oversubscribed.

Apart from individual/ group insurance policies DLI has introduced innovative schemes for low and middle income families in both rural and urban areas.

DLI is headed by Mr. Shafat Ahmed Chaudhuri, the Chairman and Managing Director, who is an actuary with over 35 years of experience in the insurance business.

2.2 GDI

GDI went into operation in 1986 as a general insurance company. It is engaged in all aspects of the insurance business except life insurance. In recent times GDI has become involved in the capital and debt markets by (a) increasing its holdings of shares and debentures in its own investment portfolio and (b) offering underwriting services.

At year-end 1994 GDI had accumulated reserves of Tk. 110 million and a network of 33 branches operating throughout the country.

Mr. Shafat Ahmed Chaudhuri acts as Chairman of GDI while Mr. Nasir A. Chowdhury, an insurance veteran, heads the management team as Managing Director.

2.3 IFC

IFC is the private sector arm of the World Bank. It has financed various industrial projects worldwide and its capital markets division has been actively involved in setting up companies specializing in the entire range of financial and investment services.

IFC is a shareholder in IPDC, Bangladesh as well as in HDFC in India. It has also been associated with establishing a housing finance company in Pakistan.

2.4 HDFC

HDFC came into existence in India in 1977 with IFC, The Industrial Credit and Investment Corporation of India and His Royal Highness The Aga Khan as the sponsors. It is regarded as the pioneer of long term housing finance in India, having built up a loan portfolio of over Rs 55,000 million by assisting more than 550,000 families to acquire their own homes.

HDFC has four regional offices and over 26 branches throughout India. Its shares are listed in the Bombay Stock Exchange and it is reputed to be one of the more successful institutions of its kind in the Third World.

2.5 BRAC

BRAC was established in 1972 with the original objective of rehabilitating war refugees returning to Bangladesh from India. Since then it has grown into the largest and one of the most well known NGO's in the country, having pioneered numerous programmes of national significance such as the Rural Development Programme, the Non Formal Primary Education Programme and the Health and Population Programme. Its 1994 balance sheet showed a capital base of over Tk. 4.5 billion.

As the prospects of receiving donor funds become more and more uncertain it has become imperative for the organization to attain self-reliance in financing its own programmes. Its involvement as a sponsor of the company is, accordingly, in line with the need to invest surplus funds in projects which are both financially rewarding and socially responsible.

BRAC is headed by Mr. F.H. Abed, Executive Director, who is internationally recognized as an expert in the field of empowerment of the rural poor.

3.0 FINANCING PLAN

3.1 Shareholding Structure

The initial capital requirement of Tk. 100 million is expected to be fully funded by the sponsors in the following proportions :

Shareholders	Contribution (Tk. '000)	Shareholding (%)
(a) Local sponsors :		
DLI	25,000	25
GREEN DELTA	15,000	15
BRAC	25,000	25
Financial Institution/Bank	5,000	5
	***Sub-total for (a) :* 70,000**	**70%**
(b) Foreign sponsors :		
IFC	10,000	10
HDFC	10,000	10
Private placement with overseas financial institution(s)	10,000	10
	***Sub-total for (b) :* 30,000**	**30%**
	Total Equity : 100,000	**100%**

The above shareholding distributions are given on the basis of initial discussions between the prospective sponsors and consequently, are subject to confirmation.

The company is expected to raise an additional Tk. 100 million by issuing rights shares in its fifth year of operations. By the seventh year the company's original sponsors are expected to offer part of their shareholding to the general public for subscription by proportionate divestment. However, if it is mandatory to go public earlier the SEC could be requested for special dispensation in the case of the company.

3.2 Non-equity Funding Requirements

Apart from the money raised through the institutional sponsors' initial contributions and the subsequent public offering the company will fund its operational activities from the following sources :

Debt sources	Cumulative 6 years (Tk. million)	Cumulative 10 years (Tk. million)
Lines of Credit from Institutional Sponsors	540	1,290
Term Loans from Financial Institutions	510	1,710
Public Deposits/ Borrowers' Equity Accounts	70	187
Debentures	580	1,860
Cumulative totals :	**1,700**	**5,047**

It is expected that the institutional sponsors will provide the company with lines of credit on favourable terms. In addition, the company should have little difficulty in obtaining term loans from financial institutions – given the solid reputation and influence of its sponsors.

As non-banking financial institutions are barred from taking deposits from the public, it is unlikely that the company will have access to public deposits. However, the Bangladesh Bank is expected to permit the company to open equity accounts in the names of prospective borrowers.

