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Technical Guide on
**Accounting and Auditing in
Housing Finance Companies**



Research Committee
The Institute of Chartered Accountants of India
New Delhi

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Published in January 2005

Price : Rs. 140

ISBN : 81-88437-53-0

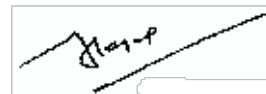
Published by Dr. Avinash Chander, Technical Director, The Institute of Chartered Accountants of India, Indraprastha Marg, New Delhi. Typeset by B.K. Bhatt at ELITE-ART, Pataudi House, Daryaganj, New Delhi and printed by M/s Print-ways, Laxmi Nagar, Delhi.

Foreword

The housing sector is globally considered as an engine to propel growth. A developing nation like India has to pay special attention to the sector to cater to the housing needs of burgeoning population and to accelerate the economic growth. Keeping this in view, the Government of India has provided several incentives to the sector through fiscal, monetary and other policies. The incentives provided by the government in tandem with the conducive economic environment have yielded positive results for the sector. With the growth of this sector, the housing finance has emerged as a major industry in the country. Housing Finance Companies (HFCs) are one of the major players in the industry and have several features, including accounting and auditing aspects, that are peculiar to them only. Against this background, the publication entitled 'Technical Guide on Accounting and Auditing in Housing Finance Companies', seeks to provide guidance to the members of the Institute on the accounting and auditing issues which are unique to such companies.

I am confident that this publication would be extremely helpful not only to the members but also to the others concerned.

New Delhi
January 20, 2005



Sunil Goyal
President

Preface

Housing finance industry is closely related to the housing sector of the economy. With the recent growth of the housing sector, the housing finance industry has also grown at a rapid pace. As a result, the role and responsibilities of the accounting profession with regard to this industry have assumed considerable significance. Keeping this in view and the fact that the Institute of Chartered Accountants of India is not having a separate publication for the housing finance companies, the Research Committee of the Institute has decided to bring out this 'Technical Guide on Accounting and Auditing in Housing Finance Companies'.

The Technical Guide discusses main functions of Housing Finance Companies (HFCs), major risks faced by HFCs, statutes applicable to HFCs alongwith the other relevant regulatory aspects of HFCs. The Technical Guide also discusses various accounting and audit aspects that may be useful in the audit of a housing finance company. The Technical Guide contains a separate chapter on Internal Control Aspects which discusses the control aspects having a direct bearing on the leakage of revenue and on the safeguarding of assets in an HFC. One of the appendices to the Technical Guide contains full text of the NHB directions applicable to housing finance companies, including the format of returns and reports to be submitted by the management and auditor of an HFC on a periodic basis. The appendices to the Technical Guide also contain list of records and documents collected by HFCs for lending operations, list of mandatory Accounting Standards and penalties that may be imposed on an HFC.

I would like to take this opportunity to place on record my deep appreciation of Ms. Kanishka A. Bijlani, a member of the profession, for preparing basic draft of this Technical Guide and Ms. Madhu Gupta, also a member of our profession, for an extensive review of the same. I am also thankful to various interest groups for giving their invaluable comments and suggestions on the draft Technical Guide.

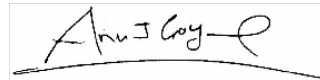
I would also like to thank all the members of the Research Committee, namely, Shri V. Murali (Vice-Chairman), Shri Sunil Goyal (President), Shri K.S. Vikamsey (Vice-President), Shri Abhijit Bandyopadhyay, Shri Charanjot Singh Nanda, Shri Harinderjit Singh, Shri Pawan Kumar Sharma, Shri

Rajkumar S. Adukia, Shri Akhilesh Ranjan, Shri Sidharth Kumar Birla, Smt. Bhavna G. Doshi, Shri Deepak Wadhawan, Shri Jashvant C. Ranpura, Shri R.C. Chandiwala, Shri Ravindra Raniwala, Shri Tilak Raj, Shri Vishnu Prasad Saraf and Shri S.C. Vasudeva (Special Invitee).

I sincerely appreciate the efforts put in by Dr. Avinash Chander, Technical Director and Ms. Anuradha Jain, Secretary, Research Committee, of the Institute of Chartered Accountants of India, in giving this Technical Guide its final shape and form.

I firmly believe that this publication would be very useful to the members of the Institute and others interested in the subject.

New Delhi
January 17, 2005



Anuj Goyal
Chairman
Research Committee

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Introduction

1.1 Food, clothing, shelter and health care are the basic necessities for human existence. Lack of all or any of these necessities leads to problems in the process of socio-economic development of the people. It is in this context that shelter as a basic human need assumes special importance.

1.2 In the milieu of rapid urbanisation and a changing socio-economic scenario, the demand for housing has grown explosively. However, the housing industry is not able to meet the growing demand at the same pace, which resulted in deficit housing position. Taking up records of the bygone century, it is noted that the deficit-housing problem in India was not so aggravated till the first half of the century. Census records reveal that in 1901, there were 55.8 million houses for 54 million households. Thus, there were 1.8 million surplus houses. This surplus situation continued till 1941. After that, this surplus turned into a deficit. In 1991, the National Buildings Organisation estimated the housing shortage of about 31 million units, composed of 20.6 million units in rural areas, and 10.4 million units in urban areas. By 1997, the total housing shortage came down in the country and was estimated to be 13.66 million units, out of which 7.57 million units were in the urban areas. More than 90% of this shortage was for the poor and the low-income category. It is estimated that with the current rate of growth in population, by 2010, India would require construction of additional 2 million dwelling units annually.

1.3 The housing industry, being a labour intensive industry, is also one of the biggest employment generating industries in India. A study by the Indian Institute of Management, Ahmedabad, commissioned by HUDCO, to evaluate the impact of investment in housing sector on GDP and employment, has found that the sector ranks third among the 14 major sectors in terms of the direct, indirect and induced effect on all sectors of the economy.

1.4 With the timely intervention of the Government, housing finance on its own has become a major industry in India. Along with the semi-government and nationalised banks, the private sector too has shown a tremendous interest in this industry. The private sector provides housing finance mainly through the Housing Finance companies (HFCs). These

HFCs offer most attractive finance options for home seekers, with various plans to suit various requirements and with attractive interest rates.

1.5 In view of the importance and quantum of investment in housing sector, the role of accounting profession with respect to this sector has assumed considerable importance. Simultaneously, audit has got immense importance to keep a proper check over the transactions of organisations involved in providing housing finance.

SCOPE AND OBJECTIVE OF THE TECHNICAL GUIDE

1.6 The main purpose of this Technical Guide is to provide an insight into the general functioning of HFCs and the methods of accounting and auditing peculiar to them. While the accounting and auditing principles generally remain the same, regardless of the nature of the entity, the manner of their application has to be determined in the context of the specific features of the entity and the industry to which the entity belongs. Non-corporate housing finance lenders are not covered within the scope of this Technical Guide.

1.7 Since the size, functioning and nature of business may vary from one company to another, this Guide cannot cover all the intricacies that may be involved in the practical situations. The various aspects contained in this guide, might require appropriate modifications depending upon the size, functioning and nature of the business of the HFC under consideration.

Technical Aspects

2.1 National Housing Bank (NHB) is the apex regulatory authority of Housing Finance Companies in India. NHB has been established by the National Housing Bank Act, 1987. The role, organisation, objectives, and functions of NHB are discussed in Appendix 1.

2.2 Besides the regulatory provisions of the National Housing Bank Act, 1987, the functioning of the HFCs in India is regulated by the NHB which has issued the Housing Finance Companies (NHB) Directions, 2001. These are periodically updated by issue of circulars and notifications to safeguard the interests of depositors and to promote healthy and universal growth of HFCs in India. The Housing Finance Companies (NHB) Directions, 2001, as amended upto 1st January, 2005, are reproduced in Appendix 2.

2.3 Paragraph (2), sub-paragraph (1) clause (I) of the Housing Finance Companies (NHB) Directions, 2001, defines a ‘housing finance company’ (HFC) as follows:

“Housing Finance Company (HFC) means a company incorporated under the Companies Act, 1956 (1 of 1956) which primarily transacts or has as one of its principal objects, the transacting of the business of providing finance for housing, whether directly or indirectly.”

The Directions also provide in Clause (b) of sub-paragraph (3) of paragraph 2 that if any question arises as to whether a company is a housing finance company, the same shall be decided by the National Housing Bank.

LAWS/STATUTES APPLICABLE TO HOUSING FINANCE COMPANIES

2.4 Apart from the regulations and directions of NHB which are applicable to HFCs and other common laws that are generally applicable to any company, such as the Income Tax Act, 1961, the Companies Act, 1956 and the labour laws, the following statutes require specific mention as being applicable to HFCs:

The National Housing Bank Act, 1987	An Act, which established National Housing Bank. NHB operates as a principal agency to promote and regulate housing finance institutions in India and to provide financial and other support to such institutions and for matters connected therewith or incidental thereto.
Transfer of Property Act, 1882	An Act, which deals with sale, exchange, lease, gift, mortgage, etc., of immoveable property.
The Indian Stamp Act, 1899	An Act, which lays down the stamp duty payable on various instruments. The rates of stamp duty are a subject matter of different States. Some of the important documents required by an HFC on which stamp duty is required to be paid are as under: <ul style="list-style-type: none"> • Housing Loan Agreement. • Letter evidencing deposit of title deeds. • Letter of pledge for availing loan on deposits. • Tripartite agreement in respect of Builder/ Developmental agencies. • Letter of Indemnity/Indemnity Bond. • Letter of Guarantee.
The Indian Registration Act, 1908	An Act, which deals with the registration of property documents with a view to safeguard the interest of HFC.
The Succession Act, 1925	An Act, which deals with the succession in respect of property of a deceased person.
The Limitation Act, 1963	An Act, which lays down the period within which existing rights related to recovery from the borrower can be enforced in a Court of law.

Recovery of Debts due to Banks and Financial Institutions Act, 1993	An Act, which lays down the provisions of recovery of debts due to Banks and Financial Institutions. It has been provided in the National Housing Bank Act, 1987 that till the establishment of a separate Appellate Tribunal, the Appellate Tribunal established under the Recovery of Debts due to Banks and Financial Institutions Act, 1993 shall exercise the powers conferred under the National Housing Bank Act, 1987.
The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002	An Act, which has been passed to tackle the serious problem of burgeoning NPAs, inter alia, by making various legal procedures simpler. The Ministry of Finance, Government of India, has, vide notification no. S.O. 1282 (E) dated 10 th November, 2003, extended this Act to 23 HFCs registered under sub-section (5) of section 29A of the National Housing Bank Act, 1987 and with Tier I Capital of Rs.10 crore or above as per their audited balance sheet for the year ended 31 st March, 2003.
The Negotiable Instruments (Amendment and Miscellaneous Provisions) Act, 2002	An Act, which provides for summary trial of cases with a view to speed up their disposal. It also provides for punishment upto two years for bounced cheques.

MAIN FUNCTIONS OF AN HFC

2.5 For determining appropriate accounting and audit procedures to be adopted in case of an HFC, it would be useful to have knowledge of their functioning. This chapter contains a broad overview of the main functions of HFCs. The main functions of an HFC can be discussed under the following broad heads:

- (a) Lending operations

- (b) Deposit operations
- (c) Provision of ancillary property services

LENDING OPERATIONS

2.6. HFCs provide home loans to meet various types of requirements for housing. These loans are generally long term in nature ranging from three years to twenty years. Some HFCs have also started disbursement of office, consumer, auto, personal, education loans, etc. Briefly the different types of loans available to various categories of borrowers are discussed hereinafter.

Loans for Individuals

2.7 Various types of loans for individuals may be classified as under:

- (i) *Home purchase loans*: These loans are available to buy a house.
- (ii) *Home construction loans*: These loans are available for construction of a new house.
- (iii) *Bridge loans*: The need for bridge loan arises when the applicant plans to sell off his existing house and purchase a new house. A bridge loan is a short term loan to fulfill the temporary need of an applicant to purchase a new house till he can actually sell off his existing house.
- (iv) *Balance transfer loan*: This type of loan enables the applicant (who has already availed of a loan earlier when the interest rates were higher) to get his existing housing loan refinanced by another finance company at the prevailing lower rates of interest. This is popularly known as “swapping of loan”.
- (v) *Stamp duty loan*: This loan is used to finance the amount of stamp duty payable at the time of purchase of a house property.
- (vi) *Home conversion loan*: This type of loan enables the applicant to transfer his existing loan, taken for purchase of an earlier house, to the current loan taken for purchase of a new house, to finance the incremental cost of the new house. Thus, the applicant can take additional loan to purchase a new house without having to prepay the loan taken for the earlier house.

- (vii) *Home extension loan*: This is a loan facility that enables the applicant to extend his house.
- (viii) *Home renovation loan*: This type of loan is available to renovate the house.
- (ix) *Land loan*: This loan is provided for purchase of land for the purpose of construction of a house. The applicant can apply for a land purchase loan and a house construction loan for construction of the house on the said land.
- (x) *Housing Loans to NRIs*: Notification No. FEMA 4/2000-RB dated 3rd May, 2000 issued by RBI and subsequent circulars and notifications thereto, govern housing loans to a non-resident. In terms of the said Notification and subsequent circulars and notifications thereto, an authorised dealer or a housing finance institution in India approved by the NHB may provide housing loan to a non-resident Indian or a person of Indian origin resident outside India, for acquisition of a residential accommodation in India, repair/renovation/improvement of residential accommodation owned by them in India, subject to the following conditions, namely:
 - (a) the quantum of loans, margin money and the period of repayment shall be at par with those applicable to housing finance provided to a person resident in India;
 - (b) the loan amount shall not be credited to Non-resident External (NRE)/Foreign Currency Non-resident (FCNR)/Non-resident Non-repatriable (NRNR) account of the borrower;
 - (c) the loan shall be fully secured by equitable mortgage of the property proposed to be acquired, and if necessary, also by lien on the borrower's other assets in India;
 - (d) the instalment of loan, interest and other charges, if any, shall be paid by the borrower by remittances from outside India through normal banking channels or out of funds in his Non-resident External (NRE)/Foreign Currency Non-resident (FCNR)/Non-resident Non-repatriable (NRNR)/Non-resident Ordinary (NRO)/Non-resident Special Rupee (NRSR) account in India, or out of rental income derived from renting out the

property acquired by utilization of the loan. Further, the close relatives (as defined under Section 6 of the Companies Act, 1956) of the borrower in India are allowed to repay the instalment of such loans, interest and other charges, if any, through their bank account directly to the borrower's loan account with the authorised dealer/housing finance institution.

- (e) the rate of interest on the loan shall conform to the directives issued by the Reserve Bank or, as the case may be, by the National Housing Bank.
- (xi) *Office premises loans*: Though the principal object of HFCs is transacting the business of providing finance for housing, whether directly or indirectly, some HFCs have started the concept of disbursement of small office loans to professionals such as doctors, chartered accountants, lawyers and other self-employed professionals for construction, purchase, extension or renovation of their clinic or office.
- (xii) *Home equity loan*: This type of loan is available against the mortgage of the house to meet financial contingencies. These loans are advanced against any self-occupied freehold or leasehold property that has a clear and marketable title. The end usage of the funds is generally not monitored by the HFC. However, it is stipulated that the funds should not be used for speculation or any illegal purposes.
- (xiii) *Consumer/Auto/Personal/Educational loans*: Some HFCs have also started disbursement of consumer/ auto/personal/educational loans.

Loans to corporates

2.8 Loans to corporates may be classified as under:

- (a) The Line-Of-Credit (L.O.C) scheme for employee owned housing is of the following two types:
 - (i) *L.O.C. 'Thru'*: The employees of a company are recommended by the company to the HFC for the housing loan. The employees of the company then directly approach the HFC for loans and the loans are granted directly to the employees.

- (ii) *L.O.C. 'To'*: The company ascertains the loan needs of its various employees and approaches the HFC for a consolidated loan and the loan is granted to the company. The company then disburses the loan obtained among its various employees.
- (b) The company obtains loan facility for purchase / construction of the company owned housing.

Loans to Government Sector (Development Agencies, Housing Boards, Municipal Boards, etc.)

2.9 Development Agencies, Housing Boards, Municipal Boards, etc., obtain the following types of loans:

- (a) Loans for construction/purchase of residential units for their employees and the public at large.
- (b) Loans for land development and providing infrastructure to residential areas developed, such as, construction of roads, etc.

Loans to Private Sector (Builders/Promoters & Developers)

2.10 Loans are disbursed to private builders, promoters and developers for construction of residential units for sale.

Interest

2.11 Interest may be explained as the amount of money, expressed as a percentage of loan outstanding, charged for the use of the money borrowed over the tenure of loan. Different types of rates of interest are as under:

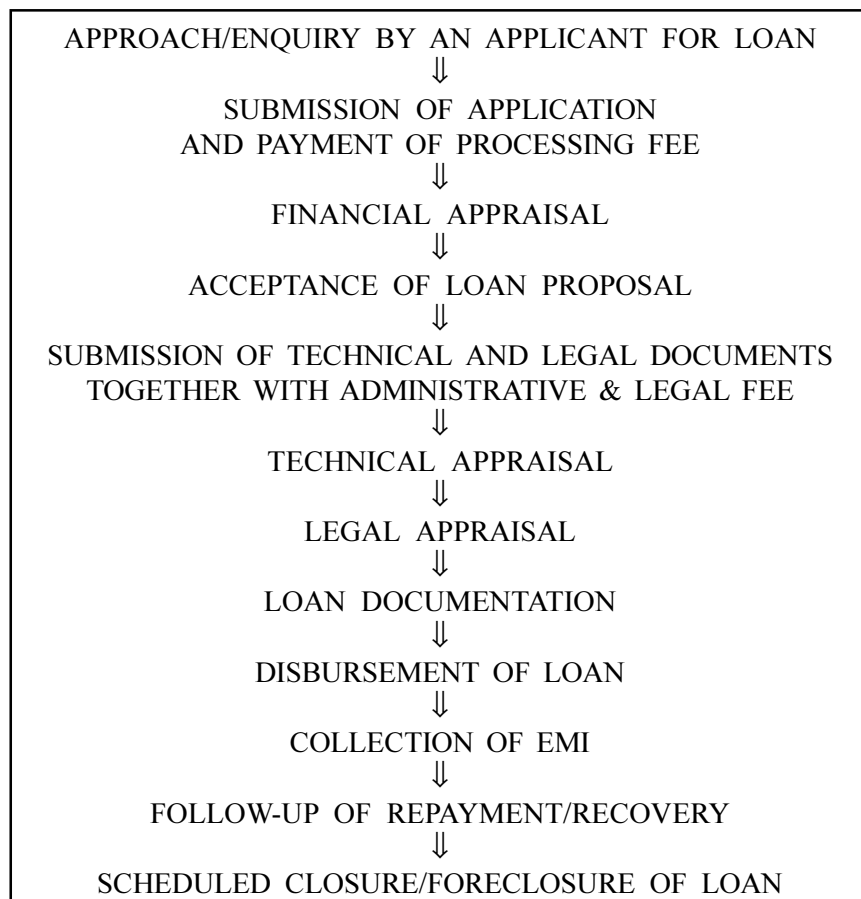
- (i) *Fixed Rate*: The fixed rate of interest is fixed over the entire tenure of the loan. This implies that the borrower is immune to market risk and the fluctuations in market rates. Fixed rate of interest is a good option for the borrower when the interest rates are expected to move up in future.
- (ii) *Floating Rate*: The floating rate of interest is linked to the market rate, denoted by a mutually agreed benchmark rate. Floating rate is beneficial for the borrower in a falling rate scenario and becomes costly if the rates move up.

EMI (Equated Monthly Instalment)

2.12 EMI means the amount of monthly payments necessary to amortise the principal amount of loan with interest over the period of the loan. EMI depends on the amount borrowed, the number of years for which loan is borrowed and the rate of interest. In the calculation of EMI, interest may be compounded either on daily or monthly or half-yearly or yearly basis. In the beginning of the loan repayment period, the interest component of EMI is higher and the principal amount is lower. Later, as the years go by, the principal amount becomes higher and the interest component becomes lower.

Stages of lending operation

2.13 A flow chart indicating various stages involved in a lending operation is given below:



Each of the stages are discussed hereinafter.

Approach/enquiry by an applicant for the loan

2.14 The first step is the approach/enquiry by the applicant for a housing loan. The applicant is apprised of the various loan schemes and he is requested to submit a full-fledged proposal.

Submission of application and payment of processing fee

2.15 Only an application, complete in all respects, with all the necessary supportings as specified, is accepted by the HFC. Various financial and general documents which are collected along with the loan application are given in Appendix 3. While accepting the application, the processing fee is also collected by the HFC. This fee is meant to cover charges for processing the application. The fee is normally charged on the amount of loan applied for and may vary according to the policies of the company.

Financial Appraisal

2.16 After receiving the application, financial appraisal based on the documents received with the application is done to verify whether or not the applicant has an independent source of income and to ascertain his repayment capacity. A careful analysis is done to ensure that the applicant or the co-applicant, if any, has not inflated his income. The method of appraisal by the credit appraisal officer of the HFC is different in case of a salaried applicant and a self-employed applicant. Matters to be considered in financial appraisal in these two classes of borrowers are discussed hereunder:

- (a) *Salaried applicant*: Financial status and repayment capacity of the applicant is assessed by the latest income tax return and latest salary slip. A report of the employee may be obtained directly from the employer. Age of the applicant and the stability of employment are also scrutinised by the credit appraisal officer of the HFC. Where the applicant does not have a balance requisite service of minimum five years, the proposal is decided on the basis of the following terminal benefits of the applicant:
 - Balance held under PF/GPF account.
 - Probable amount of gratuity receivable.

- Details of commutation of pension already availed.
- Any other receivables.

A letter may be obtained from the employer agreeing for monthly deduction of EMI from the applicant's salary and direct remittance of the same to the HFC.

- (b) *Self-employed businessman/professional applicant*: The credit appraisal officer of the HFC assesses the financial status of the applicant with reference to the latest income tax returns, audited accounts and wealth tax returns. An inspection of the office of the self-employed applicant is also carried out to assess the credibility of the applicant. In case of loans in rural areas and small towns, where the applicant is not filing his return of income, the credit appraisal officer of the HFC assesses the financial status with reference to the agricultural land owned, other property owned or the business carried on by the applicant.

Acceptance of loan proposal

2.17 After clearance of financial appraisal, loan proposal is accepted in principle subject to clearance of technical and legal appraisal and subject to certain conditions, such as, provision of additional guarantors and/or collateral securities such as LIC Policies, National Savings Certificates, Bank Deposits, Government Securities, etc. If the applicant agrees to all these conditions, then he communicates his acceptance in writing to the HFC.

Submission of technical and legal documents together with administrative charges and legal fee

2.18 After accepting the terms and conditions of loan, the applicant submits the technical and legal documents, specified in Appendix 3 together with administrative charges and legal fee.

2.19 Administrative charges are obtained from the applicant to meet the operating expenses of the loan during the tenure of the loan. Fee for the visits made by the technical teams to inspect the property of the applicant is also included under the administrative charges. In addition to administrative charges, legal fee is taken from the applicant for covering the stamp duty and registration charges for the mortgage of the property.

Technical Appraisal

2.20 This is another important stage of scrutinising a loan application. Various technical documents collected from the applicant are scrutinised by the HFC. Technical appraisal differs, depending upon the following categories:

- (a) *Construction of a dwelling unit*: Some of the important aspects that are generally considered by the technical officer of the HFC, in the case of a loan application for construction of a dwelling unit, are as follows:
 - (i) The unit to be constructed is in a good locality and has all the basic amenities.
 - (ii) The applicant has vacant and peaceful possession of the land on which unit is to be constructed.
- (b) *Purchase of a built house/flat/apartment*: Some of the important aspects that are generally considered by the technical officer of the HFC in assessing the loan application for purchase of a built house/flat/apartment are as follows:
 - (i) Original “Agreement for sale” of property under consideration has been received.
 - (ii) Age and future life expectancy of the unit.
 - (iii) Vacant and peaceful possession of the unit is available.
 - (iv) The existing unit conforms to the sanctioned building plan.
 - (v) Physical inspection report of the unit is favourable.
 - (vi) Amount of loan proposal is well covered by value of the property as per the valuation certificate from a Chartered Engineer.
 - (vii) Seller/builder/promoter of the unit to be purchased has not availed finance from any bank/financial institution, jointly/severally, by mortgaging the property under consideration. A letter of declaration to that effect is obtained from the

applicant. However, if the said finance has been availed of from any bank/financial institution jointly/severally, then a release letter is obtained.

(viii) In cases where the builder does not own the land and the development of the project is based on a joint development agreement, the right of the builder of the project is to be ensured.

(c) *Purchase of unit in a building under construction:* Where a unit is purchased in a building under construction, in addition to the above-mentioned aspects, the technical officer of the HFC considers the reputation of the builder. Usually, flats, apartments, bungalows, etc., being constructed by only the builders of repute are financed.

Legal Appraisal

2.21 Once the proposal is cleared from the technical angle, legal appraisal is done by the legal officer/legal panel of the HFC. Some of the important aspects that are generally considered for legal appraisal are as follows:

- (a) Various legal documents as listed in Appendix 3 have been collected, scrutinised and found in order.
- (b) The title of the property has been thoroughly investigated and found clear and free from all encumbrances.
- (c) Ensuring that the proposed borrower has agreed to create an equitable mortgage on the property for the construction/purchase of which loan has been granted. After the property in consideration is registered in the name of the borrower, the legal department ensures that an equitable mortgage is created in favour of the HFC.

Loan documentation

2.22 When it is ensured that all requirements for granting the loan including provision of additional guarantors and collateral securities have been fulfilled, requisite processing fee, administrative charges and legal fee have been paid and the loan application has passed through the financial, technical

and legal appraisal, the loan documents are prepared. Some of the important documents prepared for the disbursement of loan are as follows:

- Loan Agreement.
- Letter of Guarantee.
- Demand Promissory Note.
- Letter of Continuity.
- Mortgage Agreement.

It is ensured that the documents are duly stamped. Utmost care is taken for preparation and execution of proper loan documents. Any discrepancy may adversely affect the rights of the HFC in the event of legal proceedings to recover the dues. The manner of documentation varies according to the type of loan and also the security offered for the loan.

Disbursement of loan

2.23 An HFC generally disburses the loan amount if the following requirements are fulfilled:

- (a) Property for which loan is granted and given for mortgage is registered in the name of the borrower and the original title deed of the property is deposited with the HFC.
- (b) Property is adequately insured.
- (c) Post-dated cheques for EMI have been deposited with the HFC.
- (d) Loan documentation has been completed.

2.24 In case of purchase of a unit in a building under construction, in addition of the above, disbursements are made after physical inspection of the property at different stages of completion and on a fair assessment of the project execution. While a strict formula to assess the execution of the project may not be available, the estimate is based on the following aspects:

- Contracted price and schedule of payment to the builder.
- Payment of the margin money by the borrower.
- Progress of the construction of the building as on the date of first disbursement and subsequent disbursements.

2.25 The cheque for disbursement of loan is generally drawn directly in favour of the builder/seller of the property and is delivered to the builder/seller by the representative of the HFC after obtaining written authority from the borrower. In certain cases, the cheque is issued directly to the borrower, for example, in case of issue of loan cheque to the promoter, after obtaining prior approval of the Head Office.

Collection of EMI

2.26 All post-dated cheques for payment of EMI received from the borrowers are preserved carefully by the accounts department of the HFC and submitted to the bank on the respective due dates. In case of cash collection, cash is collected at the branch offices or at the camps organised by the HFC, if any, for such collection.

Follow-up of repayment/recovery

2.27 A list of overdue accounts is prepared on a monthly basis. In case of delayed payments, the borrowers are contacted on telephone and if required, personally visited by the recovery officers of the HFC. The recovery officer tries to convince the borrower to make the payment, may be in parts and to settle his dues at the earliest. If the borrower does not pay in spite of such telephonic reminders and personal visits then the matter is taken-up legally against the borrower by the HFC.

Scheduled closure/Foreclosure of loan

2.28 When the loan account is closed in the normal course of business, it is termed as scheduled closure. Foreclosure means when a loan is closed prior to its scheduled closure. Various reasons of foreclosure are as follows:

- (a) When the loan is closed as per the desire of the borrower prior to the scheduled closure after receiving full repayment of loan, it is termed as voluntary foreclosure of the loan.
- (b) Foreclosure due to unforeseeable events such as death of the borrower, destruction of property mortgaged, etc.
- (c) Foreclosure by way of a legal process in which the lender forces a sale of a mortgaged property because the borrower has

not met the terms of the mortgage. Such a foreclosure sometimes results in repossession of the asset.

- (d) When the account is closed due to considerations other than cash, for example, substitution of loan account by another loan account under a different category of loan, different name, etc.

Prohibition on granting loans

2.29 The Housing Finance Companies (NHB) Directions, 2001, prohibit granting of loans by an HFC in the following cases:

- (a) According to paragraph 33 of the said Directions, no HFC can lend against its own shares. Further, any outstanding loan granted by HFC against its own shares on the date of commencement of the said Directions shall be recovered by the HFC as per the repayment schedule.
- (b) According to paragraph 34 of the said Directions, an HFC, which has failed to repay any public deposit or part thereof in accordance with the terms and conditions of such deposit, is not permitted to grant any loan or other credit facility by whatever name called or make any investment or create any other asset as long as the default exists.

Concentration of credit/investments

2.30 The NHB has issued Prudential Norms to check concentration of credit/investment which are stipulated in paragraph 28 of the Housing Finance Companies (NHB) Directions, 2001 and are reproduced as under:

“28. (1) No housing finance company shall,-

- (i) lend to-
 - (a) any single borrower exceeding fifteen percent of its owned fund; and
 - (b) any single group of borrowers exceeding twenty-five percent of its owned fund;
- (ii) invest in-
 - (a) the shares of another company exceeding fifteen percent of its owned fund; and

(b) the shares of a single group of companies exceeding twenty-five percent of its owned fund;

(iii) lend and invest (loans/investments together) exceeding -

(a) twenty-five percent of its owned fund to a single party; and

(b) forty percent of its owned fund to a single group of parties.

(2) Any loan granted and investment made by the housing finance company in excess of the ceilings specified hereinabove and existing on the date of commencement of these directions, shall be brought down by the housing finance company as per the repayment schedule in due course.

Notes:

- (1) For determining the above-mentioned limits, off-balance sheet exposures be converted into credit risk by applying the conversion factors explained hereinabove.
- (2) The investment in debentures for the above purpose be treated as credit and not investment.
- (3) The above ceilings on credit/investments shall be applicable to the own group of the housing finance company as well as to the other group of borrowers/investee companies.”

DEPOSIT OPERATIONS

Restrictions on acceptance of deposits

2.31 Restrictions on acceptance of deposits laid down by the NHB in paragraph 3 of the Housing Finance Companies (NHB) Directions, 2001 are reproduced as follows:

- “3. (1) No housing finance company having net owned fund (hereinafter referred to as ‘NOF’) of less than twenty five lakhs of rupees shall accept public deposits.
- (2) No housing finance company having NOF of twenty five lakhs of rupees and above shall accept or renew public deposits except to the extent specified below:-

- (i) not exceeding five times of its NOF, where the housing finance company has obtained credit rating for fixed deposits not below 'A' from any one of the approved rating agencies at least once a year and a copy of the rating is sent to the National Housing Bank and it is complying with all the prudential norms; and
- (ii) in the absence of credit rating as specified in (i) above, not exceeding two times of its NOF or ten crore of rupees, whichever is lower including any amount remaining outstanding in its books as on the date of acceptance or renewal of such deposit, subject to (a) it is complying with all the prudential norms, and (b) having capital adequacy ratio of not less than fifteen per cent as per the last audited balance sheet.

Approved Credit Rating Agencies

The names of approved credit rating agencies for the time being are as follows:-

- (a) The Credit Rating Information Services of India Ltd. (CRISIL)
 - (b) ICRA Ltd.
 - (c) Credit Analysis & Research Ltd. (CARE)
 - (d) FITCH Ratings India Private Ltd.
- (3) No housing finance company shall have deposits inclusive of public deposits, the aggregate amount of which together with the amounts, if any, held by it which are referred in clauses (iii) to (vii) of sub-section (bb) of Section 45 I of the Reserve Bank of India Act, 1934 (2 of 1934) as also loans or other assistance from the National Housing Bank, is in excess of sixteen times of its Net Owned Fund.
- (4) Where a housing finance company holds as on the date of commencement of these directions public deposits in excess of the limits specified in (2) above and as applicable to it or deposits inclusive of the items mentioned in (3) above in excess of the limits specified in (3) above, it shall -
- (a) not accept fresh deposit or open new deposit account; or

- (b) not renew the existing deposit or where the deposits are received under any recurring scheme, receive instalments under such scheme after the expiry of the scheme period;
 - (c) reduce such excess deposit by repayment on maturity.
- (5) In the event of down gradation of the credit rating to any level below 'A' from the level earlier held by the housing finance company, it shall
- (i) report the position within fifteen working days to the National Housing Bank;
 - (ii) with immediate effect stop accepting fresh public deposit if the public deposits held by it is in excess of the limit specified under clause (ii) of paragraph 3(2) above; and
 - (iii) reduce within three years from the date of downgrading of credit rating, the amount of excess public deposit to nil or the appropriate extent permissible under clause (ii) of paragraph 3(2) above as the case may be, to which it is entitled to accept, by repayment as and when such deposit falls due or otherwise."

2.32 For the purposes of the Housing Finance Companies (NHB) Directions, 2001, the term 'Net Owned Fund' means 'net owned fund as defined under section 29A of the National Housing Bank Act, 1987 including paid up preference shares which are compulsorily convertible into equity capital'. Section 29A of the NHB Act has defined net owned fund as below:

- “(I) net owned fund means –
- (a) the aggregate of the paid-up equity capital and free reserves as disclosed in the latest balance-sheet of the housing finance institution after deducting therefrom –
 - (i) accumulated balance of loss;
 - (ii) deferred revenue expenditure; and
 - (iii) other intangible assets; and

- (b) further reduced by the amounts representing –
 - (1) investments of such institution in shares of –
 - (i) its subsidiaries;
 - (ii) companies in the same group;
 - (iii) all other housing finance institutions which are companies; and
 - (2) the book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with, –
 - (i) subsidiaries of such company; and
 - (ii) companies in the same group, to the extent such amount exceeds ten per cent of (a) above.”

2.33 Clauses (iii) to (vii) of sub-section (bb) of section 45 I of the Reserve Bank of India Act, 1943, referred to in paragraph 3 (3) of the Housing Finance Companies (NHB) Directions, 2001, (as reproduced in paragraph 2.31 above), are reproduced as under:

- “(iii) amounts received from a scheduled bank or a co-operative bank or any other banking company as defined in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- (iv) any amount received from,-
 - (a) the Development Bank,
 - (b) a State Financial Corporation,
 - (c) any financial institution specified in or under section 6A of the Industrial Development Bank of India Act, 1964 (18 of 1964), or
 - (d) any other institution that may be specified by the Bank in this behalf;
- (v) amounts received in the ordinary course of business, by way of-
 - (a) security deposit;

- (b) dealership deposit;
- (c) earnest money, or
- (d) advance against orders for goods, properties or services;
- (vi) any amount received from an individual or a firm or an association of individuals not being a body corporate, registered under any enactment relating to money-lending which is for the time being in force in any State; and
- (vii) any amount received by way of subscriptions in respect of a chit.

Explanation I. –“ Chit” has the meaning assigned to it in clause (b) of section 2 of the Chit Funds Act, 1982 (40 of 1982).

Explanation II. –Any credit given by a seller to a buyer on the sale of any property (whether movable or immovable) shall not be deemed to be deposit for the purposes of this clause.”

Advertisement or Statement in lieu of advertisement

2.34 No company can invite or allow any other person to invite or cause to be invited on its behalf any deposit unless an advertisement, in such form and manner as may be prescribed, soliciting deposit of money from public, has been issued. Where an HFC intends to accept public deposits without inviting or allowing or causing any other person to invite such deposits, it shall deliver a statement in lieu of advertisement containing all the particulars required to be included in the advertisement to the prescribed authorities. The provisions of the Companies Act, 1956; the NHB Act, 1987; and the Housing Finance Companies (NHB) Directions, 2001, relating to advertisement or statement in lieu of advertisement are reproduced in Appendix 4.

Types of deposits accepted by Housing Finance Companies

2.35 Briefly various deposits accepted by an HFC can be classified as under:

- (a) *Cumulative Deposit*: This is a scheme where the interest is accumulated with the principal amount of deposit and is paid at the time of maturity of the deposit.

(b) *Non-Cumulative Deposits*: This is a regular income scheme where the interest is paid periodically from the date of deposit.

General terms and conditions governing various deposit schemes are as under

Applicants of Deposits

2.36 Deposits are accepted from individuals including minors through their guardians, charitable trusts, religious trusts, educational institutions, employees' welfare trusts and others as decided by the management of the HFC.

Deposits in joint names

2.37 Deposits can be accepted in joint names subject to a maximum of three joint holders. However, all communications, interest and repayment of principal amount are sent by the HFC to the first named deposit-holder. A discharge by any of the joint holders shall be valid on all the joint holders unless it is expressly stated otherwise at the time of filling the application. In the event of death of the first holder, all communications, interest and principal amount are sent to the second named deposit-holder on submission of a death certificate of the deceased. In any other case, depending upon the circumstances, the HFC may decide the claim or may ask the legal representative of the deceased to produce Succession Certificate, Letter of Administration or Probate or Will, as may be applicable.

Period of deposits

2.38 According to paragraph 4 of the Housing Finance Companies (NHB) Directions, 2001, no HFC can accept or renew any public deposit, which is repayable on demand or on notice; or any deposit unless it is repayable after a period of twelve months or more but not later than eighty-four months from the date of acceptance or renewal of such deposits. Where a public deposit is accepted in instalments, the period of such deposit shall be computed from the date of receipt of first instalment.

Application for Deposit

2.39 According to paragraph 6(i) of the Housing Finance Companies (NHB) Directions, 2001, no HFC shall accept or renew any public deposit

except on a written application from the depositors in the form to be supplied by the HFC, which form shall contain all the particulars specified in the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977, made under Section 58 A of the Companies Act, 1956 (1 of 1956) and also contain the particulars of the specific category of the depositors, i.e., whether the depositor is a shareholder or a director or a promoter of the HFC or a member of public or a relative of a director of the company.

2.40 Paragraph 6(ii) of the Housing Finance Companies (NHB) Directions, 2001 specifies certain additional contents of an application form, which are stated in Appendix 2 to this Technical Guide.

2.41 The application form for deposit, duly filled and signed by the depositor is to be accompanied by cheque/demand draft for the amount of deposit. In case an application is made under a Power of Attorney or by a limited company or a trust, the copy of the relevant Power of Attorney or the resolution passed by the company or the trust, as the case may be, must be lodged with the HFC, together with the application form.

Introduction of depositor

2.42 According to paragraph 7 of the Housing Finance Companies (NHB) Directions, 2001, every HFC is required to obtain proper introduction of new depositors before opening their accounts and accepting deposits and keep on its record the evidence on which it has relied for the purpose of such introduction. In this context, the National Housing Bank (NHB) has issued 'Know Your Customer' guidelines which are reproduced in Appendix 5. The guidelines come into effect from October 1, 2004 in respect of all new customers. However, in respect of the existing customers, the HFCs are required to ensure compliance before December 31, 2004.

Nomination by the depositor

2.43 Depositors can nominate separately or jointly. The nominee shall be recognised as the "Holder of Title" on death of the depositor. Holder of a Power of Attorney or a guardian applying on behalf of a minor cannot nominate.

Deposit receipts

2.44 Every HFC shall furnish to every depositor or his agent a receipt for every deposit. The said receipt should be duly signed by an officer of the HFC and shall state the date of deposit, the name of the depositor, the amount of deposit in words and figures, rate of interest payable thereon and the date on which the deposit is repayable. If such receipts pertain to instalments subsequent to the first instalment of a recurring deposit, it may contain only name of the depositor(s), date and amount of deposit.

Brokerage to Authorised Agents

2.45 Brokerage is paid to the authorised agents at the rates prescribed in Clause (b) of sub-paragraph (1) of paragraph 11 of the Housing Finance Companies (NHB) Directions, 2001.

Payment of interest

- 2.46 (a) Interest on deposit is paid by the HFC from the date of realisation of cheque/demand draft up to the date of maturity. Clause (a) of sub-paragraph (1) of paragraph 11 of the Housing Finance Companies (NHB) Directions, 2001 specifies the maximum rate of interest, amended from time to time, at which an HFC can invite or accept or renew any public deposit. Interest may be paid or compounded at rests which shall not be shorter than monthly rests.
- (b) Interest on overdue deposits is paid in terms of the provisions of sub-paragraph (2) of paragraph 11 of the Housing Finance Companies (NHB) Directions, 2001, given in Annexure 2.
- (c) Interest on premature withdrawal of deposit is to be paid in terms of provisions of sub-paragraph (ii) of paragraph 12 of the Housing Finance Companies (NHB) Directions, 2001.

Deduction of tax at source

2.47 Every HFC paying interest on deposits with it, is required to deduct income tax thereon in accordance with the provisions of section 194A of the Income-tax Act, 1961. In terms of section 197A of the Income-tax Act, 1961, if a depositor furnishes a declaration in writing in prescribed form to the HFC that the tax on his total income will be nil, no tax will be

deducted at source from interest payable to him. However, if the interest credited or paid during the previous year in which such income is to be included, exceeds the maximum amount which is not chargeable to income tax, tax is deducted from interest income even if the said declaration has been received.

Renewal of deposits

2.48 In case of renewal of an existing 'deposit' on maturity, a fresh application is to be filled-in and this should be accompanied with the discharged deposit receipt.

Renewal of public deposits before maturity

2.49 According to paragraph 13 of the Housing Finance Companies (NHB) Directions, 2001, a housing finance company may permit an existing depositor to renew his public deposit before maturity for availing the benefit of higher rate of interest prevailing at that time, provided:-

- (i) the public deposit is renewed in accordance with the other provisions of the said directions and for a period longer than the remaining period of the original contract, and
- (ii) the interest on the expired period of the public deposit is reduced by one percentage point from the rate at which the HFC would have ordinarily paid, had the deposit been accepted for the period for which such public deposit had run. Any interest paid earlier in excess of such reduced rate is recovered/adjusted.

Repayment of deposits

2.50 Section 36A of the National Housing Bank Act, 1987, imposes restrictions on the repayment of deposits, which are reproduced as follows:

“36A.(1) Every deposit accepted by a housing finance institution which is a company unless renewed, shall be repaid in accordance with the terms and conditions of such deposit.

- (2) Where a housing finance institution which is a company has failed to repay any deposit or part thereof in accordance with the terms and conditions of such deposit, such officer of the National Housing Bank, as may be authorised by the Central

Government for the purpose of this section (hereinafter referred to as the “authorised officer”) may, if he is satisfied, either on his own motion or on any application of the depositor, that it is necessary so to do to safeguard the interests of the housing finance institution, the depositors or in the public interest, direct, by order, such housing finance institution to make repayment of such deposit or part thereof forthwith or within such time and subject to such conditions as may be specified in the order:

Provided that the authorised officer may, before making any order under this sub-section, give a reasonable opportunity of being heard to the housing finance institution and the other persons interested in the matter.”

2.51 According to paragraph 12 of the Housing Finance Companies (NHB) Directions, 2001, no HFC shall repay any public deposit within a period of three months from the date of its acceptance. At the time of repayment, the duly discharged receipt of deposit should be surrendered to the HFC. The principal amount together with interest, in case of cumulative deposit schemes, is to be repaid to the depositor on the date of maturity. In the event of death of a depositor, the public deposit may be paid prematurely to the surviving depositor/s in case of joint holding with the survivor clause, or to the nominee or legal heir/s with interest at the contracted rate upto the date of repayment.

Matured deposit outstanding for more than seven years

2.52 When a deposit matures, the HFC sends a letter to the depositor asking him to either renew the deposit or claim the matured amount. However, in case a deposit is outstanding (matured but unclaimed) for more than seven years from the date on which it became due for payment, the provisions of Section 205C of the Companies Act, 1956, apply and the matured but unclaimed amount along with interest thereon is to be transferred to the Investor Education and Protection Fund and then no claim shall lie against the fund or the HFC for repayment of such amount thereafter.

Loan on Security of deposits

2.53 According to clause (iii) of paragraph 12 of the Housing Finance Companies (NHB) Directions, 2001, a housing finance company may grant a loan to a depositor on the security of a public deposit upto seventy

five percent of the amount of deposit at a rate of interest two percentage points above the interest rate payable on the public deposit. However, such loan is to be given only if the deposit has run for a minimum period of three months from the date of public deposit.

Prohibition on granting loans and making investment in case of default in repayment of deposits by HFC

2.54 Paragraph 34 of the Housing Finance Companies (NHB) Directions, 2001, prohibits an HFC from granting of loans and making of investments in case of default in repayment of deposits. Provisions for the same are given in paragraph 2.29 (b) of this Technical Guide.

PROVISION OF ANCILLARY PROPERTY SERVICES

2.55 HFCs have a vast database consisting of a wide range of properties and they help in finding the ideal property for the buyer. They also provide assistance in handling the cumbersome task of arranging legal and technical clearances and valuation of properties. Some HFCs provide these services free to buyers of residential properties who avail of loans for residential premises from them. HFCs generally approve certain reputed builders based on their performance and if the property is purchased from such an approved builder, then the time taken to process the loan is also substantially reduced. Apart from lending and accepting deposits, various ancillary property services which are provided by HFCs may be summarised as under:

- Assistance in buying/selling of land
- Assistance in buying/selling/renting of residential properties
- Arranging legal and technical clearances
- Arranging valuation of commercial and residential premises
- Marketing new projects for builders/developers

RISKS FACED BY HFCS

2.56 HFCs are exposed to several major risks in the course of their business. The various risks are briefly explained as follows:

- *Credit risk*: Credit risk is the risk of default in repayment of

loan by the borrower which results in conversion of loan account into non-performing asset.

- *Interest rate risk:* Interest rate risk is the risk where changes in market interest rates might adversely affect an HFC's financial condition.
- *Commodity price risk:* This is the risk associated with the fluctuations in prices of the property, which is mortgaged in favour of the HFC.
- *Operational risk:* Operational risk is the risk arising out of weakness in internal control resulting in fraud, error and performance failures.
- *Prepayment risk:* Adverse impact of the borrower opting to return a loan or a portion of the loan before it is contractually due, also known as Option Risk.
- *Liquidity risk:* Liquidity risk is measured in terms of an HFC's ability to meet its liabilities as they become due. Liquidity management can reduce the probability of occurrence of an adverse situation.
- *Currency risk:* Currency risk is the risk faced due to fluctuations in exchange rates rendering the HFCs vulnerable to fluctuations in valuation of assets and liabilities carrying foreign currency exposure risk.

ASSET LIABILITY MANAGEMENT

2.57 On going through the above functions and risks faced by an HFC, it may be noted that HFCs grant housing and consumer loans, which are generally long term in nature ranging from tenures of minimum three to maximum twenty years. On the other hand, these companies receive deposits from the public ranging from a period of minimum twelve months to maximum eighty-four months. Thus, they have to effectively manage their funds. Intense competition for business involving both the assets and liabilities has brought pressure on the managements of HFCs to maintain a good balance amongst spreads, profitability and long-term viability. These pressures call for structured and comprehensive measures and not just ad-hoc action. The managements of HFCs have to base their business

decisions on a dynamic and integrated risk management system and process driven by corporate strategy. HFCs are exposed to several major risks in the course of their business as discussed above.

2.58 HFCs address these risks in a structured manner by upgrading their risk management and adopting Asset-Liability Management (ALM) practices. ALM, among other functions, is also concerned with management of risks and provides a comprehensive and dynamic framework for measuring, monitoring and managing liquidity and interest rate risks of an HFC that need to be closely integrated with the HFC's business strategy. It involves assessment of various types of risks and altering the asset-liability portfolio in a dynamic way in order to manage risks. National Housing Bank has issued Guidelines for Asset Liability Management System in HFCs which can be referred from the website of the NHB, viz., www.nhb.org.in.

REGULATORY ASPECTS OF HFC

REQUIREMENTS FOR REGISTRATION AND COMMENCEMENT OF HOUSING FINANCE BUSINESS BY AN HFC

2.59 According to sub-section (1) of section 29A of the National Housing Bank Act, 1987, no housing finance institution which is a company shall commence or carry on the business of a housing finance institution without-

- (i) Obtaining a certificate of registration from the National Housing Bank; and
- (ii) Having a net owned fund of two hundred lakh rupees or such higher amount, as the NHB may by notification, specify.

Provided that the specification of higher net owned fund of two hundred lakh rupees shall not be applicable to a company whose application for certificate of registration under section 29A of the National Housing Bank Act, 1987, is submitted to the NHB before 16th February, 2002, being the date of publication of notification of enhancement of requirement of net owned fund from twenty five lakh rupees to two hundred lakh rupees.

2.60 According to the proviso to sub-section (2) of Section 29A of the

National Housing Bank Act, 1987, “a housing finance institution which is a company in existence on the commencement of the National Housing Bank (Amendment) Act, 2000, shall make an application for registration to the NHB before the expiry of six months from such commencement and notwithstanding anything contained in sub-section (1), may continue to carry on the business of housing finance institution until a certificate of registration is issued to it or rejection of application for registration is communicated to it”.

2.61 According to sub-section (3) of Section 29A of the National Housing Bank Act, 1987, “notwithstanding anything contained in sub-section (1), a housing finance institution which is a company in existence on the commencement of the National Housing Bank (Amendment) Act, 2000, and having a net owned fund of less than twenty five lakh rupees, may, for the purpose of enabling such institution to fulfil the requirement of the net owned fund, continue to carry on the business of a housing finance institution -

- (i) for a period of three years from such commencement; or
- (ii) for such further period as the National Housing Bank may, after recording the reasons in writing for so doing, extend,

subject to the conditions that such institution shall, within three months of fulfilling requirement of the net owned fund, inform the National Housing Bank about such fulfilment.