The recent success of companies such as Beximco in raising funds through the sale of debentures indicates that the public should respond favourably to a debenture issue by the company.

3.3 Sources & Uses of Funds

The company's funds are expected to be employed in the following manner :

	Cumulative 6 years (Tk. million)	Cumulative 10 years (Tk. million)
Sources of Funds :		
Share Capital	200	200
Lines of Credit & Other Debt	1,700	5,047
Income from Operations	746	3,032
Total Sources of Funds :	**2,646**	**8,279**
Uses of Funds :		
Cash & Bank Balances	32	61
Fixed Assets	18	98
Pre-operative Expenses	5	5
Repayment of Debt	148	1,504
Loan Disbursement	1,845	4,245
Short term Investments	6	6
Operational Expenses	592	2,360
Total Uses of Funds :	**2,646**	**8,279**

4.0 THE COMPANY

4.1 Incorporation

The company, which is proposed to be named Delta Home Financing Company Ltd, will be incorporated in Bangladesh as a public limited company. It will have an authorized capital of Tk. 500 million and an initial paid up capital of Tk. 100 million which will be fully funded by the sponsors.

4.2 Chairman & Board of Directors

The company will be headed by a non-executive Bangladeshi chairman with impeccable credentials and high-level contacts in both government and business circles.

The first Board of Directors ("the Board") will consist of representatives from participating institutional sponsors – local and foreign. Representatives of public shareholders will be inducted into the Board after the company goes public.

4.3 Management

The day to day management of the company will be looked after by the Managing Director or Chief Executive Officer ("the CEO") who will be a Bangladeshi with a proven track record of performance in similar positions.

The company's operations will be run by an expatriate Deputy Chief Executive Officer ("the Deputy CEO") whose services will be seconded to the company from HDFC. The Deputy CEO will take full charge of the company's Finance and Operations Department and is expected to remain with the company for at least five years. At the end of the five year period he may be replaced by a qualified Bangladeshi if the Board deems it necessary.

The Board will appoint a five-member Executive Committee comprising the Chairman, the CEO and three other members drawn from the Board. The Executive Committee will convene meetings on a regular basis to make policy decisions and to approve loan applications exceeding the approval limit of the Management Committee.

A Management Committee consisting of the CEO, the Deputy CEO and other senior executives of the company will meet regularly to approve loans within its approval limit and to make day to day administrative decisions.

4.4 Size of Operation & Staffing Requirements

The company will commence operations as a one-office unit located in Dhaka. This will be appropriate since the products and services offered will be highly standardized and capable of being handled by a compact, professional team of staff. Professional staff members are expected to have up-to-date computer systems and software at their disposal. In view of this the initial staffing requirement is assumed to be as follows :

Designation	Number of Slots
CEO	1
Deputy CEO	1
Manager	1
Officer	2
Executive Assistant/Secretary	3
Computer Operator/ Receptionist	2
Driver	2
Peon/Messenger	2
Total :	**14**

It will probably be necessary to expand into a branch network once the business transacted reaches a certain level and the demand for the company's services is felt in the other major cities of the country. Additional staff will be gradually recruited in proportion to the growth in business. (At the request of DLI an additional sensitivity analysis featuring a larger initial staff/office configuration has been prepared and is presented as a separate publication).

5.0 TECHNICAL ASSISTANCE FROM HDFC

In the Aide Memoire dated May 25, 1995 HDFC has indicated in broad terms that it will provide technical assistance both during the setting up and in the running of the company. The scope of the technical assistance will need to be clearly defined before the project is undertaken. However, it is expected that such assistance will include the following :

- The drafting of a detailed statement of operating policy to be incorporated into an operating manual

- The provision of services of a senior HDFC executive during the initial phases

- As indicated in 4.3, the secondment of a senior HDFC officer as the company's Deputy CEO

- The provision of training facilities in Bangladesh and India for the company's professional staff

Any costs associated with the secondment of HDFC staff are expected to be borne by the company. This has been reflected in ERL's financial projections for the company. Nonetheless, the Board may consider it worthwhile to investigate the possibility of receiving financial support from one of the many foreign aid agencies operating in Bangladesh to partly cover the cost of technical assistance.

6.0 OPERATING & LENDING POLICY

The main objectives of the company will be the same as those drawn out in the HDFC/IFC study. These were :

(i) To provide long term housing loans to middle income and high income households for construction of dwelling units, for extension and improvement of existing dwelling units.