Provided that the period allowed to continue business under this sub-section shall in no case exceed six years in the aggregate.”

CANCELLATION OF CERTIFICATE OF REGISTRATION

2.62 According to the provisions of section 29A(6) of the National Housing Bank Act, 1987, NHB may cancel a certificate of registration granted to an HFC, if such HFC-

- (i) ceases to carry on business of an HFC in India; or
- (ii) fails to comply with any condition subject to which the certificate of registration has been issued; or
- (iii) at any time fails to be in such a position as to pay its present or future depositors in full as and when their claims accrue; or

- (iv) conducts its affairs in such a manner detrimental to the interest of its present or future depositors; or
- (v) the general character of the management or the proposed management of the HFC becomes prejudicial to the public interest or the interest of its depositors; or
- (vi) the HFC has inadequate capital structure and earning prospects; or
- (vii) the public interest is not served by the grant of certificate of registration to the HFC to commence or to carry on the business in India; or
- (viii) the grant of certificate of registration is prejudicial to the operation and growth of housing finance sector in India; or
- (ix) does not fulfill any other condition which in the opinion of NHB is necessary to ensure the business of HFCs is not prejudicial to the public interest or the interest of the depositors; or
- (x) fails to comply with any directions issued by NHB; or
- (xi) fails to maintain accounts in accordance with the requirement of any law or any direction or order issued by NHB; or
- (xii) fails to submit or offer for inspection its books of account and other relevant documents when so demanded by an inspecting authority of NHB; or
- (xiii) has been prohibited from accepting deposit by an order by the NHB and such order has been in force for a period of not less than three months;

An HFC aggrieved by an order or rejection of application for registration or cancellation of certificate of registration may prefer an appeal, within a period of thirty days from the date on which such order of rejection or cancellation is communicated to it, to the Central Government and the decision of the Central Government shall be final.

APPLICATION FOR WINDING UP OF AN HFC BY NHB

2.63 According to the provisions of section 33B of the National Housing Bank Act, 1987, NHB on being satisfied that an HFC –

- (i) is unable to pay its debt (An HFC is deemed to be unable to pay its debt if it has refused or has failed to meet within five working days any lawful demand made at any of its offices or branches and NHB certifies in writing that such company is unable to pay its debt); or
- (ii) has, by virtue of the provisions of section 29A, become disqualified to carry on the business of HFC; or
- (iii) has been prohibited by NHB from receiving deposit by an order which has been in force for a period of not less than three months; or
- (iv) the continuance of the HFC is detrimental to the public interest or the interest of the depositors of the company

may file an application for winding up of such an HFC under the Companies Act, 1956. A copy of every application made by NHB is required to be sent to the Registrar of Companies.

MAINTENANCE OF A MINIMUM PERCENTAGE OF LIQUID ASSETS

2.64 NHB has stipulated in sub-section (1) of Section 29B of the National Housing Bank Act, 1987 that “every housing finance institution shall invest and continue to invest in India in unencumbered approved securities, valued at a price not exceeding the current market price of such securities, an amount which, at the close of business on any day, shall not be less than five percent or such higher percentage not exceeding twenty five per cent, as NHB may, from time to time and by notification, specify, of the deposits outstanding at the close of business on the last working day of the second preceding quarter.”

2.65 According to sub-paragraph (1) of paragraph 14 of the Housing Finance Companies (NHB) Directions, 2001, every HFC shall entrust these securities to one of the scheduled commercial banks designated by it on that behalf, in the place where the registered office of the HFC is situated. Provided that where an HFC intends to entrust these securities to the Stock Holding Corporation of India Ltd., or to its designated banker at a place other than the place at which its registered office is located or to keep them in the form of Constituent’s Subsidiary General Ledger

Account with a scheduled commercial bank or with a depository participant registered with Securities and Exchange Board of India under Securities and Exchange Board of India Act, 1992 (15 of 1992), it shall obtain the prior approval of the NHB in writing. Further, according to sub-paragraph 2 of paragraph 14 of the said Directions, afore mentioned securities shall continue to be entrusted to such designated banker or to the Stock Holding Corporation of India Ltd. or the depository participant or held in the constituent's subsidiary General Ledger Account with the scheduled commercial bank for the benefit of the depositors and shall not be withdrawn or encashed or otherwise be dealt with by the HFC except for repayment to the depositors. However, an HFC shall be entitled to withdraw a portion of such securities proportionate to the reduction of its deposits duly certified to that effect by its auditors. The HFC may substitute such securities by entrusting substitute securities of equal value to the designated bank before such withdrawal.

2.66 According to sub-section (2) of Section 29B of the National Housing Bank Act, 1987, "every housing finance institution shall maintain in India in an account with a scheduled bank in term deposits or certificate of deposits (free of charge or lien) or in deposits with the NHB or by way of subscription to the bonds issued by the NHB, or partly in such an account or in such deposit or partly by way of such subscription, a sum which, at the close of business on any day, together with the investment made under sub-section (1) shall not be less than ten percent or such higher percentage not exceeding twenty five per cent, as the NHB may, from time to time and by notification specify, of the deposits outstanding in the books of the housing finance institution at the close of business on the last working day of the second preceding quarter." If the amount invested by an HFC at the close of business on any day is less than the rate specified under sub-section (1) or sub-section (2) of section 29B of the National Housing Bank Act, 1987, as mentioned above, it shall be liable to pay to the NHB, in respect of such shortfall, a penal interest in terms of requirements of sub-sections (4) and (5) of Section 29 B of the National Housing Bank Act, 1987.

2.67 NHB has, vide its notification no. NHB.HFC.LA-1/CMD-2001 dated 27th September, 2001, provided that the provisions of sub-section (1) and (2) of section 29B of the National Housing Bank Act, 1987 shall not apply to an HFC, subject to the conditions that:

- (i) Every HFC shall invest and continue to invest in India in

unencumbered approved securities, valued at a price not exceeding the current market price of such securities, an amount which, at the close of business on any day, shall not be less than six percent of the public deposits outstanding at the close of business on the last working day of the second preceding quarter.

- (ii) Every HFC shall maintain in India in an account with a scheduled bank in term deposits or certificate of deposits (free of charge or lien) or in deposits with the NHB or by way of subscription to the bonds issued by NHB, or partly in such an account or in such deposit or partly by way of such subscription, a sum which, at the close of business on any day, together with the investment made as specified in clause (1) shall not be less than twelve and a half percent of the public deposits outstanding at the close of business on the last working day of the second preceding quarter.

All other provisions of section 29 B of the National Housing Bank Act, 1987 shall mutatis mutandis be applicable to the above requirement as if the expression “ public deposit” is the same as the expression “deposit” as contemplated under the said provision.

2.68 In accordance with the provisions of sub-section (3) of Section 29B of the National Housing Bank Act, 1987 and paragraph 39(1) of the Housing Finance Companies (NHB) Directions, 2001, NHB has stipulated that a return on Statutory Liquid Assets for the Quarter ended March/June/September/December be submitted in Schedule III within fifteen days from the last day of the respective quarter.

CREATION OF A RESERVE

2.69 In accordance with the provisions of sub-section (1) of section 29C of the National Housing Bank Act, 1987, every HFC shall create a reserve fund and transfer therein a sum not less than twenty per cent of its net profit every year as disclosed in the profit and loss account and before any dividend is declared. An HFC creating and maintaining any special reserve in terms of clause (viii) of sub-section (1) of section 36 of the Income-tax Act, 1961, may take into account any sum transferred by it for the year to such special reserve for the purpose of calculation of the above-mentioned limit of twenty per cent.

2.70 According to sub-section (2) of section 29C of the National Housing Bank Act, 1987, no appropriation of any sum from the reserve fund

including any sum in the special reserve which has been taken into account for the purposes of reserve fund in terms of sub-section (1) of section 29C (mentioned above), shall be made by the HFC except for the purpose as may be specified by the NHB from time to time and every such appropriation shall be reported to the NHB within twenty one days from the date of such withdrawal. Provided that the NHB may, in any particular case and for sufficient cause being shown, extend the period of twenty-one days by such further period as it thinks fit or condone any delay in making such report. NHB, vide Circular No. NHB(ND)/DRP/Po1-No.03/2004-05 has permitted the Housing Finance Companies (HFCs), with effect from the financial year 2004-05, to withdraw from the said reserve fund, the excess amount credited (in excess of the statutory minimum of 20%) in the previous years for any business purposes subject to suitable disclosure in the balance sheet and in the case of HFCs which have transferred only the statutory minimum in the previous years to selectively permit them to withdraw from the reserve fund only for the purpose of provisioning for non-performing assets subject to the conditions that there is no debit balance in the profit and loss account and that the reason for such withdrawal are stated explicitly in the balance sheet. In the latter case, prior permission of NHB needs to be obtained before appropriation. If any such appropriation made is not informed to NHB as per the provisions of the National Housing Bank Act, 1987, it would be construed as a violation of the regulatory provisions and appropriate penalty would be leviable for such contravention.

2.71 According to sub-section (3) of Section 29C of the National Housing Bank Act, 1987, the Central Government may, on the recommendation of the NHB and having regard to the adequacy of the paid-up capital and reserves of an HFC in relation to its deposit liabilities, declare by order in writing that the provisions of sub-section (1) of section 29C shall not be applicable to such HFC for such period as may be specified in the order. Further, provided that no such order shall be made unless the amount in the reserve fund under sub-section (1), together with the amount in the share premium account, is not less than the paid-up capital of the HFC.

REQUIREMENT AS TO CAPITAL ADEQUACY

2.72 The Prudential Norms for capital adequacy in HFCs have been stipulated in paragraph 26 of the Housing Finance Companies (NHB) Directions, 2001. These norms are reproduced in Appendix 2.

RESTRICTIONS ON EXPOSURE TO CAPITAL MARKET, INVESTMENT IN REAL ESTATE AND ENGAGEMENT OF BROKERS

2.73 The Prudential Norms for restrictions on exposure to capital market, investment in real estate and engagement of brokers to deal in investment transactions are stipulated in paragraph 27 of the Housing Finance Companies (NHB) Directions, 2001. These have been reproduced in Appendix 2.

CONSTITUTION OF AUDIT COMMITTEE

2.74 NHB has stipulated vide paragraph 35 of the Housing Finance Companies (NHB) Directions, 2001, that an HFC having assets of Rs. 50 crore and above as per its last audited balance sheet shall constitute an Audit Committee consisting of not less than three non-executive Directors of the Board. The audit committee shall have the same powers, functions and duties as laid down in section 292A of the Companies Act, 1956.

AUDITED ACCOUNTS

2.75 According to paragraph 37 of the Housing Finance Companies (NHB) Directions, 2001, every HFC shall submit to the NHB its audited balance sheet as on the last date of each financial year and audited profit and loss account in respect of that year as passed by the HFC in General Meeting, together with a copy of the report of the Board of Directors laid before the HFC in such meeting in terms of section 217(1) of the Companies Act, 1956, and a copy of the report and the notes on accounts furnished by its auditors, within 15 days of the general meeting in which they are passed.

RETURNS TO BE SUBMITTED TO NHB

2.76 NHB has also directed every HFC in sub-paragraph (1) of paragraph 39 of the Housing Finance Companies (NHB) Directions, 2001, to furnish the following returns to the office of NHB at New Delhi:

- An annual return furnishing the information specified in Schedule I to The Housing Finance Companies (NHB) Directions, 2001, with reference to its position as on 31st March every year.

- A half yearly return furnishing the information specified in Schedule II to the Housing Finance Companies (NHB) Directions, 2001, with reference to its position as on 30th September and 31st March every year.
- A quarterly return furnishing the information specified in Schedule III to the Directions with reference to its position as at the end of every calendar quarter.

PENALTIES

2.77 Penalties are imposed on HFCs in accordance with the provisions of section 49 to section 52A of the National Housing Bank Act, 1987. Important provisions of these sections relating to penalties are given in Appendix 6.

Accounting Aspects

3.1 This Chapter deals with the books of account to be maintained by a Housing Finance Company and the peculiar accounting aspects relevant to the Housing Finance Companies, particularly, in the context of the Accounting Standards issued by the Institute of Chartered Accountants of India and the Prudential Norms laid down by the National Housing Bank.

BOOKS OF ACCOUNT TO BE MAINTAINED BY A HOUSING FINANCE COMPANY

3.2 Since the Housing Finance Companies are the companies registered under the Companies Act, 1956, books of account and other records, as required by section 209 of the Companies Act, 1956, have to be maintained. The following sections deal with the books and registers ordinarily maintained by an HFC.

BOOKS AND REGISTERS MAINTAINED FOR LENDING OPERATIONS

3.3 The following books and registers are normally maintained for lending operations by a Housing Finance Company:

- (a) **Inquiry Register:** Inquiries for loans are received by an HFC either by telephone or by post or during personal visits of the interested parties. Record of all the inquiries is maintained in the Inquiry Register with contact numbers of all the parties so that proper follow-up can be made.
- (b) **Processing Fee Register:** Record of the processing fee received from all the borrowers is maintained in this register.
- (c) **Rejection of Application Register:** Record of all the applications for loans which have been rejected, along with reasons for rejection, is maintained in this register.
- (d) **Administrative & Other Fee Register:** Record of the

administrative, legal, technical and other fees received from all the borrowers is maintained in this register.

- (e) **Disbursement Register:** Date-wise record of disbursement of various loans is maintained in this register.
- (f) **Housing Loans Ledger:** All the transactions together with basic terms and conditions of the housing loans, i.e., amount disbursed, tenure of the loan, PEMIIs, EMIs, etc., are recorded in the housing loan ledger accounts. Separate ledgers are maintained for different types of loans described in Chapter 2.
- (g) **Consumer Loan Ledger:** All the transactions together with basic terms and conditions of the consumer loans, i.e., amount disbursed, tenure of the loan, EMIs, etc., are recorded in the consumer loan ledger accounts.
- (h) **NRI Loan Ledger:** All the transactions together with basic terms and conditions of the NRI loans, i.e., the amount disbursed, tenure of the loan, PEMIIs, EMIs, etc., are recorded in the NRI loan ledger accounts.
- (i) **Post-dated Cheques Register:** Details of all post-dated cheques received for EMIs, along with month-wise due dates of deposit in the bank, are recorded in this register.
- (j) **Sundry Debtors, Pre-Equated Monthly Instalment Interest (PEMII) Account:** PEMII when it becomes due is recorded in this account.
- (k) **Sundry Debtors, Equated Monthly Instalment (EMI) Account:** EMI is recorded in the Sundry Debtors EMI Account when it becomes due.
- (l) **Penal Interest Collection Register:** All penal charges on account of delay in payment of EMI and PEMII are recorded in this register.
- (m) **Daily Collection Register:** All receipts of cash/cheque in connection with various loan transactions are recorded in the Daily Collection Register. Entries in this register are tallied with EMI/PEMII/other pay-in-slips and the cash/cheque receipt books.

- (n) **Cheques Returned Register:** Record of all cheques that have bounced when they were presented for payment is maintained in this register.
- (o) **Docket Master Register:** A 'docket' is the cover meant for keeping all the important legal, technical and other loan related security documents signifying the mortgage on the property against the loan to the borrower. The docket must be kept in fireproof storage over the period of the loan. Record of all dockets stored is maintained in the Docket Master Register.
- (p) **Docket Movement Register:** In this register, the movement of papers from a particular docket is noted. For example, if some papers are removed from a particular docket, then an entry is made in this register to record the papers taken out from the docket together with the date of taking these papers out. When the papers are put back in the docket, then once again an entry is made to record the date on which such papers are kept back in the file.
- (q) **Register of Title Deeds:** Details of all title deeds deposited with the HFC for creation of mortgage are recorded in this register.
- (r) **Insurance Register:** Particulars relating to insurance of property mortgaged for the loan are recorded in the Insurance Register, e.g., date of insurance, amount for which property is insured, particulars of property registered and date of expiry of insurance, etc.
- (s) **Life Insurance Assignment Register:** Record of all the life insurance policies assigned to the HFC is maintained in the Life Insurance Assignment Register.
- (t) **Life Insurance Survival Benefit Register:** Any amount received from Life Insurance Corporation on account of the life insurance policies assigned to the HFC is recorded in the Life Insurance Survival Benefit Register.
- (u) **Collateral Securities Register:** Record of the collateral securities received for a loan such as National Savings Certificates, fixed deposits, etc., is maintained in this register.

- (v) **Limitation Diary:** A diary is maintained to monitor the period of limitation so that no loan gets time barred by the law of limitation.
- (w) **NPA Ledgers:** Once an account has been identified as a non-performing asset (NPA), it is transferred to the NPA ledger.
- (x) **Unrealised Interest on NPA Ledger:** In terms of subparagraph (2) of paragraph 19 of the Housing Finance Companies (NHB) Directions, 2001, interest on non-performing accounts shall be charged on receipt basis. Therefore, a separate ledger is maintained for the unrealised interest on NPA accounts to know the total outstanding on the NPA accounts at any point of time.
- (y) **Suit-filed Accounts Register:** A separate register is maintained for suit-filed accounts with details of the progress of each case.

BOOKS AND REGISTERS MAINTAINED FOR ACCEPTANCE OF DEPOSITS

3.4 The following books and registers are normally maintained by an HFC for acceptance of deposits:

- (a) **Register of Deposits:** Register of all the deposits is maintained giving details of the names and addresses of the depositors or joint depositors and their nominees, date, amount, duration of each deposit, details of accrued interest, details of form for non-deduction of tax at source from interest on deposit, details of repayment made to the depositor along with any other relevant particulars. In case there is a delay in repayment beyond five working days, the reason for the delay is also to be mentioned.
- (b) **Deposits Ledgers:** All transactions in a deposit account, for example, amount deposited, tenure of the deposit, interest accrued, interest paid, etc., are recorded in the deposit ledger accounts. Separate ledgers are maintained for different types of deposits.
- (c) **Brokerage Register:** A separate register for recording brokerage on public deposits collected by or through brokers is maintained, giving full details of amount of deposits collected through brokers, brokerage due and date-wise payment to different brokers.

- (d) **Daily Collection Register (Deposits):** All receipts of cash/cheques on account of deposit transactions are to be recorded in the Daily Collection Register. This register is tallied with all the pay-in-slips and the cash/cheque receipt books.
- (e) **Post-dated Cheques Register (Deposits):** Entries of all post-dated cheques of interest issued to the depositors are recorded in the Post-dated Cheques Register together with the date of clearance of the respective cheques.
- (f) **Premature Closure of Deposits Register:** Record of all the deposits, which are closed prematurely, is maintained in this register. Details of post-dated cheques received back from the depositors and details of tax deducted at source from interest paid on premature withdrawals is also recorded in this register.
- (g) **Deposit Renewal Register:** Record of all the deposits, which are renewed, is maintained in this register.

OTHER BOOKS AND REGISTERS

3.5 Apart from the books and registers as dealt with in paragraphs 3.3 and 3.4, the following other books and registers are normally maintained by an HFC:

- (a) **NHB Refinance Register:** Separate record is maintained of all the loans, which are eligible for refinance from the NHB, along with date-wise details of refinance availed of from the NHB.
- (b) **Register of Returns Submitted to NHB:** Date-wise record of submission of all quarterly, half-yearly and annual returns and other information as required by NHB from time to time is maintained in this register.
- (c) **Register of Inter-branch Transactions:** Separate record is maintained for the inter-branch transactions. These transactions may arise as a consequence of transfer of housing loan on the request of the borrower and are in the form of transfer of EMIs, deposits, tax deducted at source from interest, etc.
- (d) **Ancillary Services Register:** Separate record is maintained for the income received from various property services such as buying/selling of residential/commercial property and land, investment guidance, marketing of new housing projects, etc.

3.6. In addition to the books and registers discussed in paragraphs 3.3 to 3.5, an HFC normally maintains the following books of account and records, which are similar to those maintained by any other company:

- General ledger
- Day books such as cash book, bank book, purchases register, and expenses register
- Journal
- Stock register (Stock of stamps, securities and stationery)
- Payroll summaries
- Fixed assets register
- Creditors ledger
- Securities movement register

3.7 The services of lending and acceptance of deposits are generally rendered through various branches of an HFC. An HFC may have branches spread all over India or over a particular region or a particular territory. Thus, accounting assumes primary importance to control and coordinate the transactions of all the branches of an HFC. The accounting system may be centralised or decentralised. Since the accounting systems are normally computerised, proper back-up should be maintained and printouts of all the account books and registers should be obtained on a regular basis.

APPLICABILITY OF ACCOUNTING STANDARDS TO HOUSING FINANCE COMPANIES

3.8 Paragraph 21 of the Housing Finance Companies (NHB) Directions, 2001, specifically lays down that Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India shall be followed insofar as they are not inconsistent with any of the said Directions. Further, since the HFCs are companies incorporated under the Companies Act, 1956, they are required to comply with the Accounting Standards by virtue of sub-section (3A) of section 211 of the Companies Act, 1956. Sub-section (3B) of section 211 of the Act requires that where the Profit and Loss Account and Balance Sheet of a company do not comply with the Accounting Standards, the company shall disclose in its Profit and Loss Account and Balance Sheet the fact of such deviation, the reason

therefor and the financial effect, if any, arising due to such deviation. Further, section 227(3)(d) requires the auditor to state whether Profit and Loss Account and Balance Sheet comply with Accounting Standards referred to in sub-section (3C) of section 211. Sub-section (3C) of section 211 provides that for the purposes of this section, the expression 'accounting standards' means the standards of accounting recommended by the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949, as may be prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards established under sub-section (1) of section 210A. Proviso to sub-section (3C) of the section provides that standards of accounting specified by the Institute of Chartered Accountants of India shall be deemed to be the Accounting Standards until the Accounting Standards are prescribed by the Central Government under this sub-section. As of January 1, 2005, the Central Government has not prescribed any Accounting Standard under this sub-section.

3.9 As of January 1, 2005, the Institute of Chartered Accountants of India has issued 29 Accounting Standards. The details of their mandatory status and the applicability of the individual Accounting Standards, as of January 1, 2005, is given in Appendix 7.

3.10 Although all Accounting Standards are applicable to an HFC, yet some of the Standards may not be relevant keeping in view its nature of the business. For example, Accounting Standard (AS) 2, Valuation of Inventories, and Accounting Standard (AS) 7, Construction Contracts, would not be relevant to an HFC since it would not normally have inventories and construction contracts as envisaged in the respective standards. Similarly, Accounting Standard (AS) 12, Accounting for Government Grants, would not be relevant to an HFC since normally such a business would not be receiving any government grant. However, certain Accounting Standards may be relevant in case of specific situations, for example, Accounting Standard (AS) 14, Accounting for Amalgamations.

ACCOUNTING ISSUES PECULIAR TO A HOUSING FINANCE COMPANY

INCOME FROM INTEREST

3.11 According to Accounting Standard (AS) 9, Revenue Recognition,

issued by the Institute of Chartered Accountants of India, interest should be recognised on a time proportion basis taking into account the amount outstanding and the rate applicable [paragraph 13(i)]. In view of this, the interest included in the Equated Monthly Instalments (EMIs) should be recognised as income on a time proportion basis, i.e., monthly, taking into account the amount outstanding and the rate applicable. Similarly, if the instalments are receivable quarterly, the interest included in the quarterly instalments should be recognised as income on a time proportion basis, i.e., quarterly. On the same basis, the Pre-equated Monthly Instalment Interest (PEMII), which is the interest charged on partly disbursed loan upto the date of commencement of EMI (generally applicable where the loan is sanctioned on the property under construction and HFC makes disbursement of the loan in instalments), should be recognised as income on a time proportion basis say monthly or quarterly taking into account the amount outstanding and the rate applicable.

3.12 According to paragraph 13 of AS 9, revenue arising from interest should be recognised, inter alia, when no significant uncertainty as to collectability exists. Thus, in a situation where significant uncertainty of collectability exists, interest income should not be recognised as per the principles laid down in AS 9. The Housing Finance Companies (NHB) Directions, 2001, have prescribed norms in sub-paragraphs (2), (3) and (4) of paragraph 19, for income recognition in respect of non-performing assets. The said Directions have laid down objective criteria as to when significant uncertainty related to collectability arises in respect of various kinds of loans and other credit facilities, to classify them into different categories such as standard assets, sub-standard assets, doubtful assets and loss assets (reference may be made to clauses (z), (za), (h) and (p) respectively of sub-paragraph (1) of paragraph 2 of the Directions reproduced in Appendix 2). In case of sub-standard, doubtful and loss assets, interest is recognised on realisation basis. Any interest income recognised before the asset became non-performing and remaining unrealised when the asset becomes non-performing is required to be reversed, as per the Directions. Such interest, including the penal interest, which becomes a part of the principal of a re-scheduled loan, should not be recognised as income when it is re-scheduled.

LOAN ORIGINATION FEES

3.13 These are the fees charged to the borrower in connection with the

process of originating, refinancing, and restructuring of a loan (including rescheduling and conversion of a fixed rate interest loan to a floating rate interest loan and vice versa). This term includes but is not limited to fees for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other securities arrangements, negotiating the terms of the loan, preparing and processing documents, physical inspection of site, legal verification of property documents and administration of the loan.

3.14 Keeping in view the nature of activities involved, the loan origination cannot be considered as a separate revenue producing activity of an HFC. Originating a loan is also not a separate service to the borrower. Efforts of the HFC to conclude that the borrower is financially able to repay the loan and that the HFC has satisfactory remedies in the event of default are for the benefit of the HFC rather than the borrower. The origination fees do not represent reimbursement of the costs to the HFC since the HFC does not incur the same on behalf of the borrower.

3.15 In view of the nature of the activities of origination of loan, as discussed in the above paragraph, and the fact that these fees are an integral part of generating an on-going involvement with the resultant loan, the origination fees and the relevant direct costs, should be deferred and recognised as income over the period of loan on a systematic and rational basis subject to consideration of materiality. Direct costs to originate a loan are the costs that (a) result directly from and/or essential to the lending transaction and (b) would not have been incurred by the HFC had that lending transaction not occurred. Where the amounts involved are not material, such fees and costs can be recognised when received/incurred with separate disclosures of the same in the profit and loss account.

COMMITMENT FEES

3.16 Commitment fee is the fee charged as a percentage of sanctioned amount of loan, collected from the borrower whose loan amount is ready for disbursement but the borrower intends to take the same at a later date. In other words, these are charges for not availing the funds immediately, committed to the borrower. However, the realisation of these charges are confirmed only when the proposed borrower approaches to obtain the disbursement, which event is uncertain at the balance sheet date and is not within the control of the HFC. Commitment fee is, therefore,

a contingent asset. According to AS 29, Provisions, Contingent Assets and Contingent Liabilities, “contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate”. Therefore, if at the balance sheet date commitment fee is recoverable and it is virtually certain that it will be realised, for example, where the borrower has given a letter to the HFC to transfer the loan amount to his account on a specific date after the balance sheet, it may be recognised as income at the balance sheet date on accrual basis.

CHARGES RECEIVED ON EARLY REPAYMENT OF LOANS

3.17 Where the borrower closes his loan account by making full payment of outstanding amount, the interest is calculated till the date of the closure of the loan. Prepayment charges received are recognised in the profit and loss account of the period in which the prepayment is made.

PREMATURE CLOSURE OF DEPOSITS

3.18 A depositor may, after placing the deposit for a specified period, request for premature closure of deposit. Interest is to be paid on these deposits in accordance with the rates prescribed in paragraph 12(ii) of the Housing Finance Companies (NHB) Directions, 2001. Any interest paid earlier on such deposits, in excess of the rates specified in the aforesaid paragraph of the Directions, is recovered/adjusted and recognised in the profit and loss account of the year in which the premature closure is made. If brokerage has been paid on these deposits and is recoverable on the balance sheet date, it is recognised in the profit and loss account if it is reasonably certain that it will be realised.

ASSET CLASSIFICATION AND PROVISIONING

3.19 According to sub-paragraph (1) of paragraph 23 of the Housing Finance Companies (NHB) Directions, 2001, an HFC has to, after taking into account the degree of well-defined credit weaknesses and extent of dependence on collateral security for realisation, classify its lease/hire purchase assets, loans and advances and other forms of credit into standard assets, sub-standard assets, doubtful assets and loss assets. The provision to be made against the aforesaid classes of assets has been prescribed in paragraph 24 of the Directions. Reference in this regard may be made to Appendix 2.

RECOGNITION OF INCOME IN RESPECT OF LEASED ASSETS

3.20 With regard to the leased assets, it is noted that the relevant Directions issued by the National Housing Bank are based on the Guidance Note on Accounting for Leases, issued by the Institute of Chartered Accountants of India, as is evident from paragraph 19(4) of the Directions read with the Explanation thereto as reproduced below:

“In respect of lease assets, where lease rentals are overdue for more than twelve months, the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.

Explanation: For the purpose of this paragraph, ‘net lease rentals’ mean gross lease rentals as adjusted by the lease adjustment account debited/credited to the profit and loss account and as reduced by depreciation at the rate applicable under Schedule XIV to the Companies Act, 1956.”

3.21 It may be noted that the Institute of Chartered Accountants of India has issued Accounting Standard (AS) 19, ‘Leases’, which has come into effect in respect of all assets leased during accounting periods commencing on or after 1.4.2001 and is mandatory in nature from that date. Accordingly, the Guidance Note on Accounting for Leases issued by the Institute in 1995 is not applicable in respect of such assets. It may also be noted that ‘net lease rentals’, as defined in the Explanation to paragraph 19(4) of the Directions, is in substance ‘finance income’ as stipulated in AS 19. Since the Directions also require that the Accounting Standards issued by the Institute of Chartered Accountants of India should be followed to the extent they are not inconsistent with the Directions, the adoption of AS 19 in its entirety and reversing the finance income as prescribed in paragraph 19(4) of the Directions would not be inconsistent with the Directions.

ACCOUNTING FOR SECURITISATION OF HOUSING LOAN

3.22 Of late, securitisation of the housing loan is emerging as an important source of finance for housing finance companies. With regard to accounting for securitised loans, reference may be made to the Guidance Note on Accounting for Securitisation, issued by the Institute of Chartered Accountants of India.

Internal Control Aspects

4.1 According to Auditing and Assurance Standard (AAS) 6, 'Risk Assessments and Internal Control', issued by the Institute of Chartered Accountants of India, 'Internal Control System' means all the policies and procedures (internal controls) adopted by the management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the orderly and efficient conduct of its business, including adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

4.2 The main components of internal control system are:

- (a) "the control environment" which means the overall attitude, awareness and actions of the management regarding the internal control system and its importance in the entity. The control environment has an effect on the effectiveness of the specific control procedures and provides the background against which other controls are operated.
- (b) "control procedures" which means those policies and procedures which management has established to achieve the entity's specific objectives.

4.3 One of the basic principles of internal control is that various systems/ procedures are designed in a manner that no single person in the organisation is able to control any activity from the beginning to the end. On the contrary, the work of one employee is made complementary to that of another in a way that work of one gets verified automatically by that of another. The regularity and independence by which deviations/ exceptions from the policies and procedures get reported is the test of any internal control system.

4.4 The system of internal control must be under continuing supervision by management to determine that it is functioning as prescribed and is modified, as appropriate, for changes in conditions. The internal control

system extends beyond those matters which relate directly to the functions of the accounting system.

4.5 The management of the HFC is responsible for designing and implementing various internal control procedures, which are appropriate for the size and nature of the business. The management lays down well-defined policies and procedures regarding functioning of its business operations such as granting and recovery of loans and deposits.

CONTROL ASPECTS OF DIFFERENT TYPES OF OPERATIONS OF AN HFC

4.6 The control aspects having a direct bearing on the leakage of revenue and on the safeguarding of assets in an HFC are discussed below. It may be noted that only general aspects are discussed, since the actual internal controls may differ between different enterprises.

LOAN OPERATIONS

4.7 Generally, an HFC has various branches, which disburse loans. Internal control is exercised over all the transactions related to loans as discussed hereinafter.

Application forms

4.8 The application forms for loans submitted by the prospective borrower together with requisite supporting documents are scrutinised by an officer of the HFC to ensure that the forms are completely filled-up and signed and information provided therein is supported by the authenticated documents for verification, for example, annual income is supported by the latest income tax return, address is supported by the proof of the address, such as, ration card, electricity bill, etc. Details of the application forms are entered in the applications register together with supporting documents received along with the shortcomings, if any.

Loan origination fees

4.9 Periodic statements of loanwise details of origination fees, for example, processing, administrative, technical, legal and any other fees due together with respective collections made, are prepared for exercising control over collection of various fees from the borrowers and in case of a branch, a copy of the same is also sent to the head office.

Sanctioning powers

4.10 The loans are sanctioned by different authorities depending upon their sanctioning powers. For example, a branch manager of a particular branch may have sanctioning powers upto Rs. 3,00,000/-, i.e., he will have authority to sanction loans upto Rs. 3,00,000/- subject to other conditions. Ordinarily, an adequate internal control system exists to ensure that the branch manager has used the sanctioning powers judiciously and in the interest of the HFC. For this purpose, the head office may receive a periodic report, say monthly, from the branch office giving details of loans sanctioned by the branch during the reporting period. From these details, the head office can check whether the loans sanctioned are within the powers of the branch manager. In addition to this, the percentage of non-performing assets in the branch are observed closely and if the percentage is high as compared to the average percentage of non-performing assets in other branches of the HFC, the loans sanctioned by the branch manager are further scrutinised. In case the branch manager is on leave and any loans are sanctioned in his absence, such sanctions are reported to the head office immediately. The branch manager, on coming back from the leave, would also check/verify the loans sanctioned in his absence.

Credit/Legal and Technical Appraisal

4.11 In case of a branch, evaluation report of the loan proposal is generally rechecked at the head office level to ensure that the appraisal has been made in a judicious manner. Further, it is verified that the loan proposal is well covered by the value of the property as per the valuation certificate from the authorised valuer on the panel of the HFC. It is ensured that Legal Scrutiny Report is prepared by an advocate on the panel of the HFC and all the documents called for by the advocate are collected. It is also seen that no loan is sanctioned wherein the Legal Scrutiny Report is qualified. Also, list of all documents obtained and documents pending is compared with the list of documents required. Prior to the final sanction of the loan, it is ensured that pending documents are received. Calculation of margin, Internal Rate of Return (IRR) and Income Instalment Ratio (IIR) is also checked. These terms are defined in the Glossary given in this Technical Guide.

Banking of post-dated EMI cheques

4.12 Timely deposit of post-dated EMI cheques is one of the most

important areas of internal control system. The concerned officer ensures that the vouchers for depositing post-dated cheques are dated on the date of actual deposit in the bank and not on the date of the post-dated cheques. A close check is also kept on the immediate reversal of bounced cheques in the books of account. A monthly statement of post-dated EMI cheques, mentioning the due dates of deposits, actual dates of deposits, cheques bounced and dates of reversal of bounced cheques is prepared and presented for management appraisal to exercise control on proper banking of post-dated EMI cheques.

Collection of non post-dated EMI cheques

4.13 Generally, post-dated cheques are received for the average tenure of the loan. In cases where post-dated cheques have not been received or where the post-dated cheques received have already been deposited and there are no post-dated cheques for the remaining period of the loan, timely collection of EMI cheques becomes a very important exercise. The internal control system for detecting leakage of revenue on account of non-collection of cheques and the timely reporting of the same becomes very important. A monthly statement for such collections is prepared giving details of loanwise collections due, collection of cheques made and deposit of cheques for the period for which no post-dated cheques are received, together with a separate mention of the bounced cheques and reversal of the same in the books of account.

Cash collections in rural areas

4.14 Due to the absence of a proper banking system in rural areas, EMIs are often collected in cash. Cash may be collected at the branch office, if any, when the borrower or the representative of the borrower visits the branch for payment on due dates or at the camps organised by the HFC or from the contact place of the borrowers. The HFC usually organises collection camps whereby a team goes personally to collect the monthly dues. Since this involves physical handling of cash, due diligence, care and responsibility is of utmost necessity. All the steps from the point of collection of money, issuance of receipt, detailing the break-up of collection, deposit of cash in the bank and reporting of the same to the head office are observed carefully. A monthly reconciliation of area-wise collections due from rural areas with the collections actually made by cheque/ cash together with details of deposit of cash in bank/remittance to the head office is prepared to keep a close check on the cash collections in rural areas. An officer from the head office may visit the rural branches

periodically to verify the cash collections. Cash collections are verified with the receipts issued to the borrower. Serial numbers of receipt books are checked to ensure that no receipt is missing. Confirmation of balances in loan accounts is obtained from the local borrowers personally and the same are verified with the book balances; discrepancies, if any, are checked and reported separately to the management.

Reconciliation of Institutional loans

4.15 Where housing loans are sanctioned under the Line-Of-Credit (L.O.C) scheme, a mandate is taken from the company/institution that EMIs (which are due from the employees availing the credit facility) will be recovered from the company/institution. In such a case, sometimes, a consolidated amount is remitted by the company/institution without a detailed list of employee-wise break-up on whose behalf the EMI is remitted. A reconciliation of the employee-wise collections from such company/institution with the amounts due from such individuals is made in order to exercise control over the collections from employees of the company under the said scheme. Further, at the end of the year, confirmations are obtained to reconcile differences, if any.

Collections by Registrars and Other agents

4.16 In case the collection of EMIs is entrusted to outside agencies such as the registrars, a periodical statement of collections made by the registrar and remittances made to the HFC after adjustment of any fee/commission, is received from the registrar. The said statement is reconciled with the books of account of the HFC and differences, if any, are cleared.

Insurance for cash-in-transit

4.17 An insurance policy for cash-in-transit covers the risk of loss of cash-in-transit. A special policy is taken to cover the risk of cash collection by outside agencies such as the registrars. The policy is taken to cover the risks related to various stages of collection starting from collection from the borrower till the time of its deposit in the bank.

Identification of overdues

4.18 Every month, a list of overdue payments may be prepared. This list specifying the delays in payment along with age-wise analysis of arrears helps in timely recovery of overdues, in identifying non-performing assets

as per the requirements of the Housing Finance Companies, (NHB) Directions, 2001, and making extra efforts for recovery from such accounts, for example, appointment of additional recovery staff.

Identification/transfer/provisioning of non-performing assets

4.19 Once an asset has been identified and declared as non-performing, provisioning in this regard has to be made as per the provisioning requirements stipulated in paragraph 24 of the Housing Finance Companies (NHB) Directions, 2001. A separate register for non-performing assets is prepared together with separate details of the principal due and the interest due. It is also ensured that income including interest/discount or any other charges on non-performing assets are recognised only when actually realised. All the efforts for recovery and the resultant recovery are noted in the said register which is presented for management appraisal periodically.

Legal Proceedings

4.20 The branch obtains approval for legal proceedings including filing of a suit from the head office. A separate register for suit-filed accounts is prepared, in which proceedings of the case are noted. The register also contains details of the principal and interest due and any recovery made.

ACCEPTANCE OF DEPOSITS

Monitoring of deposits

4.21 To keep a check on deposits accepted, every branch of an HFC maintains a register of deposits containing particulars of the deposits accepted by that branch. A consolidated register of the total deposits accepted by all the branches is maintained at the head office to exercise control on total deposits accepted by all branches. The consolidated register of total deposits helps in monitoring the total deposits accepted at any given point of time to ensure that the total deposits do not exceed the limits laid down by the NHB.

Closure/adjustment/part repayment/ renewal of Fixed Deposits

4.22 The cheque, along with the discharged fixed deposit receipt, is sent by the branch to the head office for authorisation and signature on closure/adjustment/part repayment/ renewal of the fixed deposit. The head office

tallies the signature on the discharged receipt with the computerised record of signatures received with the application for the fixed deposit. If the signatures do not tally, the depositor is requested to submit an indemnity bond. The accounting entries passed by the branch for closure/adjustment/part repayment/ renewal are also verified periodically by another officer of the HFC.

Payment of brokerage to authorised agents

4.23 Agents normally get themselves registered with the head office of an HFC. Agents are not authorised to accept cash or issue receipts on behalf of the HFC. Brokerage is paid only if the agent's code number and name are mentioned clearly in the form. A periodical broker-wise statement with agent code number, total amount of deposits collected by or through the agent/broker, commission due, commission paid, maximum expenses eligible for reimbursement and expenses reimbursed, is prepared to ensure that brokerage, commission and expenses reimbursed, on the basis of related vouchers/bills, are within the limits prescribed by the National Housing Bank.

Tax deducted at source (TDS) from interest on deposits

4.24 Tax is deducted at source from interest paid on deposits as per the requirements of the Income-tax Act, 1961. Following checks are ordinarily applied to ensure proper deduction and remittance of tax deducted from interest on deposits:

- (i) is deducted from interest paid to the depositor if the interest paid exceeds the limit prescribed under section 194A of the Income-tax Act, 1961.
- (ii) is deducted at the time of credit of such income to the account of the payee or at the time of payment in cash or by issue of a cheque or draft or by any other mode, whichever is earlier.
- (iii) In terms of section 197A of Income-tax Act, 1961, no tax is deducted if the depositor furnishes a declaration in writing in the prescribed form and verified in the prescribed manner to the effect that the tax on his estimated total income of the previous year in which the said interest income is to be included in computing his total income, will be nil. However, it is ensured

that if the interest income credited or paid during the previous year in which such income is to be included, exceeds the maximum amount which is not chargeable to income tax, tax is deducted from interest income even if the said declaration has been received.

- (iv) A depositor-wise statement of interest paid, declaration received and tax deducted is generated to monitor proper deduction of tax from interest on deposits. The said statement can be utilised at branch as well as at the head office.
- (v) Total number of TDS certificates issued and the total amount of tax deducted as per all the TDS certificates issued are reconciled with the number of accounts from which tax was deducted and the total amount of tax deducted, respectively as per the books of account of the company.
- (vi) Tax deducted from interest on deposits is being remitted to the Central Government within prescribed time is checked monthly by a senior officer of the HFC.

INTER-BRANCH TRANSACTIONS

4.25 Any transaction between branches is routed through the head office. Inter-branch transactions may arise as a consequence of transfer of housing loans on the request of the borrower. Such transactions are in the form of transfer of monthly instalments, deposits, tax deducted at source from interest, etc. Debit/credit notes are prepared containing full details about the transactions for such transfers. These debit/credit notes are serially numbered and recorded properly and it is ensured that there is no duplication/omission of such entries. Every branch maintains a separate register for recording these transactions. Branch-wise periodic reconciliation of all inter-branch transactions is prepared and sent to the head office and any duplication and/or omission of entries is corrected in the books of account.

AUDIT AND INSPECTION DEPARTMENT

4.26 Audit and inspection department is usually headed by the Audit and Inspection Manager and he is assisted by various officers. The main functions of this department may be as under:

- (a) *Regular inspection of various branches:* The officials of the Inspection and Audit Department inspect various operational and accounting records maintained by the branches on a yearly basis. They also conduct surprise inspection of the selective branches, which are not working properly and/or are not maintaining their records in a proper manner. During inspection it is tried to ensure that internal controls are in operation and are effective and if any shortcomings are observed, the same are reported to the management and improvements are suggested.
- (b) *Appointment/co-ordination with internal auditors:* Internal auditors are appointed for every branch by the Inspection and Audit Department of the head office. The internal auditors report on a monthly/quarterly basis on the various operations and accounting records maintained by the branch. The internal auditors examine whether day-to-day transactions of the HFC are being conducted as per the guidelines and Directions issued by the NHB and various policies and procedures of the company and accounting records are maintained properly. The internal auditors suggest improvements in the operations of the company, observe internal controls, find out any loop-holes in the internal controls and suggest improvements in it and help in preventing and detecting errors and frauds.
- (c) *Co-ordination with the statutory auditors:* The officials of the Inspection and Audit Department co-ordinate with the statutory auditors and discuss issues with them which arise during the audit.
- (d) *Co-ordination with the Audit Committee:* The Inspection and Audit Department co-ordinates with the Audit Committee, its representative(s) attend the meetings of the Audit Committee and discuss audit related important matters with it from time to time.

Audit and Certification Aspects

5.1 This Chapter deals with aspects of the statutory audit of HFCs conducted by an auditor duly qualified to act as auditor under the Companies Act, 1956. The auditor is required to conduct audit in accordance with the requirements of that Act, the principles and procedures prescribed by Auditing and Assurance Standards (AASs) issued by the Institute of Chartered Accountants of India, requirements of the National Housing Bank Act, 1987 and the Housing Finance Companies (NHB) Directions, 2001, issued by the NHB. It also deals with reports and certificates to be given for special purposes in terms of the requirements of the National Housing Bank Act, 1987 and the Housing Finance Companies (NHB) Directions, 2001.

5.2 In carrying out the audit of the business of an HFC, the auditor has to consider all applicable accounting standards apart from the other generally accepted accounting principles such as the guidance notes on accounting matters issued by the Institute of Chartered Accountants of India. The Auditing and Assurance Standards and other statements and guidance notes issued by the Institute of Chartered Accountants of India provide a basis for the auditors to perform the audit.

5.3 The Institute of Chartered Accountants of India has, from time to time, issued 'Auditing and Assurance Standards (AASs)' [earlier termed as Statements on Standard Auditing Practices (SAPs)] to prescribe audit principles and procedures. The AASs apply whenever an independent audit is carried out. The following is the list of Auditing and Assurance Standards (AASs) issued as of January 1, 2005:

1. Auditing and Assurance Standard (AAS 1), 'Basic Principles Governing an Audit'.
2. Auditing and Assurance Standard (AAS 2), 'Objective and Scope of the Audit of Financial Statements'.
3. Auditing and Assurance Standard (AAS 3), 'Documentation'.
4. Auditing and Assurance Standard (AAS 4) (Revised), 'Auditor's

Responsibility to Consider Fraud and Error in an Audit of Financial Statements’.

5. Auditing and Assurance Standard (AAS 5), ‘Audit Evidence’.
6. Auditing and Assurance Standard (AAS 6) (Revised), ‘Risk Assessments and Internal Control’.
7. Auditing and Assurance Standard (AAS 7), ‘Relying Upon the Work of an Internal Auditor’.
8. Auditing and Assurance Standard (AAS 8), ‘Audit Planning’.
9. Auditing and Assurance Standard (AAS 9), ‘Using the Work of An Expert’.
10. Auditing and Assurance Standard (AAS 10) (Revised), ‘Using the Work of Another Auditor’.
11. Auditing and Assurance Standard (AAS 11), ‘Representations by Management’.
12. Auditing and Assurance Standard (AAS 12), ‘Responsibility of Joint Auditors’.
13. Auditing and Assurance Standard (AAS 13), ‘Audit Materiality’.
14. Auditing and Assurance Standard (AAS 14), ‘Analytical Procedures’.
15. Auditing and Assurance Standard (AAS 15), ‘Audit Sampling’.
16. Auditing and Assurance Standard (AAS 16), ‘Going Concern’.
17. Auditing and Assurance Standard (AAS 17), ‘Quality Control for Audit Work’.
18. Auditing and Assurance Standard (AAS 18), ‘Auditing of Accounting Estimates’.
19. Auditing and Assurance Standard (AAS 19), ‘Subsequent Events’.

20. Auditing and Assurance Standard (AAS 20), 'Knowledge of the Business'.
21. Auditing and Assurance Standard (AAS 21), 'Consideration of the Laws and Regulations in an Audit of Financial Statements'.
22. Auditing and Assurance Standard (AAS 22), 'Initial Engagements – Opening Balances'.
23. Auditing and Assurance Standard (AAS 23), 'Related Parties'.
24. Auditing and Assurance Standard (AAS 24), 'Audit Considerations Relating to Entities Using Service Organisations'.
25. Auditing and Assurance Standard (AAS 25), 'Comparatives'.
26. Auditing and Assurance Standard (AAS 26), 'Terms of Audit Engagements'.
27. Auditing and Assurance Standard (AAS 27), 'Communication of Audit Matters with those Charged with Governance'.
28. Auditing and Assurance Standard (AAS 28), 'The Auditor's Report on Financial Statements'.
29. Auditing and Assurance Standard (AAS 29), 'Auditing in a Computer Information Systems Environment'.
30. Auditing and Assurance Standard (AAS 30), 'External Confirmations'.
31. Auditing and Assurance Standard (AAS 31), 'Engagement to Compile Financial Information'.
32. Auditing and Assurance Standard (AAS 32), 'Engagement to Perform Agreed-upon Procedures regarding Financial Information'.

5.4 The auditor of an HFC is required to be conversant with the requirements of all the above AASs. In the following sections, certain key aspects covered by some important AASs, as applicable to the audit of a Housing Finance Company, keeping in view the special characteristics of

such organisations, are discussed in brief. While applying an AAS in a practical situation, reference should be made to the original text of the AAS.

KEY ASPECTS COVERED BY IMPORTANT AUDITING AND ASSURANCE STANDARDS

OBJECTIVE AND SCOPE OF AUDIT OF FINANCIAL STATEMENTS (AAS 2)

5.5 Paragraphs 2, 3 and 5 of AAS 2 state as below:

- “2. The objective of an audit of financial standard, prepared within a framework of recognised accounting policies and practices and relevant statutory requirements, if any, is to enable an auditor to express an opinion on such financial statements.
3. The auditor’s opinion helps determination of the true and fair view of the financial position and operating results of an enterprise. The user, however, should not assume that the auditor’s opinion is an assurance as to the future viability of the enterprise or the efficiency or effectiveness with which management has conducted the affairs of the enterprise.”
- “5. The scope of an audit of financial statements will be determined by the auditor having regard to the terms of the engagement, the requirements of relevant legislation and the pronouncements of the Institute. The terms of engagement cannot, however, restrict the scope of an audit in relation to matters which are prescribed by legislation or by the pronouncements of the Institute.”