(ii) To provide long term housing loans to companies/institutions/corporate bodies for on-lending to their employees and also for their housing programmes.

(iii) To provide housing loans to employees of companies/institutions/corporate bodies against corporate guarantees.

(iv) To provide on a selective basis short term bridge loans to property developers for construction of flats for the lower and lower middle income groups.

(v) To mobilize short, middle and long term funds from both institutions and household savings to support its house financing activities.

(vi) To support directly or indirectly the development of affordable housing amongst low income householders.

[illegible]

[illegible]

[illegible]

[illegible]

(i) [illegible]

(ii) [illegible]

(iii) [illegible]

(iv) [illegible]

[illegible]

7.0 MARKET FACTORS & THE REGULATORY ENVIRONMENT

7.1 The Housing Crisis

The housing problem in Bangladesh has reached crisis proportions and is characterized by overcrowding, with an occupancy rate of 6.5 persons per housing unit. The country has an estimated 18.4 million households – 15.1 million in the villages and 3.3 million in urban areas. The housing shortage was estimated in 1991 to be between 3 to 3.5 million units with 2 to 2.5 million units being required in the urban areas. With available housing deteriorating rapidly due to age, general neglect, lack of maintenance and other factors, the country's total housing shortage is likely to exceed 5 million units by the turn of the century.

The urban population in Bangladesh has been growing at over 1 million per year. As opposed to a national growth rate of 2.17 % the population of the three largest cities, Dhaka, Chittagong and Khulna, is growing at between 5 to 7 % per annum. It is predicted that by the year 2000 some 45 million, that is, one third of the entire population, will live in urban areas.

Dhaka, with the fastest annual growth rate of 7%, is home to 30% of the country's urban populace. At present 70,000 to 80,000 units are needed in the capital city whereas only 15,000 to 20,000 units are being built every year. The acute shortage of land, speculation and a rapid increase in house rent have exacerbated the crisis.

7.2 Trends in Housing – Socio-economic & Cultural Factors

HDFC's experience in India reveals that the average size of flats in large cities such as Calcutta, Bombay, Madras and Delhi is decreasing due to population pressure and the scarcity of land. A similar tendency seems to be taking effect in Dhaka and Chittagong.

The majority of flats currently available in Dhaka and Chittagong belong to the 1,500 to 3,000 square feet range. Sales of this category of flat have slowed down over the last two years. Recent investigations show that there is significant demand for smaller-sized flats.

Experts feel that a variety of factors including economic considerations, smaller family size and increased urbanization are compelling people to seek smaller, more functional flats. Residential units could be constructed for a wider section of the population if the long term loans needed to finance them were readily obtainable. This market is largely untapped, and once institutional funds are made available the major developers are likely to focus their activities on this category of flat. An architect based in Canada is in the process of putting together a housing scheme to be implemented in Bangladesh which will feature flats sized between 620 to 1,020 square feet.

Sociological studies show that culture is an important determinant in the decision to acquire a home. In Bangladeshi culture acquiring a home brings to the family the dual benefits of prestige and security. Accordingly, Bangladeshis attach great importance to home-ownership. The company will be able to capitalize on this "cultural need" by providing competitively-priced loans or in other words, the means of fulfilling that need.

7.3 The Government's Future Role in Housing

The government is likely to take urgent steps in the near future to set up satellite towns in the outskirts of major cities in order to accommodate the growing urban population. The need for additional housing, particularly in the cities, remains one of the biggest problems facing the government. It is a problem which the public sector can do the least about due to severe resource constraints and pre-occupation with other development issues. Public development programmes in the past have not given high priority to addressing the housing problem. Likewise, private institutions have shied away from investing in this area. A mere 5% of the housing units constructed in Bangladesh is financed by the public sector while the remainder is financed through personal savings and other informal sources.

The government in recent years has appeared determined to change the status quo.

The Fourth Five Year Plan (1990-5) indicates that the task of mobilizing resources for development will be shifted from the government to the private sector. To achieve this the private sector will be provided with increased access to land, infrastructure, services and credit.

The National Housing Policy 1993 and the ADB's Housing Sector Institutional Strengthening Project strongly advocate the establishment of new private sector house financing institutions whether they be mortgage banks or housebuilding societies.

The National Housing Policy 1993 sets out the following amongst its objectives :

- Mobilize resources for housing by developing suitable financial institutions.
- Develop an institutional and a legal framework to facilitate the operation of housing finance companies.
- Develop new strategies and undertake revision of the policy from time to time to cope with the emerging housing needs in the country.
- Develop a property tax base to promote housing.
- Provide fiscal incentives to promote private sector and individual investment in housing.