5.6 The scope of the audit of financial statements of an HFC is determined by the auditor having regard to, inter alia, the terms of the engagement, pronouncements of the Institute, the provisions of NHB Act, 1987, and the requirements of the Housing Finance Companies (NHB) Directions, 2001, and notifications, circulars issued by the National Housing Bank (NHB). While determining the scope of the audit of an HFC, the auditor should consider the following additional responsibilities imposed on him by the Directions and National Housing Bank Act, 1987:

- (a) to include specified matters in his audit report (discussed in paragraph 5.33 of this Chapter)

- (b) to report to the National Housing Bank (discussed in paragraph 5.34 of this Chapter)
- (c) to report and provide various certificates for special purposes (discussed in paragraph 5.35 to 5.45 of this Chapter)

DOCUMENTATION (AAS 3)

5.7 Paragraphs 2, 3 and 4 of AAS 3 state as below:

- “2. Documentation, for purposes of this standard, refers to the working papers prepared or obtained by the auditor and retained by him, in connection with the performance of his audit.
- 3. Working papers:
 - aid in the planning and performance of the audit;
 - aid in the supervision and review of the audit work; and
 - provide evidence of the audit work performed to support the auditor’s opinion.
- 4. Working papers should record the audit plan, the nature, timing and extent of auditing procedures performed, and the conclusions drawn from the evidence obtained.”

5.8 Documentation is one of the most important and basic principles in conducting an effective audit. In case of HFCs, the following should form part of the permanent audit file of the auditor:

- (a) The National Housing Bank Act, 1987.
- (b) The Housing Finance Companies (NHB) Directions, 2001.
- (c) Relevant guidelines, circulars and notifications issued by the NHB.
- (d) List of deposit and loan schemes in operation during the audit period.
- (e) List of applicable rates of interest on loans and deposit schemes of the HFC.

(f) List of documents collected by the HFC for lending operations.

(g) A record of the internal controls related to the accounting system.

Apart from the above, for guidance on working papers to be prepared or obtained by the auditor, reference may be made to the Auditing and Assurance Standard (AAS) 3, Documentation, issued by the Institute of Chartered Accountants of India.

AUDIT EVIDENCE (AAS 5)

5.9 Paragraphs 15, 16 and 17 of AAS 1 state as below:

“15. The auditor should obtain sufficient appropriate audit evidence through the performance of compliance and substantive procedures to enable him to draw reasonable conclusions therefrom on which to base his opinion on the financial information.

16. Compliance procedures are tests designed to obtain reasonable assurance that those internal controls on which audit reliance is to be placed are in effect.

17. Substantive procedures are designed to obtain evidence as to the completeness, accuracy and validity of the data produced by the accounting system.

They are of two types:

(i) tests of details of transactions and balances;

(ii) analysis of significant ratios and trends including the resulting enquiry of unusual fluctuations and items.”

5.10 Paragraph 11 of AAS 5 states as below:

“11. The auditor obtains evidence in performing compliance and substantive procedures by one or more of the following methods:

- Inspection
- Observation
- Inquiry and confirmation

- Computation
- Analytical review.”

5.11 The auditor of an HFC may obtain audit evidence in performing compliance and substantive procedures by one or more of the following methods:

- (a) *Inspection*: Inspection consists of examining records, documents, or tangible assets. The auditor of an HFC should examine various records maintained by the HFC, as discussed under the heading “Books of account to be maintained by a Housing Finance Company” in Chapter 3 of this Technical Guide. Further, since lending operations of the HFC are duly backed by requisite documents, any discrepancy in loan documentation may adversely affect the rights of the HFC in the event of legal proceedings against the borrower to recover the dues. Therefore, the auditor should bestow utmost care in examination of loan documentation as dealt with in paragraph 2.22 of Chapter 2 of this Technical Guide. In addition, the auditor should examine various other documents obtained by the HFC in appraisal and sanction of loan proposal which are listed in Appendix 3. The auditor may inspect the fixed assets including land, house property and other assets which have been mortgaged in favour of the HFC.
- (b) *Inquiry and Confirmation*: The auditor of an HFC should make appropriate inquiries to obtain appropriate information, to plan and carry out his audit procedures, for example, loan sanctioning procedures, internal control procedures such as loan sanctioning authority levels, cheque signing authority levels, etc. The auditor of an HFC may also obtain confirmation from outside parties to corroborate information contained in the accounting records, for example, confirmation of certain outstanding balances in loan accounts or deposits of high denomination by directly communicating with the borrowers or the depositor, respectively; and confirmation for brokerage given to brokers who solicit deposits for HFCs.
- (c) *Computation*: Computation consists of checking the arithmetical accuracy of source documents and accounting records or performing independent calculations. The auditor of an HFC should test check the calculation of equated monthly instalments,

interest on deposits, accrued interest on loans, brokerage given to brokers for soliciting deposits, etc.

- (d) *Analytical Review*: The auditor of an HFC may study significant ratios of the HFC, for example, capital adequacy ratio, profitability ratios, etc., and compare the same with those pertaining to earlier years and the trends in the industry and may investigate unusual fluctuations and items.

RISK ASSESSMENTS AND INTERNAL CONTROL (AAS 6)

5.12 Paragraph 2 of AAS 6 states the following:

“2. The auditor should obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. The auditor should use professional judgment to assess audit risk and to design audit procedures to ensure that it is reduced to an acceptably low level.”

5.13 Proper understanding of how internal control procedures operate in an HFC assume great significance for the auditor as this will enable the auditor to:

- (a) understand how the organisation is structured and managed;
- (b) plan the audit and develop an effective audit approach;
- (c) identify weaknesses in the system that may be reported to the management;
- (d) detect frauds and errors;
- (e) assist management in prevention of frauds and errors;
- (f) gauge the effectiveness of the internal control system;
- (g) ensure the maintenance of accurate accounting records;

5.14 Special consideration should be given to the internal control system operating in an HFC. It assumes great importance due to the volume of monetary transactions and quantum of documents involved in the case of

HFC. Reference should be made to Chapter 4 of this Technical Guide on ‘Internal Control Aspects’ of an HFC for this purpose.

5.15 In addition to the evaluation of internal control system, an understanding of the accounting system should also be obtained by the auditor. Paragraph 19 of AAS 6 states as below:

“19. The auditor should obtain an understanding of the accounting system sufficient to identify and understand:

- (a) major classes of transactions in the entity’s operations;**
- (b) how such transactions are initiated;**
- (c) significant accounting records, supporting documents and specific accounts in the financial statements; and**
- (d) the accounting and financial reporting process, from the initiation of significant transactions and other events to their inclusion in the financial statements.”**

5.16 The auditor of an HFC should acquire knowledge of the accounting system followed by the company before determining the nature, timing and extent of audit procedures. This knowledge can be obtained by:

- going through the accounting manuals, if any, of the company;
- performing walk-through tests, i.e., tracing a few transactions through the accounting system;
- inspection of documents and records produced by the accounting and internal control systems; and
- inquiries and discussions with management and staff of the company.

KNOWLEDGE OF THE BUSINESS (AAS 20)

5.17 Paragraph 2 of AAS 20 states as below:

“2. In performing an audit of financial statements, the auditor should have or obtain knowledge of the business sufficient

to enable the auditor to identify and understand the events, transactions and practices that, in the auditor’s judgement, may have a significant effect on the financial statements or on the examination or audit report. ...”

5.18 The auditor can obtain knowledge of business of an HFC from a number of sources, for example:

- Previous experience with the company under audit or another company in the industry.
- Legislation and regulations that significantly affect the industry/company.
- Discussion with the persons working with the company.
- Review of internal audit reports, if any.
- Discussion with previous statutory auditors.
- Discussion with people outside the company, for example, industry regulators, people working in other companies of same industry, customers, etc.
- Documents produced by the company, for example, documents furnished to NHB, documents sent to the shareholders, prior year’s annual and financial reports, promotional literature or advertisements, accounting and internal control manuals, job descriptions, etc.

5.19 Knowledge of an HFC’s business would enable an auditor to understand the events and transactions, which could have a significant effect on the financial statements. He should be aware of the relevant pronouncements of the regulatory authorities, e.g., NHB, affecting the financial statements. The auditor should be familiar with the legal and other requirements governing the accounts and audit including additional matters to be reported in statutory audit report, special audit reports and certificates discussed later in this Chapter.

CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS (AAS 21)

5.20 Paragraph 2 of AAS 21 states that, **“When planning and**

performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognise that non-compliance by the entity with laws and regulations may materially affect the financial statements. However, an audit cannot be expected to detect non-compliance with all laws and regulations. Detection of non-compliance, regardless of materiality, requires consideration of the implications for the integrity of management or employees and the possible effect on other aspects of the audit”.

5.21 In case of HFCs, the NHB is the principal regulatory body and regulatory provisions for HFCs are contained in the National Housing Bank Act, 1987. NHB has issued the Housing Finance Companies (NHB) Directions, 2001, which are updated through issue of circulars and notifications. The said Directions as amended upto January 1, 2005 are reproduced in Appendix 2. Apart from the said Directions and other common laws that are generally applicable to HFCs are discussed in paragraph 2.4 of Chapter 2 of this Technical Guide.

5.22 In order to plan the audit of an HFC, the auditor should obtain a general understanding of the legal and regulatory framework applicable to the HFC and how the HFC is complying with that framework. In obtaining this general understanding, the auditor should particularly recognise that non-compliance of some laws and regulations may have a fundamental effect on the operations of the HFC and may even cause the HFC to cease operations, or call into question the HFC’s continuance as a going concern.

5.23 The auditor should examine whether the legislation governing the HFC contains any special provisions that have an effect on the determination of material amounts and disclosures in the financial statements. The auditor should have sufficient understanding of these laws and regulations in order to consider them when auditing the assertions related to the determination of the amounts to be recorded and the disclosures to be made.

AUDIT PROCEDURES RELATING TO SPECIFIC AREAS

LENDING OPERATIONS

Equated monthly instalment (EMI)

5.24 Calculation of EMI is an important aspect of lending operations in

HFCs. The auditor should check the correctness of the calculation of EMIs taking into consideration the terms of loan, i.e., loan amount, tenure of loan and interest rate. The auditor should evaluate the effectiveness of internal controls in operation particularly with regard to the receipt and recording of EMIs, as discussed in paragraphs 4.12 and 4.13 of Chapter 4 of this Technical Guide. Further, the auditor should examine that the correct amount of interest has been segregated from the monthly instalments received and is credited to the profit and loss account. He should also examine whether interest accrued but not received (other than on non-performing accounts) has been recorded in the books of account. Accounting aspects relating to recognition of interest as revenue have been discussed in paragraph 3.11 and 3.12 of Chapter 3 of this Technical Guide. The auditor may also carry out an analytical review of interest income of the HFC by comparing it with the industry norms. Further, it should be verified that as per the requirements of sub-paragraph 2 of paragraph 19 of the Housing Finance Companies (NHB) Directions, 2001, income including interest/discount or any other charges on Non-Performing Assets is recognised only when it is actually realised. The auditor should also verify that a ledger account, with a suitable nomenclature such as “Unrealised Interest on NPA” is also maintained in order to determine the exact amount of interest due on the NPA accounts.

Non-Performing Assets

5.25 The auditor may carry out the following procedures with regard to audit of non-performing assets:

- (a) The auditor should verify that the HFC has classified, after taking into account the degree of well defined credit weaknesses and extent of dependence on collateral security for realisation, its lease/hire purchase assets, loans and advances and any other forms of credit into the following classes, namely: -
 - Standard assets;
 - Sub-standard assets;
 - Doubtful assets; and
 - Loss assets.

The auditor should also verify that if any asset referred to above

has been upgraded, it has satisfied the conditions required for the upgradation and has not upgraded merely as a result of rescheduling.

- (b) The auditor should also examine that the HFC has made provision against sub-standard assets, doubtful assets and loss assets and additional provision for hire purchase and leased assets as provided in the prudential norms laid down by NHB in paragraph 24 of the Housing Finance Companies (NHB) Directions, 2001 and subsequent notifications thereto, after taking into account the time lag between an account becoming non-performing, its recognition as such, the realisation of the security and the erosion over time in the value of the security charged.
- (c) The auditor should also verify that the provisions for sub-standard, doubtful and loss assets are separately disclosed in the balance sheet in accordance with the provisions of paragraph 25 of the Housing Finance Companies (NHB) Directions, 2001.
- (d) Sometimes, an NPA account is converted into a new account by foreclosure of the NPA account and opening of a new account under a new category of loan or under a new name. This is known as 'Greening of Loans'. The auditor should examine any such conversions which should not be allowed and brought to the notice of the management.

Collection of dues of loans in rural areas

5.26 This is one area to which the auditor should pay special attention since maximum collection is made in cash. The most important aspect to be examined is the control on cash receipts. For this purpose, the auditor should evaluate the internal controls in operation as discussed in paragraph 4.14 of Chapter 4 of this Technical Guide. He may examine the reconciliation of cash deposited on account of collections from rural areas with cash receipt books/pay-in-slips. He should also verify whether any discrepancy in cash handling has been detected during the year. If yes, whether the same has been reported to the management alongwith the corrective measures taken. The auditor should also examine the balance confirmations taken by the company from the borrowers. He may also take confirmation for few loan outstandings of high denomination by directly communicating with the borrower.

Physical Inspection of Property

5.27 The auditor should verify whether the property for which the loan is granted is being inspected at different stages and whether each disbursement is backed by inspection report of the said property duly authorised by the concerned official of the HFC, such as, the Credit Manager and/or the branch incharge and whether the remarks in the inspection report have been given due weightage in the sanction of the loan/subsequent disbursals. The auditor should also verify whether physical inspection of the property of non-performing loan accounts is being carried out by the third parties specifically appointed for such cases.

DEPOSIT OPERATIONS

Deposit Records

5.28 In carrying out the audit of deposit records maintained by the HFC, the auditor may perform the following audit procedures:

- Examine whether application forms received for fixed deposits are duly completed in all respects and properly filed.
- Examine whether various deposit registers or computer master copies are properly maintained and if any corrections are made in these registers, these are duly authenticated.
- Examine whether branch copies of fixed deposit receipts are kept in safe custody.
- Examine the periodical reconciliation of data in deposits register with the application forms and branch copies of fixed deposit receipts.
- Examine whether blank deposit receipts are kept in safe custody and proper control is exercised on its use by authorised personnel. Further, the auditor should verify whether blank deposit receipts are physically verified and tallied with balance in securities register periodically, say monthly, by an officer of the HFC and the auditor himself should also carry out the physical verification of the same during the audit. He should also examine whether securities register is maintained properly and is being checked and signed by the branch-in-charge daily.

- Examine the deposit register which is kept to maintain the consolidated record of all the deposits accepted under various schemes at any given point of time and verify that the total deposits accepted by the HFC do not exceed the limits laid down in sub-paragraph 2 of paragraph 3 of the Housing Finance Companies (NHB) Directions, 2001.
- Verify that fixed deposit receipts received on maturity of fixed deposits are discharged by the depositor and his signatures are tallied with those in the application forms.
- Examine various vouchers prepared for fixed deposits, for example, receipt of fixed deposits, interest paid on fixed deposits, brokerage paid, closure or renewal of fixed deposits, expenses incurred, etc. The auditor should also verify whether these vouchers are entered in books of account promptly and are properly kept in files together with supporting documents.

Interest Paid on Deposits

5.29 The auditor should verify that the interest on deposits is not paid in excess of the prevailing rates in terms of the requirements of sub-paragraph (1) of paragraph 11 of the Housing Finance Companies (NHB) Directions, 2001, as amended by the NHB from time to time. Further, the auditor should verify that interest is paid in accordance with the various provisions of the said Directions in respect of overdue deposits, prepayment of deposits and renewal of deposits before maturity. For carrying out an analytical review of interest on deposits, the auditor may compare the actual interest paid with the industry norms.

Credit Rating

5.30 An HFC has to obtain credit rating at least once a year from an approved credit rating agency to ascertain the limit for accepting deposits in accordance with the provisions of sub-paragraph 2 of paragraph 3 of the Housing Finance Companies (NHB) Directions, 2001. The auditor should ascertain whether the HFC has obtained credit rating from more than one rating agency by examining the bills of the rating agencies paid by the HFC. He should examine the report of the credit rating agencies and verify the limits ascertained by the HFC considering the ratings obtained. If, during the year, any internal or external event significantly

affected the repayment capacity of the HFC, then the credit rating agency places the HFC under a 'rating watch'. If during the year the HFC has been placed under the rating watch then the auditor should critically review any significant changes which might affect the rating and hence the limits for accepting deposits.

Brokerage

5.31 The auditor should verify that no brokerage has been paid on any deposits received directly from the depositor. The auditor should test check some of the applications and request the HFC to send confirmatory letters to some parties in cases where the amounts of fixed deposits received are large to confirm that the deposits have been genuinely received through the broker. Alternatively, the auditor may verify whether the name of the broker is mentioned on the Fixed Deposit Receipts/ Statement sent to the deposit-holders. The auditor should verify that brokerage or expenses reimbursed to any broker are not in excess of the limits fixed by the NHB in clause (b) of sub-paragraph (1) of paragraph 11 of the Housing Finance Companies (NHB) Directions, 2001, as revised from time to time. Further, the auditor should also verify that proper bills are presented by the brokers for the reimbursement of permissible expenses. The auditor should verify that brokerage is paid by account payee's cheque only. In case the brokerage is paid in cash, the auditor should verify the reason for the same and confirm that the concerned senior authority has ratified such an act.

Closure/part repayment/renewal of fixed deposits

5.32 The auditor should verify whether the signatures are properly checked at the time of closure, renewal or part payment of deposit. He should verify that, at the time of closure, renewal or part repayment, proper tax has been deducted from the interest on deposits. He should also test check some of the accounting entries for closure/part repayment/renewal of fixed deposits in order to confirm that the same are being passed correctly and promptly.

ADDITIONAL REPORTING BY THE AUDITOR OF A HOUSING FINANCE COMPANY

5.33 According to paragraph 29 of the Housing Finance Companies, (NHB) Directions, 2001, in addition to the report made by the auditor

under section 227 of the Companies Act, 1956, the auditor is required to make a further report to the Board of Directors of the company on the matters specified in paragraphs 30 and 31 of the said Directions, as reproduced hereunder:

“Matters to be included in the auditor’s report

30. The auditor’s report on the accounts of a housing finance company shall include a statement on the following matters, namely : -
- (i) Where the housing finance company was incorporated before 12th June, 2000 – whether it has applied for registration as required under section 29A of the National Housing Bank Act, 1987 and whether it has received any communication from National Housing Bank about grant or refusal of certificate of registration to it;
 - (ii) Where the housing finance company was incorporated on or after 12th June, 2000 – whether it has obtained a certificate of registration from National Housing Bank;
 - (iii) Whether the housing finance company has complied with the liquidity requirements as specified under Section 29B of the National Housing Bank Act, 1987 and kept the securities with the designated bank;
 - (iv) Whether the housing finance company has complied with Section 29C of the National Housing Bank Act, 1987;
 - (v) Whether the housing finance company has complied with the provisions of these Directions;
 - (vi) Whether the capital adequacy ratio as disclosed in the return submitted to National Housing Bank has been correctly determined and whether such ratio is in compliance with the minimum capital to risk weighted asset ratio as prescribed by the National Housing Bank in these Directions;
 - (vii) Where the housing finance company is accepting/holding public deposits, whether:

- (a) Public deposits accepted by the housing finance company are within admissible limits;
- (b) Total borrowings of the housing finance company i.e. deposits inclusive of public deposits together with the amounts referred to in sub-clauses (iii) to (vii) of sub-section (bb) of Section 45 I of the Reserve Bank of India Act, 1934 and loans or other assistance from the National Housing Bank are within the limit prescribed in these Directions;
- (c) The deposits in excess of the admissible limit held by the housing finance company have been regularised in the manner stipulated by National Housing Bank;
- (d) The credit rating for deposits i.e. _____ (mention the rating) assigned by the credit rating agency viz., _____ (name of the agency) on _____ (the date) is in force and the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the rating agency.
- (e) The housing finance company has defaulted in paying to its depositors the interest and/or principal amounts of deposits after such interest and/or principal became due;
- (f) In case of opening of new branches or offices for acceptance of public deposits or closure of branches or offices, the housing finance company has complied with the relevant provisions of these Directions;
- (viii) Where the housing finance company is not accepting public deposits, whether:
 - (a) The Board of Directors has passed a resolution for non-acceptance of any public deposits;
 - (b) The company has accepted any public deposits during the relevant period/year;
 - (c) The company has complied with prudential norms.”

“Reasons to be stated for unfavourable or qualified statement

31. Where, in the auditor’s report, the statement regarding any of the items referred to in paragraph 30 above is unfavourable or qualified, the auditor’s report shall also state the reasons for such unfavourable or qualified statement, as the case may be. Where the auditor is unable to express any opinion on any of the items referred to in paragraph 30 above, the auditor’s report shall indicate such fact together with reasons therefor.”

5.34 According to paragraph 32 of the Housing Finance Companies (NHB) Directions, 2001, reproduced below, the auditor of an HFC is required to report to the NHB in specified cases:

“Obligation of auditor to report to the National Housing Bank

32. Where, in the case of a housing finance company, the statement regarding any of the items referred to in paragraph 30 above is unfavourable or qualified or in the opinion of the auditor the company has not complied with the provisions of these Directions or the provisions of chapter V of the National Housing Bank Act, 1987, it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to head office of the National Housing Bank at New Delhi.”

SPECIAL PURPOSE AUDIT REPORTS AND CERTIFICATES

5.35 National Housing Bank requires various special purpose audit reports and certificates from the auditors of HFCs. The Guidance Note on Audit Reports and Certificates for Special Purposes, issued by the Institute of Chartered Accountants of India, provides guidance to members who may be called upon to give audit reports and certificates for special purposes. With regard to the responsibilities of the auditor in respect of the audit ‘report’ and ‘certificate’, paragraph 2.2 of the said Guidance Note states as under:

- “2.2 A reporting auditor should appreciate the difference between the terms ‘certificate’ and ‘report’. A certificate is a written confirmation of the accuracy of the facts stated therein and

does not involve any estimate or opinion. A report, on the other hand, is a formal statement usually made after an enquiry, examination or review of specified matters under report and includes the reporting auditor's opinion thereon. Thus, when a reporting auditor issues a certificate, he is responsible for the factual accuracy of what is stated therein. On the other hand, when a reporting auditor gives a report, he is responsible for ensuring that the report is based on factual data, that his opinion is in due accordance with facts, and that it is arrived at by the application of due care and skill.”

5.36 As discussed above, there is a difference between the terms ‘Certificate’ and ‘Report’. On perusal of the certificates and reports required to be given by the auditor of an HFC as per the requirements of the NHB, as discussed hereinafter, it has been observed that at some places these are used interchangeably. The auditor's duty and responsibility in respect of the certificate or report given by him will be determined according to the nature of the document rather than its nomenclature.

5.37 Various special purpose audit reports and certificates required from the auditors of the Housing Finance Companies are discussed hereunder.

REPORT ON ANNUAL RETURN TO NATIONAL HOUSING BANK

5.38 The auditor is required to report on the information furnished in the annual return of the HFC as specified in Schedule I to the Housing Finance Companies (NHB) Directions, 2001, with reference to its position as on 31st March every year. The formats of Schedule I and that of the auditor's report as given in the Schedule are reproduced in Appendix 2.

REPORT ON HALF-YEARLY RETURN TO NATIONAL HOUSING BANK

5.39 The auditor is required to report on the information furnished in the half-yearly return specified in Schedule II to the Housing Finance Companies (NHB) Directions, 2001, with reference to its position as on 30th September and 31st March every year and on the statements made by the management of the HFC in the certificate to be given by it on the information furnished in the said return. The format of Schedule II together with the format of the certificate to be given by the management and the auditor's report as given in the Schedule are reproduced in Appendix 2.

CERTIFICATION IN CASE OF REFINANCE ASSISTANCE FROM NHB

5.40 All HFCs availing of refinance assistance from NHB are required to submit a certificate to NHB as on 31st March and 30th September, every year, duly countersigned by the statutory auditors, confirming that the outstanding refinance due to NHB does not exceed the aggregate of all outstanding housing loans in respect of which refinance has been availed of by the HFCs. In case the outstanding refinance due to NHB exceeds the aggregate of all outstanding housing loans in respect of which refinance has been availed by the HFC, that is, there is adverse balance, the HFC would be required to repay the refinance to NHB to the extent of the adverse balance. This will be based on the certificate stating the figures of outstanding housing loans against which refinance has been obtained as per its books of account as also the outstanding refinance from NHB thereby arriving at the difference, if any, submitted by the HFCs, duly verified, confirmed and countersigned by their Statutory Auditors. The HFC is required to place this certificate to its Board of Directors before forwarding the same to the NHB. The format of the Certificate to be furnished by the HFCs on 31st March and 30th September every year, as specified in the Annexure to Circular No. NHB(ND)/ROD/HFC/LRS/05/2003 dated 8th October, 2003, is reproduced in Appendix 8.

CERTIFICATION FOR WITHDRAWAL OF SECURITIES PROPORTIONATE TO REDUCTION IN DEPOSITS

5.41 According to proviso (1) to sub-paragraph (2) of paragraph 14 of the Housing Finance Companies (NHB) Directions, 2001, a Housing Finance Company can withdraw a portion of unencumbered approved securities, required to be maintained by it in pursuance of Section 29B of the National Housing Bank Act, 1987, and entrusted to one of the scheduled commercial banks designated by it on that behalf or to the Stock Holding Corporation of India Limited, proportionate to the reduction of its deposits duly certified to that effect by its auditors. NHB has not prescribed any format for this certificate.

CERTIFICATION OF FULL DISCLOSURE OF LIABILITIES TO DEPOSITORS IN BALANCE SHEET

5.42 In pursuance of the provisions of paragraph 38 of the Housing

Finance Companies (NHB) Directions, 2001, every HFC holding/accepting public deposits shall furnish to NHB, along with a copy of the audited balance sheet as on the last date of each financial year as provided under paragraph 37 of the said Directions, a copy of the auditor's report to the Board of Directors and a certificate from its statutory auditors to the effect that the full amount of liabilities to the depositors of the company including interest payable thereon as on the date of balance sheet, are properly reflected in the balance sheet and the company is in a position to meet the amount of such liabilities to the depositors. NHB has not prescribed any format for this certificate. However, RBI, in pursuance of the Non-Banking (Reserve Bank) Directions, 1977, has issued a format of the certificate for a similar purpose which can be used by the auditor of the HFC with appropriate modifications, if necessary. The format issued by the RBI is reproduced in Appendix 9.

REPORT ON STATEMENTS, INFORMATION, PARTICULARS RELATED TO DEPOSITS REQUIRED TO BE SENT TO NHB BUT NOT FURNISHED

5.43 As per the provisions of section 33(1) of the National Housing Bank Act, 1987, the auditor of every HFC shall enquire whether or not the HFC has furnished to the NHB such statements, information or particulars relating to or connected with deposits received by it, as are required to be furnished under Chapter V of the said Act. Further, the auditor shall, except where he is satisfied on such enquiry that the HFC has furnished such statements, information or particulars, make a report to the NHB giving the aggregate amount of such deposits held by the HFC. Further, under the provisions of section 33(2) of the said Act, where the auditor has made or intends to make a report to NHB under sub-section (1) as stated above, he shall include in his report under sub-section (2) of section 227 of the Companies Act, 1956, the contents of the report which he has made, or intends to make, to the NHB.

5.44 As per the provision of section 33(1A) of the National Housing Bank Act, 1987, the National Housing Bank may, on being satisfied that it is necessary so to do, in the public interest or in the interest of the depositors or for the purpose of proper assessment of the books of account, issue directions to any HFC or any group of HFCs or generally or to the auditors of such HFCs relating to balance-sheet, profit and loss account, disclosure of liabilities in the books of account or any matter relating thereto.

SPECIAL AUDIT

5.45 As per the provisions of section 33(3) of the National Housing Bank Act, 1987, where the NHB is of the opinion that it is necessary to do so in the public interest or in the interest of the HFC or in the interest of the depositors of such HFC, it may, at any time by order, direct that a special audit of the accounts of the HFC in relation to any such transaction or class of transactions or for such period or periods as may be specified in the order shall be conducted and the NHB may appoint an auditor or auditors to conduct such special audit and direct the auditor or the auditors to submit a report to it. As per the provisions of section 33(4) of the National Housing Bank Act, 1987, the remuneration of the auditors, as may be fixed by the NHB, having regard to the nature and volume of work involved in the audit and the expenses of or incidental to the audit, shall be borne by the HFC so audited.

Appendix 1

ROLE, ORGANISATION, OBJECTIVES AND FUNCTIONS OF NHB

ROLE OF NHB

1. NHB was set up on 9th July 1988, under an Act of the Parliament viz. the National Housing Bank Act, 1987. The Bank is wholly owned by the Reserve Bank of India. It has been notified as a Public Financial Institution under Section 4A of the Companies Act, 1956. The bank is set up to function as a principal agency to promote Housing Finance Institutions and to provide financial and other support to such institutions. The Act, inter alia, empowers NHB to:

- Issue directions to housing finance institutions to ensure their growth on sound lines
- Make loans and advances and render any other form of financial assistance to scheduled banks and housing finance institutions or to any authority established by or under any Central, State or Provincial Act and engaged in slum improvement and
- Formulate schemes for the purpose of mobilisation of resources and extension of credit for housing

ORGANISATION

2. NHB is an Officer Oriented Organisation and has the following departments.

- (a) Regulation and Supervision
- (b) Board and CMD Secretariat
- (c) Legal
- (d) Information and Technology
- (e) Enabling Processes

- (f) Resource Mobilization and Management
- (g) Refinancing Operations
- (h) Project Finance
- (i) Development and Risk Management

OBJECTIVES OF NHB

3. NHB has been established to achieve, inter alia, the following objectives:

- To promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelise them for housing.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on a regulatory and supervisory authority derived under the Act.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.

DIRECTIONS AND GUIDELINES

4. Having regard to the aforesaid objectives, NHB has issued the Housing Finance Companies (NHB) Directions 2001, in respect of matters relating to acceptance of deposits by housing finance companies, prudential norms for income recognition, accounting standards, asset clas-

sification, provision for bad and doubtful assets, capital adequacy and concentration of credit/investments to be observed by the housing finance companies and matters to be included in the Auditors Report by the auditors of such housing finance companies and matters ancillary and incidental thereto. The said Directions, as amended upto January 1, 2005, are reproduced in Annexure 2 of this Technical Guide.

5. In addition to the said Directions, NHB has issued various guidelines which are available on the NHB's website at www.nhb.org.in, some of which are as under:

- (a) NHB Guidelines for Asset Liability Management System in HFCs
- (b) NHB Guidelines for Entry of Housing Finance Companies into Insurance Business
- (c) NHB Guidelines for Uniform accounting for Repo/Reverse Repo transactions

6. OFFICES OF NHB

Head Office:

National Housing Bank
Core 5A, India Habitat Centre,
3rd-5th floor, Lodhi Road,
New Delhi – 110 003
Phone No. 011-24649031 – 35
FAX: 011-24646988, 24649041

Regional Office:

National Housing Bank,
Mumbai Life Building,
45, Veer Nariman Road,
Fort,
Mumbai – 400 023
Phone No. 022-22851560-64
FAX: 022-22851555

Appendix 2

THE HOUSING FINANCE COMPANIES (NHB) DIRECTIONS 2001

[Amended upto January 1, 2005]

Notification No. NHB.HFC.DIR.1/CMD/2001

Whereas, having considered it necessary in the public interest, the National Housing Bank had issued Housing Finance Companies (NHB) Directions, 1989, to every housing finance company in exercise of the powers conferred on it under the National Housing Bank Act 1987 (53 of 1987).

2. And whereas the National Housing Bank had also issued guidelines to housing finance companies on prudential norms on income recognition, accounting standards, asset classification, provisioning for bad and doubtful assets, capital adequacy and concentration of credit/investments.

3. And whereas the National Housing Bank Act, 1987 has been amended further by the National Housing Bank (Amendment) Act, 2000 (15 of 2000) further to enable the National Housing Bank to safeguard the interest of depositors and promote healthy and universal growth of Housing Finance Companies in the country.

4. And whereas, having regard to the objectives aforesaid, it is considered desirable to issue consolidated directions in respect of matters relating to acceptance of deposits by housing finance companies, prudential norms for income recognition, accounting standards, asset classification, provision for bad and doubtful assets, capital adequacy and concentration of credit/investments to be observed by the housing finance companies and matters to be included in the Auditors Report by the auditors of such housing finance companies and matters ancillary and incidental thereto.

5. Now therefore, the National Housing Bank having considered it necessary in the public interest and being satisfied that for the purpose of enabling the National Housing Bank to regulate the housing finance system of the country to its advantage, it is necessary to give the Directions

mentioned below, hereby in exercise of the powers conferred, by sections 30, 30A, 31 and 33 of the National Housing Bank Act, 1987 (53 of 1987) and of all the powers enabling it in this behalf, and in supercession of the aforementioned directions and guidelines, gives the Directions hereinafter specified.

CHAPTER I - PRELIMINARY

Short title, commencement and applicability of the Directions

1. (1) These Directions shall be known as the Housing Finance Companies (NHB) Directions, 2001. They shall come into force from the date of publication in the Official Gazette* and any reference in these Directions to the date of commencement thereof shall be deemed to be a reference to that date.

(2) Directions contained in Chapter IV shall be applicable to every auditor of a housing finance company.

Definitions

2. (1) In these Directions, unless the context otherwise requires,
- (a) “banking company” means a banking company as defined in Section 5(c) of the Banking Regulation Act, 1949 (10 of 1949);
 - (b) “break up value” means the equity capital and reserves as reduced by intangible assets and revaluation reserves, divided by the number of equity shares of the investee company;
 - (c) “carrying cost” means book value of the assets and interest accrued thereon but not received;
 - (d) “company” means a company as defined in Section 45I(aa) of the Reserve Bank of India Act, 1934 (2 of 1934) but does not include a company which is being wound up under any law for the time being in force;
 - (e) “current investment” means an investment which is by its nature

* Notified under Part III-Section-4 of the gazette of India, dt. December 29,2001

readily realisable and is intended to be held for not more than one year from the date on which such investment is made;

- (f) “deposit” shall have the same meaning as assigned to it in Section 45 I (bb) of the Reserve Bank of India Act, 1934 (2 of 1934);
- (g) “depositor” means any person who has made a deposit with the housing finance company or a heir, legal representative, administrator or assignee of the depositor;
- (h) “doubtful asset” means a term loan, or a leased asset, or a hire purchase asset, or any other asset, which remains a sub-standard asset for a period exceeding two years

[Provided that with effect from March 31, 2005, “doubtful asset” shall mean a term loan, or a leased asset, or a hire purchase asset, or any other asset, which remains a sub-standard asset for a period exceeding twelve months]¹

- (i) “earning value” means the value of an equity share computed by the average of profits after tax as reduced by the preference dividend and adjusted for extra ordinary and non recurring items, for the immediately preceding three years and further divided by the number of equity shares of the investee company and capitalised at the following rate:-
 - (i) in case of predominantly manufacturing company, eight percent;
 - (ii) in case of predominantly trading company, ten percent; and
 - (iii) in case of any other company, including a housing finance company, twelve percent;

Note: If an investee company is a loss making company, the earning value will be taken as zero.

- (j) “fair value” means the mean of the earning value and the break up value;

¹ Inserted by paragraph 1 of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002 (effective from 18.01.2003)

- (k) “free reserves” shall include the balance in the share premium account, capital and debenture redemption reserves and any other reserve shown or published in the balance sheet of the company and created through an allocation of profits, not being (1) a reserve created for repayment of any future liability or for depreciation in assets or for bad debt or (2) a reserve created by revaluation of the assets of the company;
- (l) “housing finance company” means a company incorporated under the Companies Act, 1956 (1 of 1956) which primarily transacts or has as one of its principal objects, the transacting of the business of providing finance for housing, whether directly or indirectly;
- (m) “hybrid debt” means capital instrument which possesses certain characteristics of equity as well as of debt;
- (n) “lending public financial institution” means -
 - (i) a public financial institution specified in or under section 4A of the Companies Act, 1956 (1 of 1956); or
 - (ii) a State Financial Corporation or a State Industrial Investment Corporation; or
 - (iii) a scheduled commercial bank; or
 - (iv) the General Insurance Corporation of India established in pursuance of the provisions of section 9 of the General Insurance Business (Nationalisation) Act, 1972 (57 of 1972); or
 - (v) any other Institution which the National Housing Bank may, by notification, specify in this behalf;
- (o) “long term investment” means an investment other than a current investment;
- (p) “loss asset” means -
 - (i) an asset which has been identified as loss asset by the housing finance company or its internal or external auditor

or by the National Housing Bank, to the extent it is not written off by the housing finance company; and

- [(ii) an asset which is adversely affected by a potential threat of non recoverability due to any one of the following, namely:
 - (a) non-availability of security, either primary or collateral, in case of secured loans and advances;
 - (b) erosion in value of security, either primary or collateral, is established;
 - (c) insurance claim, if any, has been denied or settled in part;
 - (d) fraudulent act or omission on the part of the borrower;
 - (e) the debt becoming time barred under Limitation Act, 1963 (36 of 1963);
 - (f) inchoate or defective documentation.

Explanation- For the removal of doubt, it is clarified that mere right of the housing finance company to file suit against the borrower/guarantor for recovery of dues does not debar the National Housing Bank or the auditors to consider the asset or part thereof as loss asset due to aforesaid reasons.]¹

(q) “net asset value” means the latest declared net asset value by the concerned mutual fund in respect of that particular scheme;

(r) “net book value” means -

(i) in the case of hire purchase asset, the aggregate of over due and future instalments receivable as reduced by the balance of the unmatured finance charges and further reduced by the provisions made as per paragraph 24(2)(i) of these Directions;

(ii) in the case of leased assets, aggregate of capital portion of

¹ *Substituted by paragraph 2 of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002 (effective from 18.01.2003)*

over due lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account;

- (s) “net owned fund” means net owned fund as defined under section 29A of the National Housing Bank Act, 1987 including paid up preference shares which are compulsorily convertible into equity capital;
- (t) “non-performing asset” (referred to in these directions as “NPA”) means:-
 - (i) a loan asset, in respect of which, interest has remained past due for six months;
 - (ii) a term loan inclusive of unpaid interest, when the instalment is over due for more than six months or on which interest amount remained past due for six months;
 - (iii) a bill of exchange which remains over due for six months;
 - (iv) the interest in respect of a debt or the income on a receivable under the head ‘other current assets’ in the nature of short term loans/advances, which facility remained over due for a period of six months;
 - (v) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained over due for a period of six months;
 - (vi) the lease rental and hire purchase instalment, which has become over due for a period of more than twelve months;
 - (vii) an inter corporate deposit, in respect of which interest or principal has remained over due for a period of six months;

[Provided that with effect from March 31, 2005, “non-performing asset” shall mean:-

- (i) an asset, in respect of which, interest has remained overdue for a period of ninety days or more;

- (ii) a term loan inclusive of unpaid interest, when the instalment is overdue for a period of ninety days or more or on which interest amount remained overdue for a period of ninety days or more;
- (iii) a demand or call loan, which remained overdue for a period of ninety days or more from the date of demand or call or on which interest amount remained overdue for a period of ninety days or more;
- (iv) a bill which remains overdue for a period of ninety days or more;
- (v) the interest in respect of a debt or the income on receivables under the head 'other current assets' in the nature of short term loans/advances, which facility remained overdue for a period of ninety days or more;
- (vi) any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of ninety days or more;
- (vii) the lease rental and hire purchase instalment, which has become overdue for a period of ninety days or more;
- (viii) an inter corporate deposit, in respect of which interest or principal has remained overdue for a period of ninety days or more.”¹
- (u) “owned fund” means paid up capital including preference shares compulsorily convertible into equity shares, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;
- (v) “past due” means an amount of income or interest which remains unpaid for a period of thirty days beyond the due date;

¹ *Inserted by paragraph 3 of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002 (effective from 18.01.2003)*

(w) “public deposit” means a deposit but does not include the following, namely:-

- (i) any amount received from the Central Government or a State Government or any amount received from any other source and whose repayment is guaranteed by the Central Government or a State Government or any amount received from a local authority or any public housing agency, or a foreign Government or any other foreign citizen, authority or person;
- (ii) any amount received from the National Housing Bank, established under the National Housing Bank Act, 1987 (53 of 1987), or the Industrial Development Bank of India established under the Industrial Development Bank of India Act, 1964 (18 of 1964) or the Life Insurance Corporation of India established under the Life Insurance Corporation Act, 1956 (31 of 1956) or the General Insurance Corporation of India and its subsidiaries established in pursuance of the provisions of section 9 of the General Insurance Business (Nationalisation) Act, 1972 (57 of 1972) or the Small Industries Development Bank of India established under the Small Industries Development Bank of India Act, 1989 (39 of 1989) or the Unit Trust of India established under the Unit Trust of India Act, 1963 (52 of 1963) or National Bank for Agriculture and Rural Development established under the National Bank for Agriculture and Rural Development Act, 1982 or an Electricity Board constituted under the Electricity (Supply) Act, 1948 or the Tamil Nadu Industrial Investment Corporation Ltd., or the National Industrial Development Corporation of India Ltd., or the Industrial Credit & Investment Corporation of India Ltd., or the Industrial Finance Corporation of India Ltd., or the Industrial Investment Bank of India Ltd., or State Trading Corporation of India Ltd., or the Rural Electrification Corporation Ltd., or the Minerals and Metals Trading Corporation of India Ltd., or the Agricultural Finance Corporation Ltd., or the State Industrial and Investment Corporation of Maharashtra Ltd., or the Gujarat Industrial Investment Corporation Ltd., or Asian Development Bank or International Finance Corporation or the Overseas Economic Cooperation Fund

(OECE) or Kreditanstalt für Wiederaufbau (KfW) or any other institution that may be specified by the National Housing Bank in this behalf;

- (iii) any amount received by a housing finance company from another company;
- (iv) any amount received by way of subscription to any share, stock, bonds or debentures pending the allotment of the said shares, stock, bonds or debentures and any amount received by way of calls in advance on shares, in accordance with the Articles of Association of the housing finance company so long as such amount is not repayable to the members under the Articles of Association of the housing finance company;
- (v) any amount received from a person who at the time of receipt of the amount was a Director of the housing finance company or any amount received from its shareholders by a private housing finance company or by a private housing finance company which has become a public housing finance company under section 43A of the Companies Act, 1956 and continues to include in its Articles of Association provisions relating to the matters specified in clause (iii) of sub-section (1) of section 3 of the Companies Act, 1956 (1 of 1956):

Provided that the Director or shareholder, as the case may be, from whom the money is received furnishes to the housing finance company at the time of giving the money, a declaration in writing to the effect that the amount is not being given out of funds acquired by him by borrowing or accepting from others;

Provided further that in the case of joint shareholders of a private limited company, money received from or in the name of the joint shareholders except the first named shareholder shall not be eligible to be treated as the receipt of money from the shareholder of the company;

- (vi) any amount raised by the issue of bonds or debentures secured by the mortgage of any immovable property of the

housing finance company; or by any other asset or with an option to convert them into shares in the housing finance company provided that in the case of such bonds or debentures secured by mortgage of any immovable property or secured by other assets, the amount of such bonds or debentures shall not exceed the market value of such immovable property/other assets;

- (vii) any amount brought in by the promoters by way of unsecured loan in pursuance of stipulations of lending institutions subject to the fulfillment of the following conditions, namely :-
 - (a) the loan is brought in pursuance of the stipulation imposed by the lending public financial institution in fulfillment of the obligation of the promoters to contribute such finance,
 - (b) the loan is provided by the promoters themselves and/or by their relatives, and not from their friends and business associates, and
 - (c) the exemption under this sub-clause shall be available only till the loan of the lending public financial institution is repaid and not thereafter;
- (viii) any amount received from a mutual fund which is governed by the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996;
- (ix) any amount received as hybrid debt or subordinated debt the minimum maturity period of which is not less than sixty months;
- (x) any amount received from a relative of a director of a housing finance company;

Note : The deposit shall be accepted only on an application made by the depositor containing therein a declaration that as on the date of deposit, he is related to the specific director in the capacity of a relative as defined under the Companies Act, 1956 (1 of 1956);

- (x) “public housing agency” shall include any authority, constituted in India by or under any law, engaged either for the purpose

of dealing with and satisfying the need for housing accommodation or for the purpose of planning, development or improvement of cities, towns and villages or for both;

(y) “securities” means securities as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);

(z) “standard asset” means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business;

(za) “sub-standard asset” means -

(i) an asset, which has been classified as non-performing asset for a period not exceeding two years;

[Provided that with effect from March 31, 2005, an asset, which has been classified as non-performing asset for a period not exceeding twelve months shall be a sub-standard asset;]¹

(ii) an asset, where the terms of the agreement regarding interest and/or principal have been re-negotiated or rescheduled after release of any instalment of loan or an inter-corporate deposit which has been rolled over, until the expiry of one year of satisfactory performance under the re-negotiated or rescheduled terms :

Provided that where a delay in completion of a project is caused on account of factors beyond the control of the project implementing agency, terms of the loan agreement regarding interest and/or principal may be rescheduled once before the completion of the project and such loans may be treated as standard asset, subject to the condition that such reschedulement shall be permitted only once by the Board of Directors of the concerned housing finance company and that interest on such loan is paid regularly and there is no default;

¹ *Inserted by paragraph 4 of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002 (effective from 18.01.2003)*

Provided further that where natural calamities impair the repaying capacity of a borrower, terms of the loan agreement regarding interest and/or principal may be rescheduled and such loans shall not be classified as sub-standard; the classification of such loans would thereafter be governed by the revised terms and conditions;

(zb)“subordinated debt” means a fully paid up capital instrument, which is unsecured and is subordinated to the claims of other creditors and is free from restrictive clauses and is not redeemable at the instance of the holder or without the consent of the supervisory authority of the housing finance company. The book value of such instrument shall be subjected to discounting as provided hereunder:

<i>Remaining maturity of the instruments</i>	<i>Rate of discount (%)</i>
(i) up to one year	100
(ii) More than one year but upto two years	80
(iii) More than two years but upto three years	60
(iv) More than three years but upto four years	40
(v) More than four years but upto five years	20

to the extent such discounted value does not exceed fifty percent of the Tier-I capital;

(zc)“substantial interest” means holding of a beneficial interest by an individual or his spouse or minor child, whether singly or taken together in the shares of a company, the amount paid up on which exceeds ten percent of the paid up capital of the company; or the capital subscribed by all the partners of a partnership firm;

(zd)“tier-I capital” means owned fund as reduced by investment in shares of other housing finance companies and in shares, debentures, bonds, outstanding loans and advances including hire purchase and lease finance made to and deposits with subsidiaries and companies in the same group exceeding, in aggregate, ten percent of the owned fund;

(ze) “tier-II capital” includes the following:-

- (i) preference shares (other than those compulsorily convertible into equity);
- (ii) revaluation reserves at discounted rate of fifty five percent;
- (iii) general provisions and loss reserves to the extent these are not attributable to actual diminution in value or identifiable potential loss in any specific asset and are available to meet unexpected losses to the extent of one and one fourth percent of risk weighted assets;
- (iv) hybrid debt;
- (v) subordinated debt

to the extent the aggregate does not exceed Tier-I capital;

(2) Words or expressions used but not defined herein and defined in the National Housing Bank Act, 1987 shall have the same meaning as assigned to them therein. Any other words or expressions not defined herein or in the National Housing Bank Act, 1987 shall have the same meaning as assigned to them in the Reserve Bank of India Act, 1934 (2 of 1934), Banking Regulation Act, 1949 (10 of 1949) and the Companies Act, 1956 (1 of 1956);

(3) (a) If any question arises as to whether a company is a financial institution or not, such question shall be decided by the National Housing Bank in consultation with the Central Government.

(b) If any question arises as to whether a company is a housing finance company, the same shall be decided by the National Housing Bank.

CHAPTER II - ACCEPTANCE OF PUBLIC DEPOSITS

Restriction on acceptance of deposits

3. (1) No housing finance company having net owned fund (hereinafter referred to as ‘NOF’) of less than twenty five lakhs of rupees shall accept public deposits.

(2) No housing finance company having NOF of twenty five lakhs of rupees and above shall accept or renew public deposits except to the extent specified below:-

- (i) not exceeding five times of its NOF, where the housing finance company has obtained credit rating for fixed deposits not below 'A' from any one of the approved rating agencies at least once a year and a copy of the rating is sent to the National Housing Bank and it is complying with all the prudential norms; and
- (ii) in the absence of credit rating as specified in (i) above, not exceeding two times of its NOF or ten crore of rupees, whichever is lower including any amount remaining outstanding in its books as on the date of acceptance or renewal of such deposit, subject to (a) it is complying with all the prudential norms, and (b) having capital adequacy ratio of not less than fifteen per cent as per the last audited balance sheet.

Approved Credit Rating Agencies

The names of approved credit rating agencies for the time being are as follows:-

- (a) The Credit Rating Information Services of India Ltd. (CRISIL)
- (b) ICRA Ltd.
- (c) Credit Analysis & Research Ltd.(CARE)
- (d) FITCH Ratings India Private Ltd.

[(3) No housing finance company shall have deposits inclusive of public deposits, the aggregate amount of which together with the amounts, if any, held by it which are referred in clauses (iii) to (vii) of sub-section (bb) of Section 45 I of the Reserve Bank of India Act, 1934 (2 of 1934) as also loans or other assistance from the National Housing Bank, is in excess of sixteen times of its NOF.]¹

(4) Where a housing finance company holds as on the date of commencement of these directions public deposits in excess of the limits

¹ *Substituted by Notification No.NHB.HFC.DIR.4/CMD/2003 dated 31st January,2003 (effective from 22.02.2003)*

specified in (2) above and as applicable to it or deposits inclusive of the items mentioned in (3) above in excess of the limits specified in (3) above, it shall -

- (a) not accept fresh deposit or open new deposit account; or
- (b) not renew the existing deposit or where the deposits are received under any recurring scheme, receive instalments under such scheme after the expiry of the scheme period;
- (c) reduce such excess deposit by repayment on maturity.