- Channel additional funds for housebuilding activities from households and enterprises.

The ADB report which was commissioned by the Government of Bangladesh recommends that government policies be designed to facilitate private sector initiative in housing and housing finance. Recent policy changes indicate that this recommendation has met with government concurrence.

7.4 Government Support Required

It can be concluded from the foregoing sections that the government's chosen role for the future is to be a catalyst for private sector investment in housing finance.

In view of the generally supportive stance of the government the company might try to obtain specific assistance in the following manner :

(a) Seek classification as an Industrial Undertaking under the Foreign Investment (Promotion and Protection) Act 1980.

(b) Apply for a tax holiday.

(c) Apply for payment of corporate tax applicable for industrial undertakings.

(d) Seek the permission of Bangladesh Bank to take institutional deposits.

7.5 Legal & Tax Implications

The present legal system in Bangladesh does not allow for the expeditious enforcement of mortgage lenders' rights. Accordingly, the company will need to rely for the most part on prudent lending policies in order to protect its own interests.

However, as the company will be registered as a non banking financial institution under the Non Banking Financial Institutions Act 1993 it would be eligible to receive the protection of the Artha Rin Adalat (Loan Court) in respect of loan defaulters. The financial projections for the company have been prepared assuming that it will be a tax paying unit. If, as the leasing companies in the country have been able to do, it obtains classification as an industrial undertaking it would receive a tax holiday of at least five years under current tax rules.

7.6 The Competition

One of the key factors governing the success of any housing finance company is the rate of loan recovery. Poor recovery rates coupled with a mismatch between the cost of funds and on-lending rates led to the financial crisis at the government-owned House Building Finance Corporation ("HBFC"). The corporation has recently been revived with a fresh infusion of public funds. It is currently helping to construct about 2,000 to 3,000 dwelling units per year. However, processing time remains slow with the number of pending loan applications reportedly being around 3,000.

The National Housing Policy 1993 indicates that the HBFC will not be permitted to rely on government-subsidized funds indefinitely. The HBFC will consequently have to look to the marketplace for its funding requirements. This would force it to bring its lending rates in line with commercial interest rates. The latter, coupled with its poor record of service to consumers, will tend to ensure that the HBFC poses little threat to private housing finance companies.

The sponsors should take into consideration that other private consortiums may be currently planning to set up similar institutions. This is an important risk factor because the company is likely to have to contend with other housing finance companies with access to low-interest bearing or "free" inter-company funds which they would able to lend out at lower rates of interest than the company. The main competition therefore, will come from organizations that are able to price their loans "cheaper".

In addition, large corporations which already provide in-house lending schemes to its employees would probably be reluctant to change the status quo in the pecuniary interests of a commercial organization unless substantial savings in overheads are achieved by doing so.

As their is a strong likelihood of the emergence of multiple players in the housing finance industry in the near future the company will need to fortify its market position by ensuring that (i) it has access to low cost funds, (ii) it is able to offer those funds to the ultimate consumer at competitive rates of interest, (iii) it has an efficient loan monitoring and recovery system and (iv) standards of customer service are always maintained and improved upon.

8.0 SUMMARY OF FINANCIAL PROJECTIONS & ASSUMPTIONS

8.1 Financial Projections

The following is a summary of the detailed financial projections provided in the ERL study dated August, 1995 :