(5) In the event of down gradation of the credit rating to any level below 'A' from the level earlier held by the housing finance company, it shall

- (i) report the position within fifteen working days to the National Housing Bank;
- (ii) with immediate effect stop accepting fresh public deposit if the public deposit held by it is in excess of the limit specified under clause (ii) of paragraph 3(2) above; and
- (iii) reduce within three years from the date of downgrading of credit rating, the amount of excess public deposit to nil or the appropriate extent permissible under clause (ii) of paragraph 3(2) above as the case may be, to which it is entitled to accept, by repayment as and when such deposit falls due or otherwise.

Period of deposits

4. No housing finance company shall accept or renew any public deposit:

- (a) which is repayable on demand or on notice; or
- (b) unless such deposit is repayable after a period of twelve months or more but not later than eighty four months from the date of acceptance or renewal of such deposits.

Explanation

Where a public deposit is in instalments, the period of such deposit shall be computed from the date of receipt of first Instalment.

Joint deposits

5. Where so desired, deposits may be accepted in joint names with or without any of the clauses, namely, "Either or Survivor", "Number One or Survivor/s", "Anyone or Survivor/s".

Particulars to be specified in application form soliciting public deposits

6. (i) No housing finance company shall accept or renew any public deposit except on a written application from the depositors in the form to be supplied by the housing finance company, which form shall contain all the particulars specified in the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977, made under section 58A of the Companies Act, 1956 (1 of 1956) and also contain the particulars of the specific category of the depositors, i.e. whether the depositor is a shareholder or a director or a promoter of the housing finance company or a member of public or a relative of a director of the company.

(ii) The application form shall also contain the following:-

- (a) the credit rating assigned for its deposits and the name of the credit rating agency which rated the housing finance company;
- (b) a statement to the effect that in case of any deficiency of the housing finance company in servicing its deposits, the depositor may approach the National Consumers Disputes Redressal Forum, the State Level Consumers Disputes Redressal Forum or the District Level Consumers Disputes Redressal Forum for relief;
- (c) a statement to the effect that in case of non-repayment of the deposit or part thereof in accordance with the terms and conditions of the deposit, the depositor may make an application to authorised officer of the National Housing Bank;

- (d) a statement to the effect that the financial position of the housing finance company as disclosed and the representations made in the application form are true and correct and that the housing finance company and its Board of Directors are responsible for the correctness and veracity thereof;
- (e) a statement to the effect that the housing finance company is within the regulatory framework of the National Housing Bank. It must, however, be distinctly understood that the National Housing Bank does not undertake any responsibility for the financial soundness of the housing finance company or for the correctness of any of the statements or the representations made or opinions expressed by the housing finance company; and for repayment of deposit/ discharge of liabilities by the housing finance company;
- (f) the information, relating to and the aggregate dues from the facilities, both fund and non-fund based, extended to, and the aggregate dues from companies in the same group or other entities or business ventures in which the directors and/or the housing finance company are/is holding substantial interest and the total amount of exposure to such entities;
- (g) at the end of application form but before signature of the depositor, the following verification clause by the depositor shall be appended. "I have gone through the financial and other statements/ particulars/representations furnished/made by the housing finance company and after careful consideration I am making the deposit with the housing finance company at my own risk and volition."

Introduction of depositors

7. Every housing finance company shall obtain proper introduction of new depositors before opening their accounts and accepting the deposits, and shall keep on its record the evidence on which it has relied for the purpose of such introduction.

Explanation:

For the purpose of this paragraph, introduction shall mean identification of the prospective depositor and may be done either by one of the existing

depositors or on the basis of any one of Income Tax Permanent Account Number (PAN), Election Identity Card, Passport, or Ration Card.

Furnishing of receipts to depositors

8. (1) Every housing finance company shall furnish to every depositor or his agent, unless, it has done so already, a receipt for every amount which has been or which may be received by the housing finance company by way of deposit before or after the date of commencement of these Directions.

(2) The said receipt should be duly signed by an officer entitled to act for the housing finance company in this behalf and shall state the date of deposit, the name of depositor, the amount in words and figures received by the housing finance company by way of deposit, rate of interest payable thereon and the date on which the deposit is repayable.

Provided that, if such receipts pertain to Instalments subsequent to the first Instalment of a recurring deposit it may contain only name of the depositor/s, date and amount of deposit.

Register of deposits

9. (1) Every housing finance company shall keep one or more registers in which shall be entered separately in the case of each depositor or group of joint depositors the following particulars, namely,

- (a) name and address of the depositor or group of joint depositors, their nominees,
- (b) date and amount of each deposit,
- (c) duration and due date of each deposit,
- (d) date and amount of accrued interest or premium on each deposit,
- (e) date and amount of each repayment, whether of principal, interest or premium,
- (f) date of claim made by the depositor,
- (g) the reasons for delay in repayment beyond five working days, and
- (h) any other particulars relating to the deposits.

(2) The register or registers aforesaid shall be kept at each branch in respect of the deposit accounts opened by that branch of the housing finance company and a consolidated register for all the branches taken together at the registered office of the housing finance company and shall be preserved in good order for a period of not less than eight years following the financial year in which the latest entry is made of the repayment or renewal of any deposit of which particulars are contained in the register:

Provided that, if the housing finance company keeps the books of account referred to in sub-section (1) of Section 209 of the Companies Act, 1956 (1 of 1956) at any place other than its Registered Office in accordance with the provisions to that sub-section, it shall be sufficient compliance with this sub-paragraph if the register aforesaid is kept at such other place, subject to the condition that the housing finance company delivers to the National Housing Bank a copy of the notice filed with the Registrar under the proviso to the said sub-section within seven days of such filing.

Information to be included in the Board's Report

10. (1) In every report of the Board of Directors laid before the housing finance company in a general meeting under sub-section (1) of Section 217 of the Companies Act, 1956 (1 of 1956) after the date of commencement of these Directions there shall be included, the following particulars or information, namely:

- (a) the total number of accounts of public deposit of the housing finance company which have not been claimed by the depositors or not paid by the housing finance company after the date on which the deposit became due for re-payment; and
- (b) the total amounts due under such accounts remaining unclaimed or unpaid beyond the dates referred to in clause (a) as aforesaid.

(2) The said particulars or information shall be furnished with reference to the position as on the last date of the financial year to which the report relates and if the amounts remaining unclaimed or undisbursed as referred to in clause (b) of the preceding sub-paragraph exceed in the aggregate the sum of rupees five lakhs, there shall also be included in the report a statement on the steps taken or proposed to be taken by the

Board of Directors for the repayment of the amounts due to the depositors or group of joint depositors and remaining unclaimed or undisbursed.

Ceiling on the rate of interest and brokerage and interest on overdue public deposits

11. [1(a) On and from 27th March, 2003, no housing finance company shall invite or accept or renew any public deposit at a rate of interest exceeding eleven percent per annum. Interest may be paid or compounded at rests which shall not be shorter than monthly rests.

[1(aa) On and from 20th September 2003, no housing finance company shall invite or accept or renew repatriable deposits from non-resident Indians in terms of Notification No. FEMA.5/2000-RB dated May 03, 2000 under Non-Resident (External) Account Scheme at a rate exceeding the rates specified by the Reserve Bank of India for such deposits with scheduled commercial banks.

Explanation: The period of deposits shall not be less than one year and not more than three years.]²

(b) No housing finance company shall pay to any broker on public deposit collected by or through him,

- (i) brokerage, commission, incentive or any other benefit by whatever name called, in excess of two per cent of the deposit so collected;
- (ii) expenses by way of reimbursement on the basis of relative vouchers/bills produced by him, in excess of 0.5 % of the deposit so collected.]¹

(2) Payment of interest on overdue deposit

A housing finance company may, at its discretion, allow interest on an overdue public deposit or a portion of the said overdue deposit from the date of maturity of the deposit subject to the conditions that -

¹ Substituted by Notification No.NHB.HFC.DIR.5/CMD/2003 dated 27th March,2003

² Inserted by Notification No.NHB.HFC.DIR.6/CMD/2003 dated 20th September,2003

- (i) the total amount of overdue deposit or the part thereof is renewed in accordance with other relevant provisions of these Directions, from the date of its maturity till some future date, and
- (ii) the interest allowed shall be at the appropriate rate operative on the date of maturity of such overdue deposit which shall be payable only on the amount of deposit so renewed:

Provided that where a housing finance company fails to repay the deposit along with interest on maturity on the claim made by the depositor, the housing finance company shall pay interest from the date of claim till the date of repayment at the rate as applicable to the deposit.

General provisions regarding repayment of deposits

12. (i) No housing finance company shall repay any public deposit within a period of three months from the date of its acceptance.

(ii) Where a housing finance company at the request of depositor/s repays a public deposit after the period indicated in clause (i) above but before its maturity, it shall pay interest at the following rate:

- | | |
|----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Three months but before expiry of six months | No interest |
| (b) Six months but before expiry of twelve months. | Not exceeding ten percent per annum |
| (c) Twelve months but before the date of maturity | One percentage point less than the rate at which the housing finance company would have ordinarily paid, had the deposit been accepted for the period for which such deposit had run. |

Provided that in the event of death of a depositor, the public deposit may be paid prematurely to the surviving depositor/s in the case of joint holding with the survivor clause, or to nominee or legal heir/s with interest at the contracted rate upto the date of repayment.

(iii) A housing finance company may grant a loan upto seventy-five percent of the amount of public deposit to a depositor after the expiry of

three months from the date of public deposit at a rate of interest two percentage points above the interest rate payable on the public deposit.

Renewal of public deposit before maturity

13. Where any housing finance company permits an existing depositor to renew his public deposit before maturity for availing the benefit of higher rate of interest, such company shall pay the depositor the increase in the rate of interest provided,

- (i) the public deposit is renewed in accordance with the other provisions of these directions and for a period longer than the remaining period of the original contract; and
- (ii) the interest on the expired period of the public deposit is reduced by one percentage point from the rate at which the housing finance company would have ordinarily paid, had the deposit been accepted for the period for which such public deposit had run; any interest paid earlier in excess of such reduced rate is recovered/adjusted.

Safe custody of approved securities

14. (1) Every housing finance company shall entrust to one of the scheduled commercial banks designated by it on that behalf, in the place where the registered office of the housing finance company is situated, the unencumbered approved securities required to be maintained by it in pursuance of Section 29B of the National Housing Bank Act, 1987;

[Provided that where a housing finance company intends to entrust these securities to the Stock Holding Corporation of India Ltd. or to its designated banker at a place other than the place at which its registered office is located or to keep them in the form of Constituent's Subsidiary General Ledger Account with a scheduled commercial bank, or with a depository participant registered with Securities and Exchange Board of India under Securities and Exchange Board of India Act, 1992 (15 of 1992), it shall obtain the prior approval, in writing, of the National Housing Bank.]¹

¹ *Substituted by Paragraph 5(1) of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002 (effective from 18.01.2003)*

[(2) the securities mentioned in sub-paragraph (1) above shall continue to be entrusted to such designated banker or to the Stock Holding Corporation of India Ltd. or the depository participant or held in the constituent's subsidiary General Ledger Account with the scheduled commercial bank for the benefit of the depositors and shall not be withdrawn or encashed or otherwise dealt with by the housing finance company except for repayment to the depositors]¹

Provided that,

(1) a housing finance company shall be entitled to withdraw a portion of such securities proportionate to the reduction of its deposits duly certified to that effect by its auditors;

(2) where the housing finance company intends to substitute such securities, it may do so by entrusting substitute securities of equal value to the designated bank before such withdrawal.

Explanation

‘scheduled commercial bank’ means a bank included in the Second Schedule to the Reserve Bank of India Act, 1934 (2 of 1934) excluding a Regional Rural Bank or a Co-operative Bank.

Employee Security Deposit

15. A housing finance company receiving any amount in the ordinary course of its business as security deposit from any of its employees for due performance of his duties shall keep such amount in an account with a scheduled commercial bank or in a post office in the joint names of the employee and the housing finance company on the conditions that -

- (1) it shall not withdraw the amount without the consent in writing of the employee; and
- (2) the amount shall be repayable to the employee along with interest payable on such deposit account unless such amount or any part thereof is liable to be appropriated by the housing finance

¹ Substituted by Paragraph 5(2) of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002 (effective from 18.01.2003)

company for the failure on the part of the employee for due performance of his duties.

Advertisement and statement in lieu of advertisement

16. (1) every housing finance company soliciting public deposits shall comply with the provisions of the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977 and shall also specify in every advertisement to be issued thereunder, the following :

- (a) the actual rate of return by way of interest, premium, bonus or other advantage to the depositors;
- (b) the mode of payment to the depositors;
- (c) maturity period of deposits;
- (d) the interest payable on a specified deposit;
- (e) the rate of interest which will be payable to the depositors in case the depositor withdraws the deposit prematurely;
- (f) the terms and conditions subject to which a deposit will be renewed;
- (g) any other special features relating to the terms and conditions subject to which the deposits are accepted/renewed; and
- (h) the information, relating to the aggregate dues (including the non-fund based facilities) provided to/from companies in the same group or other entities or business ventures in which the directors and/or the housing finance company are holding substantial interest and the total amount of exposure to such entities.

(2) where a housing finance company intends to accept public deposits without inviting or allowing or causing any other person to invite such deposits, it shall, before accepting deposits, deliver to the office of the National Housing Bank at New Delhi for registration, a statement in lieu of advertisement containing all the particulars required to be included in the advertisement pursuant to the Non-Banking Financial Companies

and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977 as also the particulars stated in sub-paragraph (1) hereinabove, duly signed in the manner provided in the aforesaid Rules.

(3) A statement, delivered under sub-paragraph (2) shall be valid till the expiry of six months from the date of closure of the financial year in which it is so delivered, or until the date on which the balance sheet is laid before the housing finance company in general meeting, or where the annual general meeting for any year has not been held, the latest day on which that meeting should have been held in accordance with the provisions of the Companies Act, 1956(1 of 1956), whichever is earlier and a fresh statement shall be delivered in each succeeding financial year before accepting deposits in that financial year.

Opening of Branches

17. A housing finance company shall, before opening a branch or an office, inform National Housing Bank in writing of its intention to open a branch or an office.

Closure of Branches

18. No housing finance company accepting deposits shall close its branch/office without publishing such intention in any one national level newspaper and in one vernacular newspaper in circulation in the relevant place and without advising National Housing Bank, before ninety days of the proposed closure.

CHAPTER III - PRUDENTIAL NORMS

Income recognition

19. (1) Income recognition shall be based on recognised accounting principles.

(2) Income including interest/discount or any other charges on NPA shall be recognised only when it is actually realised. Any such income recognised before the asset became non-performing and remaining unrealised shall be reversed.

(3) In respect of hire purchase assets, where instalments are overdue for more than twelve months, income shall be recognised only when hire

charges are actually received. Any such income taken to the credit of profit and loss account before the asset becoming non-performing and remaining unrealised, shall be reversed.

(4) In respect of lease assets, where lease rentals are overdue for more than twelve months, the income shall be recognised only when lease rentals are actually received. The net lease rentals taken to the credit of profit and loss account before the asset became non-performing and remaining unrealised shall be reversed.

Explanation: For the purpose of this paragraph, 'net lease rentals' mean gross lease rentals as adjusted by the lease adjustment account debited/credited to the profit and loss account and as reduced by depreciation at the rate applicable under schedule XIV of the Companies Act, 1956.

Income from investments

20. (1) Income from dividend on shares of corporate bodies and units of mutual funds shall be taken into account on cash basis;

Provided that the income from dividend on shares of corporate bodies may be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the housing finance company's right to receive payment is established.

(2) Income from bonds and debentures of corporate bodies and from Government securities/bonds may be taken into account on accrual basis;

Provided that the interest rate on these instruments is predetermined and interest is serviced regularly and is not in arrears.

(3) Income on securities of corporate bodies or public sector undertakings, the payment of interest and repayment of principal of which have been guaranteed by the Central Government or a State Government may be taken into account on accrual basis.

Accounting standards

21. Accounting Standards and Guidance Notes issued by the Institute of Chartered Accountants of India (referred to in these directions as

“ICAI”) shall be followed insofar as they are not inconsistent with any of these Directions.

Accounting for investments

22. [(1) (a) The Board of Directors of every housing finance company shall frame investment policy for the company and implement the same;

(b) The criteria to classify the investments into current and long term investments shall be spelt out by the Board of the company in the investment policy;

(c) Investments in securities shall be classified into current and long term, at the time of making each investment;

(d) (i) There shall be no inter-class transfer on ad-hoc basis;

(ii) The inter-class transfer, if warranted, shall be effected only at the beginning of each half year, on April 1 or October 1, with the approval of the Board;

(iii) The investments shall be transferred scrip wise, from current to long-term or vice-versa, at book value or market value, whichever is lower;

(iv) The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored;

(v) The depreciation in one scrip shall not be set off against appreciation in another scrip, at the time of such inter-class transfer, even in respect of the scrips of the same category”].¹

(2) A long term investment shall be valued in accordance with the Accounting Standard issued by ICAI.

(3) Quoted current investments shall, for the purpose of valuation, be grouped into the following categories, viz.,

(a) equity shares,

¹ Substituted by Paragraph 1 of Notification No.NHB.HFC.DIR.8/CMD/2004 dated 18th May,2004 (effective from 29.05.2004)

- (b) preference shares,
- (c) debentures and bonds,
- (d) Government securities including treasury bills,
- (e) units of mutual fund, and
- (f) others.

Quoted current investments for each category shall be valued at cost or market value, whichever is lower. For this purpose, the investments in each category shall be considered scrip-wise and the cost and market value aggregated for all investments in each category. If the aggregate market value for the category is less than the aggregate cost for that category, the net depreciation shall be provided for or charged to the profit and loss account. If the aggregate market value for the category exceeds the aggregate cost for the category, the net appreciation shall be ignored. Depreciation in one category of investments shall not be set off against appreciation in another category.

[(4) Unquoted equity shares in the nature of current investments shall be valued at cost or break up value, whichever is lower. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at Rupee one per company.]¹

[(5) Unquoted preference shares in the nature of current investments shall be valued at cost or face value or the net asset value whichever is less. In case the net asset value is negative or the balance sheet of the investee company is not available for two years, it should be valued at Rupee one per company.]²

(6) Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

(7) Unquoted investments in the units of mutual funds in the nature of current investments shall be valued at the net asset value declared by the mutual fund in respect of each particular scheme.

(8) Commercial papers shall be valued at carrying cost.

¹ Substituted by Paragraph 2 of Notification No.NHB.HFC.DIR.8/CMD/2004 dated 18th May,2004 (effective from 29.05.2004)

² Substituted by Paragraph 1 of Notification No. NHB. HFC. DIR. 8/CMD/2004 dated 18th May, 2004 (effective from 29.05.2004)

Note: Unquoted debentures shall be treated as term loans or other type of credit facilities depending upon the tenure of such debentures for the purpose of income recognition and asset classification.

[Need for Policy on Demand/Call Loans

22A. (1) The Board of Directors of every housing finance company granting/intending to grant demand/call loans shall frame a policy for the company and implement the same.

(2) Such policy shall, inter alia, stipulate the following,

- (i) A cut off date within which the repayment of demand or call loan shall be demanded or called up;
- (ii) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if the cut off date for demanding or calling up such loan is stipulated beyond a period of one year from the date of sanction;
- (iii) The rate of interest which shall be payable on such loans;
- (iv) Interest on such loans, as stipulated shall be payable either at monthly or quarterly rests;
- (v) The sanctioning authority shall, record specific reasons in writing at the time of sanctioning demand or call loan, if no interest is stipulated or a moratorium is granted for any period;
- (vi) A cut-off date, for review of performance of the loan, not exceeding six months commencing from the date of sanction;
- (vii) Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction.]¹

Asset classification

23. (1) Every housing finance company shall, after taking into account

¹ *Inserted by Paragraph 6 of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002 (effective from 18.01.2003)*

value is to be estimated on a realistic basis;

- (b) in addition to item (a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20% to 50% of the secured portion (i.e. estimated realisable value of the outstandings) shall be made on the following basis:-

Period for which the asset has been considered as doubtful	% of provision
Up to one year	20
one to three years	30
More than three years	50

- (iii) Sub-standard Assets A general provision of 10% of total outstanding should be made

Lease and hire purchase assets

(2) The provisioning requirements in respect of hire purchase and leased assets shall be as under:-

Hire purchase assets

(i) In respect of hire purchase assets, the total dues (overdue and future instalments taken together) as reduced by the finance charges not credited to the profit and loss account and carried forward as unmatured finance charges and the depreciated value of the underlying asset, shall be provided for.

Explanation

For this purpose, the depreciated value of the asset shall be notionally computed as the original cost of the asset to be reduced by depreciation at the rate of 20 percent per annum on a straight line method. In the case of second hand asset, the original cost shall be the actual cost incurred for acquisition of such second hand asset.

Additional provision for Hire Purchase and Leased assets

(ii) In respect of hire purchase and leased assets, additional provision shall be made as under :

- | | |
|---------------------------------------------------------------------------------------------------------------|----------------------------|
| (a) Where any amounts of hire charges or lease rentals are overdue upto 12 months | Nil |
| (b) Where any amounts of hire charges or lease rentals are overdue for more than 12 months but upto 24 months | 10% of the net book value |
| (c) Where any amounts of hire charges or lease rentals are overdue for more than 24 months but upto 36 months | 40% of the net book value |
| (d) Where any amounts of hire charges or lease rentals are overdue for more than 36 months but upto 48 months | 70% of the net book value |
| (e) Where any amounts of hire charges or lease rentals are overdue for more than 48 months | 100% of the net book value |

(iii) On expiry of a period of 12 months after the due date of the last instalment of hire purchase/ leased asset, the entire net book value shall be fully provided for.

NOTES

(1) The amount of caution money/margin money or security deposits kept by the borrower with the housing finance company in pursuance of the hire purchase agreement may be deducted against the provisions stipulated under clause (i) above, if not already taken into account while arriving at the equated monthly installments under the agreement. The value of any other security available in pursuance to the hire purchase agreement may be deducted only against the provisions stipulated under clause (ii) above.

(2) The amount of security deposits kept by the borrower with the housing finance company in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease

agreement may be deducted only against the provisions stipulated under clause (ii) above.

(3) It is clarified that income recognition on and provisioning against NPAs are two different aspects of prudential norms and provisions as per the norms are required to be made on NPAs on total outstanding balances including the depreciated book value of the leased asset under reference after adjusting the balance, if any, in the lease adjustment account. The fact that income on NPA has not been recognised cannot be taken as reason for not making provision.

(4) An asset which has been re-negotiated or rescheduled as referred to in paragraph 2 (1)(za) of these Directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its re-negotiation or reschedulement as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded. In case where an asset has been re-scheduled on account of natural calamities having impaired the repaying capacity of the borrower as provided in second proviso to paragraph 2(1)(za), any provisioning made prior to such rescheduling shall neither be written back nor adjusted against any provisioning requirements that may arise in future.

[(5) All financial leases written on or after April 1, 2002 attract the provisioning requirements as applicable to hire purchase assets.]¹

Disclosure in balance sheet

25. (1) Every housing finance company shall, separately disclose in its balance sheet the provisions made as per paragraph 24 above without netting them from the income or against the value of assets.

(2) The provisions shall be distinctly indicated under separate heads of accounts separately for housing and non-housing finance business and individually for each type of assets as under:-

(a) provisions for sub-standard, doubtful and loss assets; and

(b) provisions for depreciation in investments

¹ *Inserted by Paragraph 7 of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002 (effective from 18.01.2003)*

(3) Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the housing finance company.

(4) Such provision for each year shall be debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves may be written back without making adjustment against them.

Requirement as to Capital Adequacy

26. (1) Every housing finance company shall maintain a minimum capital ratio consisting of Tier-I and Tier-II capital which shall not be less than-

- i) ten percent on or before March 31,2001; and
- ii) twelve percent [on or before March 31, 2002 and thereafter]¹

of its aggregate risk weighted assets and of risk adjusted value of off-balance sheet items.

(2) The total Tier-II capital, at any point of time, shall not exceed one hundred percent of Tier-I capital.