(Years/Tk. in millions)	1	2	3	4	5	6	7	8	9	10
Profit & Loss :										
Operating Income	9.2	30.1	62.0	108.2	172.1	252.2	338.8	424.3	505.8	582.9
Operating Expenses	8.3	26.0	50.4	91.8	137.3	205.0	278.2	348.6	415.1	480.7
Operating Profit (Loss)	0.9	4.1	11.6	16.3	34.8	47.2	60.6	75.7	90.8	102.2
Non-operating income	0.6	1.0	1.0	1.1	1.5	1.7	1.9	1.8	2.0	2.8
Profit Before Tax	1.5	5.1	12.5	17.4	36.3	48.9	62.5	77.4	92.7	105.0
Income tax	0.7	2.3	5.6	7.8	16.3	22.0	28.1	34.8	41.7	47.2
After-tax Profit (Loss)	0.8	2.8	6.9	9.6	19.9	26.9	34.4	42.6	51.0	57.7
Dividends	-	-	-	5.0	15.0	20.0	30.0	40.0	40.0	40.0
To Retained Earnings	0.8	2.8	6.9	4.6	4.9	6.9	4.4	2.6	11.0	17.7
Balance Sheet :										
Short term Assets	20.2	18.3	18.5	25.2	31.5	37.8	38.5	32.0	46.1	66.6
Long term Assets	91.1	246.5	464.2	787.3	1,223	1,750	2,293	2,810	3,297	3,758
Total Assets	111.2	264.8	482.8	812.6	1,254	1,787	2,332	2,842	3,343	3,824
Short Term Loans	10.0	160.0	370.0	563.6	560.7	524.3	459.1	542.0	770	995.7
Long Term Loans	-	-	-	130.0	467.5	1,028	1,630	2, 053	2,313	2,548
Bad-debt Provisions	0.4	1.2	2.3	3.9	6.1	8.7	11.4	13.9	16.3	18.6
Total Liabilities	10.4	161.2	372.3	697.5	1,034	1,561	2,101	2,609	3,099	3,562
Share Capital	100.0	100.0	100.0	100.0	200.0	200.0	200.0	200.0	200.0	200.0
Retained Earnings	0.8	3.6	10.5	15.1	20.0	26.9	31.3	33.9	44.9	62.6
Total Equity	100.8	103.6	110.5	115.1	220.0	226.9	231.3	233.9	244.9	262.6

Financial analysis of the above projections shows an after tax financial internal rate of return of 16.8% and an internal rate of return on equity of 14.02% which compare favourably with the performance records of lending institutions of similar size to the company.

8.2 Assumptions

The assumptions made in carrying out the financial projections and analysis are covered in great detail in the ERL study of August, 1995. The major assumptions are summarized below :

(a) Average Loan Size : Tk. 500,000 (high Tk. 800,000, low Tk. 200,000)

(b) Average Loan Maturity : 14 years (high 20 years, low 8 years)

(c) Loan Interest : 16% per annum

(d) Average Cost of Funds : 11% per annum upto year 9, 12.55% per annum thereafter

(e) Loan Disbursement : 70% of approvals made during the year, 30% in the following year

(f) Loan Repayments : In monthly instalments of principal and interest

(g) Initial Paid up Capital : Tk. 100 million

(h) Debt to equity ratio : 15 : 1

(i) Debenture Issue : Starts off in the 4th year with an initial offering of Tk. 80 million to reach a cumulative total of Tk. 1,860 million in the 10th year

(j) Rights Issue : Tk. 100 million in the 5th year of operations

(k) Depreciation & amortization : straight line @ 20% per annum

(l) Taxation : @ 45%

(m) Doubtful Debt Provision : 0.5% of average loans outstanding

(n) Dividends : paid from the 4th year of operations and beyond

(o) Inflation is not taken into account since any significant rise in company's costs is expected to be passed on to the customer.

9.0 SENSITIVITY ANALYSIS

In order to gauge how the company would fare under various conditions four separate sensitivity analyses incorporating the following "what if" scenarios were carried out :

(A) Interest on loans are charged at 15% rather than 16%

(B) Cost of funds increase by 1%

(C) Average loan size is Tk. 600,000 instead of Tk. 500,000

(D) The company is granted a 5-year tax holiday

The results under scenarios (A), (B) and (C), which are adverse, indicate that the company's profitability would not go down significantly in such situations and that the project would remain viable. Alternatively, a 5-year tax holiday as in (D) would promise a higher than average earning performance by the company. (As mentioned in 4.4 the additional sensitivity analyis featuring a larger staff strength and office are provided in a separate publication labelled **ADDITIONAL SENSITIVITY ANALYIS**).

10.0 CONCLUSION

The success of the company will hinge to a large extent upon its ability to raise long term funds and offer those funds to its customers at competitive rates. It is ERL's view that the company will achieve this goal with little difficulty – barring any extraordinary hindrances. The financial and sensitivity analyses carried out indicate that the company would not only be able to weather a variety of adverse scenarios but also maintain its profitability.

There is a growing need for affordable housing for people representing the middle and upper middle income groups in Bangladesh. Faced with severe resource constraints the government is keen to de-emphasize its role as a provider of housing for those groups. In recent policy statements it has repeatedly encouraged the setting up of housing finance institutions by the private sector in the country. To that end, the government has committed to create an enabling environment for local and foreign parties wishing to invest in the area of housing finance.

In the context of its re-examination of the project's viability, ERL views the prospects of reaping substantial gains from setting up the company as better now than when the idea was originally conceived.