Explanations:

On balance sheet assets

(1) In these Directions, degree of credit risk expressed as percentage weightages have been assigned to balance sheet assets. Hence, the value of each asset/item requires to be multiplied by the relevant risk weights to arrive at risk adjusted value of assets. The aggregate shall be taken into account for reckoning the minimum capital ratio. The risk weighted asset shall be calculated as the weighted aggregate of funded items as detailed hereunder:

¹ Inserted by Paragraph 8 of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002

<i>Weighted risk assets - On balance Sheet items</i>	<i>% Weight</i>
(1) Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(2) Investments:	
(a) Approved securities as defined in the National Housing Bank Act, 1987	0
(b) Bonds of public sector banks and fixed deposits/ certificates of deposits/bonds of public financial institutions	20
(c) Units of Unit Trust of India	20
[(ca) Mortgage backed security, receipt or other security evidencing the purchase or acquisition by a housing finance company of an undivided right, title or interest in any debt or receivable originated by a housing finance company recognised and supervised by National Housing Bank or a scheduled commercial bank and secured by mortgage of residential immovable property, provided the conditions specified below in Note (4) are fulfilled] ¹	50
(d) Shares of all companies and debentures/bonds/ commercial papers of companies other than in (b) above/ units of mutual funds other than in (c) above	100
(3)(a) [Housing loans to individuals secured by mortgage of immovable property, which are classified as standard assets] ²	50
(b) Other housing loans	100
(4) Current Assets:	
(a) Stock on hire (please see note 2 below)	100
(b) Inter corporate loans/ deposits	100

¹ Inserted by Paragraph 9(1) of Notification No.NHB.HFC.DIR.3/CMD/ 2002 dated 27th December,2002

² Inserted by Paragraph 9(2) of Notification No.NHB.HFC.DIR.3/CMD/ 2002 dated 27th December,2002

(c) Loans and advances fully secured by company's own deposits	0
(d) Loan to staff	0
(e) Other secured loans and advance considered good	100
(f) Bills purchased/ discounted	100
(g) Others (to be specified)	100
(5) Fixed Assets (net of depreciation)	
(a) Assets leased out (net book value)	100
(b) Premises	100
(c) Furniture & Fixtures	100
(d) Other Fixed Assets(to be specified)	100
(6) Other Assets:	
(a) Income tax deducted at source (net of provision)	0
(b) Advance tax paid (net of provision)	0
(c) Interest due on Government Securities and approved securities	0
(d) Others (to be specified)	100

Notes:

(1) Netting may be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.

(2) Stock on hire should be shown net of finance charges i.e. interest and other charges recoverable.

(3) Assets which have been deducted from owned fund to arrive at tier-I capital pursuant to paragraph 2(1)(zd) will have a weightage of "0".

[(4) For being eligible for risk weight of 50%, investments in mortgage backed security, receipt or other security referred to in item (ca) of sub-Explanation (2) should fulfill the following terms and conditions, namely :-

- (a) The assignment of debt together with the securities therefor and the receivables thereunder by the originating housing finance company or scheduled commercial bank in favour of the trust or the securitisation company as defined in Clause (za) of subsection (1) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002(54 of 2002) issuing such receipt or other security is complete and irrevocable.
- (b) The trust or the securitisation company is holding the debt together with the securities therefor exclusively for the benefit of the investors in such receipt or other security.
- (c) The originating housing finance company or scheduled commercial bank participating in the securitisation transaction, in which such mortgage backed security, receipt or other security has been issued, as a seller, manager, servicer or provider of credit enhancement or liquidity facilities;
 - (i) does not own any equity or preference share in the capital of the securitisation company or is the beneficiary of the trust;
 - (ii) has not named the trust or the securitisation company in such manner which implies any connection with it;
 - (iii) does not have any of its director, officer or employee on the Board of securitisation company unless the Board is made up of at least three members and there is a majority of independent directors and the official representing the originating institution in the Board of the securitisation company does not have veto powers;
 - (iv) does not directly or indirectly control the trust or the securitisation company; and
 - (v) has not agreed to support any losses arising out of the securitisation transaction or to be suffered by the investors involved in it or agreed to bear recurring expenses of the transaction.
- (d) Each debt securitised is a loan advanced to an individual for the acquisition/ construction of residential immovable property which

has been mortgaged in favour of the originating housing finance company or scheduled commercial bank on exclusive basis.

- (e) Securitised debt had investment grade credit rating by any of the credit rating agencies at the time of assignment to the trust/securitisation company.
- (f) The investors are entitled to call upon the issuer - the trust/securitisation company to take steps for recovery in the event of default and distribute the net proceeds to the investors as per the terms of issue of receipt or other security.
- (g) The trust or the securitisation company undertaking the issue in which investment has been made is not engaged in any business other than the business of issue and administration of securitisation of housing loans.
- (h) The trustees appointed to manage the issue is governed by the provisions of Indian Trusts Act, 1882(2 of 1882).¹

Off-Balance Sheet items

(2) In these Directions, degrees of credit risk exposure attached to off-balance sheet items have been expressed as a percentage of credit conversion factor. Hence the face value of each item requires to be first multiplied by the relevant conversion factor to arrive at risk adjusted value of off-balance sheet item. The aggregate shall be taken into account for reckoning the minimum capital ratio. This shall have to be again multiplied by the risk weight of 100. The risk weighted value of the off-balance sheet items shall be calculated as per the credit conversion factors of non-funded items as detailed under:-

<i>Nature of Items</i>	<i>Credit conversion factor (%)</i>
i) Undisbursed amounts of Housing loans sanctioned	50
ii) Financial & Other guarantees	100

¹ Inserted by Paragraph 9(3) of Notification No.NHB.HFC.DIR.3/CMD/ 2002 dated 27th December,2002

iii) Shares/ debentures underwriting obligations	50
iv) Partly-paid shares/ debentures	100
v) Bills discounted/ rediscounted	100
vi) Lease contracts entered into but yet to be executed	100
vii) Other contingent liabilities (to be specified)	50

Provided that in item (i) above, in those cases where no documents are executed, no disbursement has taken place and in case sanction lapses in course of time and notice to that effect is served on prospective borrower, credit conversion factor shall be taken as 0% and in the case of partly disbursed housing loans credit conversion factor shall be taken as 50%.

Note:

Cash margins/ deposits shall be deducted before applying the conversion factor.

[Restrictions on exposure to capital market, investment in real estate and engagement of brokers

27. (1) No housing finance company, shall

[(a) invest in land or building, except for its own use, an amount exceeding twenty per cent of its capital fund,

Provided that such investment over and above ten percent of its owned fund shall be made only in residential units]¹

Note:

‘Capital fund’ means the aggregate of ‘tier-I capital’ and ‘tier-II capital.’]¹

(b) acquire shares, convertible debentures of corporates and units of equity-oriented mutual funds, in excess of a ceiling of 5 per cent of the total outstanding advances (including Commercial Paper) as on March 31 of the previous year. Within the overall ceiling of 5 per cent for total exposure to capital market, the

¹ Substituted by Notification No.NHB.HFC.DIR.7/CMD/ 2003 dated 10th December,2003

total investment in shares, convertible bonds and debentures and units of equity-oriented mutual funds by a housing finance company should not exceed 20 per cent of its net worth.

Provided that the land or building or shares, convertible bonds or debentures of corporates or units of equity-oriented mutual funds acquired in satisfaction of its debts shall be disposed off by the housing finance company within a period of three years or within such a period as extended by the National Housing Bank, from the date of such acquisition if the investment in these assets together with such assets already held by the housing finance company exceeds the above ceiling;

Provided further that the land or building or shares, convertible bonds or debentures of corporates or units of equity-oriented mutual funds held by the company in excess of the ceiling specified hereinabove on the date of coming into force of the above provisions, shall be disposed off so as to bring down such holding within the said ceiling by the housing finance company within three years or within such period as extended by the National Housing Bank from the date of coming into force of these Directions.

(2) For engagement of brokers to deal in investment transactions, the housing finance companies should observe the following:

- (a) Transactions should not be put through the brokers' accounts. The brokerage on the deal payable to the broker, if any (if the deal was put through with the help of a broker), should be clearly indicated on the notes/memorandum put up to the top management seeking approval for putting through the transaction and separate account of brokerage paid, broker-wise, should be maintained.
- (b) If a deal is put through with the help of a broker, the role of the broker should be restricted to that of bringing the two parties to the deal together.
- (c) While negotiating the deal, the broker is not obliged to disclose the identity of the counterparty to the deal. On conclusion of the deal, he should disclose the counterparty and his contract note should clearly indicate the name of the counterparty.

- (d) On the basis of the contract note disclosing the name of the counterparty, settlement of deals, viz. both fund settlement and delivery of security, should be directly between the parties and the broker should have no role to play in the process.
- (e) With the approval of their top managements, housing finance companies should prepare a panel of approved authorized brokers which should be reviewed annually, or more often if so warranted. Clear-cut criteria should be laid down for empanelment of brokers, including verification of their creditworthiness, market reputation, etc. A record of broker-wise details of deals put through and brokerage paid, should be maintained.
- (f) A disproportionate part of the business should not be transacted through only one or a few brokers. Housing finance companies should fix aggregate contract limits for each of the approved brokers. A limit of 5% of total transactions (both purchase and sales) entered into by a housing finance company during a year should be treated as the aggregate upper contract limit for each of the approved brokers. This limit should cover both, the business initiated by a housing finance company and the business offered / brought to the housing finance company by a broker. Housing finance companies should ensure that the transactions entered into through individual brokers during a year normally do not exceed this limit. However, if for any reason it becomes necessary to exceed the aggregate limit for any broker, the specific reasons therefor should be recorded, in writing, by the authority empowered to put through the deals. Further, the board should be informed of this, post facto. However, the norm of 5% would not be applicable (i) to a housing finance company whose total transactions in a year do not exceed Rs.20 crores; and (ii) to housing finance companies' dealings through Primary Dealers.
- (g) The auditors who audit the treasury operations should scrutinise the business done through brokers also and include it in their monthly report to the Chief Executive Officer of the housing finance company. Besides, the business put through any individual broker or brokers in excess of the limit, with the reasons therefor, should be covered in the half-yearly review to the Board of Directors.

Exceptions:

Note: Housing finance companies may undertake securities transactions through members of the National Stock Exchange (NSE), OTC Exchange of India (OTCEI) and the Stock Exchange, Mumbai(BSE). If such transactions are not undertaken on the NSE, OTCEI or BSE, the same should be undertaken by housing finance companies directly, without engaging brokers.]¹

Concentration of credit/investment

28. (1) No housing finance company shall,-

- (i) lend to-
 - (a) any single borrower exceeding fifteen percent of its owned fund; and
 - (b) any single group of borrowers exceeding twenty-five percent of its owned fund;
- (ii) invest in-
 - (a) the shares of another company exceeding fifteen percent of its owned fund; and
 - (b) the shares of a single group of companies exceeding twenty-five percent of its owned fund;
- (iii) lend and invest(loans/investments together) exceeding -
 - (a) twenty-five percent of its owned fund to a single party; and
 - (b) forty percent of its owned fund to a single group of parties.

(2) Any loan granted and investment made by the housing finance company in excess of the ceilings specified hereinabove and existing on the date of commencement of these directions, shall be brought down by the housing finance company as per the repayment schedule in due course.

Notes:

- (1) For determining the above mentioned limits, off-balance sheet

¹ Substituted by Paragraph 10 of Notification No.NHB.HFC.DIR.3/CMD/ 2002 dated 27th December,2002 (effective from 18.01.2003)

exposures be converted into credit risk by applying the conversion factors explained hereinabove.

(2) The investment in debentures for the above purpose be treated as credit and not investment.

(3) The above ceilings on credit/investments shall be applicable to the own group of the housing finance company as well as to the other group of borrowers/investee companies.

CHAPTER IV - DIRECTIONS TO AUDITORS

Auditor's report to contain specified matters

29. In addition to the report made by the auditor under section 227 of the Companies Act, 1956 (1 of 1956) on the accounts of a housing finance company after the commencement of these Directions, the auditor shall make a report to the Board of Directors of the company on the matters specified in paragraphs 30 and 31 below.

Matters to be included in the auditor's report

30. The auditor's report on the accounts of a housing finance company shall include a statement on the following matters, namely :-

- (i) where the housing finance company was incorporated before 12th June, 2000 -whether it has applied for registration as required under section 29A of the National Housing Bank Act, 1987 and whether it has received any communication from National Housing Bank about grant or refusal of certificate of registration to it;
- (ii) where the housing finance company was incorporated on or after 12th June, 2000 - whether it has obtained a certificate of registration from National Housing Bank;
- (iii) whether the housing finance company has complied with the liquidity requirements as specified under Section 29B of the National Housing Bank Act, 1987 and kept the securities with the designated bank;
- (iv) whether the housing finance company has complied with Section 29C of the National Housing Bank Act, 1987;

- (v) whether the housing finance company has complied with the provisions of these Directions;
- (vi) whether the capital adequacy ratio as disclosed in the return submitted to National Housing Bank has been correctly determined and whether such ratio is in compliance with the minimum capital to risk weighted asset ratio as prescribed by the National Housing Bank in these Directions;
- (vii) where the housing finance company is accepting/holding public deposits - whether
 - (a) public deposits accepted by the housing finance company are within admissible limits;
 - (b) total borrowings of the housing finance company i.e. deposits inclusive of public deposits together with the amounts referred to in sub-clauses (iii) to (vii) of sub-section (bb) of Section 45 I of the Reserve Bank of India Act, 1934 and loans or other assistance from the National Housing Bank are within the limit prescribed in these Directions;
 - (c) the deposits in excess of the admissible limit held by the housing finance company have been regularised in the manner stipulated by National Housing Bank;
 - (d) the credit rating for deposits i.e. _____ (mention the rating) assigned by the credit rating agency viz., _____ (name of the agency) on _____ (the date) is in force and the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the rating agency;
 - (e) the housing finance company has defaulted in paying to its depositors the interest and/or principal amounts of deposits after such interest and/or principal became due;
 - (f) in case of opening of new branches or offices for acceptance of public deposits or closure of branches or offices, the housing finance company has complied with the relevant provisions of these Directions;
- (viii) where the housing finance company is not accepting public deposits- whether

- (a) the Board of Directors has passed a resolution for non-acceptance of any public deposits;
- (b) the company has accepted any public deposits during the relevant period/year;
- (c) the company has complied with prudential norms.

Reasons to be stated for unfavourable or qualified statement

31. Where, in the auditor's report, the statement regarding any of the items referred to in paragraph 30 above is unfavourable or qualified, the auditor's report shall also state the reasons for such unfavourable or qualified statement, as the case may be. Where the auditor is unable to express any opinion on any of the items referred to in paragraph 30 above, the auditor's report shall indicate such fact together with reasons therefor.

Obligation of auditor to report to the National Housing Bank

32. Where, in the case of a housing finance company, the statement regarding any of the items referred to in paragraph 30 above is unfavourable or qualified or in the opinion of the auditor the company has not complied with the provisions of these Directions or the provisions of chapter V of the National Housing Bank Act, 1987, it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the company to head office of the National Housing Bank at New Delhi.

CHAPTER V - MISCELLANEOUS

Loans against housing finance company's own shares prohibited

33. (1) No housing finance company shall lend against its own shares.

(2) Any outstanding loan granted by a housing finance company against its own shares on the date of commencement of these Directions shall be recovered by the housing finance company as per the repayment schedule.

Housing finance companies failing to repay public deposit prohibited from making loans and investments

34. A housing finance company which has failed to repay any public

deposit or part thereof in accordance with the terms and conditions of such deposit, as provided in section 36A(1) of the National Housing Bank Act, 1987, shall not grant any loan or other credit facility by whatever name called or make any investment or create any other asset as long as the default exists.

Constitution of Audit Committee

35. A housing finance company having assets of Rs. 50 crore and above as per its last audited balance sheet shall constitute an Audit Committee consisting of not less than three non-executive Directors of the Board.

[Explanation

The Audit Committee constituted under this paragraph shall have the same powers, functions and duties as laid down in section 292A of the Companies Act, 1956 (1 of 1956).”¹

Accounting year

36. Every housing finance company shall prepare its balance sheet and profit and loss account as on March 31 every year with effect from the accounting year ending on March 31, 2002:

Provided that if the accounting year of any housing finance company ends on any date other than March 31, 2002, such housing finance company shall prepare its balance sheet and profit and loss account for any fraction of the year ending on March 31, 2002.

Copies of balance sheet and accounts together with the Directors’ report to be furnished to the National Housing Bank.

37. Every housing finance company shall deliver to the National Housing Bank an audited balance sheet as on the last date of each financial year and audited profit and loss account in respect of that year as passed by the housing finance company in General Meeting together with a copy of the report of the Board of Directors laid before the housing finance company in such meeting in terms of Section 217(1) of the Companies

¹ *Inserted by Paragraph 11 of Notification No.NHB.HFC.DIR.3/CMD/ 2002 dated 27th December,2002*

Act, 1956 (1 of 1956) within 15 days of such meeting as also a copy of the report and the notes on accounts furnished by its Auditors.

Auditor's Certificate

38. Every housing finance company holding/accepting public deposits shall furnish to the National Housing Bank, along with the copy of the audited balance sheet as provided under paragraph 37, a copy of the auditor's report to the Board of Directors and a certificate from its auditors to the effect that the full amount of liabilities to the depositors of the company including interest payable thereon are properly reflected in the balance sheet and that the company is in a position to meet the amount of such liabilities to the depositors.

Returns to be submitted to the National Housing Bank

39. (1) Without prejudice to the provisions of paragraph 37, every housing finance company shall submit to the National Housing Bank an annual return furnishing the information specified in Schedule I to these Directions with reference to its position as on 31st March every year, a half yearly return furnishing the information specified in Schedule II to these Directions with reference to its position as on 30th September and 31st March every year and a quarterly return furnishing the information specified in Schedule III with reference to its position as at the end of every calendar quarter.

(2) (i) Every housing finance company shall, within one month from the commencement of business, deliver to the National Housing Bank, a written statement containing a list of -

- (a) the names and official designations of its principal officers;
- (b) the complete postal address, telephone number/s and fax number/s of the registered/ corporate office;
- (c) the names and office addresses of the auditors of the company;
- (d) the names and the residential addresses of the directors of the housing finance company; and
- (e) the specimen signatures of the officers authorised to sign on behalf of the housing finance company, returns specified in sub-paragraph (1).

(ii) any change in the list referred to in clause(i) of this sub-paragraph

shall be intimated to the National Housing Bank within one month from the occurrence of such change.

Balance-sheet, returns, etc. to be submitted to the office of National Housing Bank at New Delhi

40. Any balance sheets, returns or information required to be submitted or furnished to the National Housing Bank in pursuance of these Directions shall be submitted or furnished to the office of National Housing Bank at New Delhi.

Exemptions

41. The National Housing Bank may, if it considers it necessary for avoiding any hardship or for any other just and sufficient reason, grant extensions of time to comply with or exempt any housing finance company or class of housing finance companies, from all or any of the provisions of these Directions either generally or for any specified period subject to such conditions as the National Housing Bank may impose.

Interpretations

42. For the purpose of giving effect to the provisions of these Directions, the National Housing Bank may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the National Housing Bank shall be final and binding on all the parties concerned.

Saving of action taken or that may be taken for contravention of the Housing Finance Companies (NHB) Directions, 1989

43. It is hereby clarified that the supercession of the Housing Finance Companies (NHB) Directions, 1989, as amended from time to time, shall not in any way affect:

- (i) any right, obligation or liability acquired, accrued or incurred thereunder;
- (ii) any penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
- (iii) any investigation, legal proceeding or remedy in respect of

any such right, privilege, obligation, liability, penalty, forfeiture or punishment as aforesaid.

and any such investigation, legal proceedings or remedy may be instituted, continued, or enforced and any such penalty, forfeiture or punishment may be imposed as if those Directions had not been superceded.

SCHEDULE I

(See paragraph 39 of the Housing Finance Companies (NHB) Directions, 2001)

Annual Return as on March 31, _____

(Read instructions carefully before filling the return)

To be filled by National Housing Bank (NHB)	
File No.	
ID No.	
Nature of Business	
District Code	
State Code	

1. Name of the Company	
Income Tax PAN	
2. Full address of the	
(i) Registered Office: _____	

_____ PIN _____	
Telephone _____	Fax _____ e-mail _____
Telex _____	Telegraphic address _____
(ii) Head/Administrative Office*: _____	

_____ PIN _____	
Telephone _____	Fax _____ e-mail _____
Telex _____	Telegraphic address _____

3. Whether a Government Company :		Yes/No
4. State/Union Territory in which the company is registered :		
5. Status +	(i) Public Ltd. [] (ii) Deemed Public Company []	
	(iii) Private Ltd. [] (iv) Branch of a Foreign company []	
D D M M Y Y Y Y		
6. Date of (i) Incorporation	[][] [][] [][][][]	
(ii) Commencement of business	[][] [][] [][][][]	
(iii) Financial year of the company	[][] [][] [][][][]	
7. (i) Principal object of the company as mentioned in its Memorandum of Association:		
(ii) Principal business transacted by the company during the year under reporting:		
(iii) Other business transacted by the company during the year under reporting:		
8. Whether the company has applied for registration in terms of the National Housing Bank Act, 1987:		Yes/No
If yes, give the date of application and if already registered, give the Registration no. allotted by the National Housing Bank		
9. No.of branches/offices ^β		
10. Total number of employees (i) Full time :		
(ii) Part time		
(iii) Honorary basis :		
11. Whether shares of the company are listed on any stock exchanges		Yes/No
If yes furnish the name/s of the stock exchange/s		
12. Whether the Half-yearly Return on prudential norms as on the date of this return has been submitted to the NHB. If yes, give the date of furnishing the return		Yes/No

13. (a) Whether the company at the beginning of the financial year to which the return pertains, was holding any credit rating/s for its fixed deposits ?	Yes/No
If yes, give the following details :	
(i) Name of the rating agency :	
(ii) Rating awarded by such agency :	
(iii) Date of such rating and its validity period :	
(b) Whether the company during the financial year to which the return pertains obtained any credit rating/s for its fixed deposits ?	Yes/No
If yes, give the following details	
(i) Name of the rating agency :	
(ii) Rating awarded by such agency	
(iii) Date of such rating and its validity period	
(c) Whether during the financial year to which the return pertains, there was any change in the credit rating/s mentioned in (a) or (b) above ?	Yes/No
If yes, give the following details	
(i) Name of the rating agency :	
(ii) Rating awarded by such agency :	
(iii) Date of such rating and its validity period :	
(iv) Reasons for variation in credit rating, if any :	
14. Whether a holding company or a subsidiary ^s	
15. Whether the company is a joint venture:	Yes/No
16. Name/s and address/es of the company's promoters/ promoting institutions and the shareholding pattern [Enclose separate sheet, if necessary]	

17. Name/s and address/es _____ of the company's auditors _____ _____ Telephone _____ Fax _____ Membership No. _____	
18. Name/s and address/es _____ of the company's bankers _____ [Enclose separate sheet, if necessary] _____	
19. Name/s and address/es _____ of the present directors _____ [Enclose separate sheet, if necessary] _____	
20. Whether the company has created a reserve fund in terms of Section 29C of the National Housing Bank Act, 1987 :	Yes/No
If yes give the following details of such reserve fund for the financial year to which the return pertains :	
(i) Amount outstanding at the beginning of the year :	
(ii) Amount transferred to the fund during the year :	
(iii) Whether any amount was appropriated from the reserve fund during the year:	Yes/No
If yes, (a) the amount appropriated	
(b) purpose of appropriation	
(c) date of reporting the appropriation to NHB	
(iv) Amount outstanding as on the date of this return	

* If it is a place other than the Registered Office.

+ Tick the box which is applicable.

β A list showing the names and addresses of the places where the branches/
offices of the company are situated should be enclosed.

\$ If it is a subsidiary, the name of the holding company may be indicated.

PART - 1

(A) Particulars of Public Deposits Outstanding as on March 31, ____
(Amount in lakhs of rupees)

Item No.	PARTICULARS	Item Code	No. of Accounts	Amount
1	2	3	4	5
1.	Deposits from public in the form of fixed deposits, recurring deposits, etc.	111		
2.	(i) Deposits received by a public company from its shareholders (ii) Deposits received by a private limited company from joint shareholders other than the first named shareholder	112 113		
3.	Money received by issue of non-convertible unsecured debentures (See instruction no. 13)	114		
4.	Total (1+2+3)	110		
5.	Any other deposits not included in part 2 of the Schedule	120		
6.	Total (4+5)	130		
7.	Of the total deposits at item 6 above, those (i) Repayable on demand or on notice* (ii) For a period less than 12 months.* (iii) For a period of 12 months or more but less than 24 months. (iv) For a period of 24 months or more but less than 48 months. (v) For a period of 48 months or more but less than 60 months. (vi) For a period of 60 months (vii) For a period more than 60 months but less than 84 months (viii) For a period of 84 months. (ix) For a period more than 84 months*	141 142 143 144 145 146 147 148 149		

8.	Total [7(i) to (ix)] should tally with 6 above	140		
9.	Of the total deposits at item 6 above, those free of interest and bearing interest (excluding brokerage, if any)Φ (Rate of interest : percent per annum) (i) Free of interest (ii) Below 6% (iii) 6% or more but less than 9% (iv) 9% or more but less than 11% (v) 11% or more but less than 13% (vi) 13% or more but less than 14% (vii) At 14% (viii) More than 14%*	151 152 153 154 155 156 157 158		
10.	Total [9(i) to (viii)] should tally with item 6 above	150		
11.	Break-up of deposits at item 6 above according to the size of deposits (i) upto Rs.5,000 (ii) Rs.5,001 to Rs.10,000 (iii) Rs.10,001 to Rs.25,000 (iv) Rs.25,001 to Rs.50,000 (v) Rs.50,001 to Rs.100,000 (vi) Over Rs.100,000*	161 162 163 164 165 166		
12.	Total [11(i) to (vi)] should tally with item 6 above	160		
13.	Of the total deposits at item 6 above (i) those which have matured but not claimed (ii) those which have matured and claimed but not paid	171 172		
14.	Of the deposits of the type at item 4 above (i) deposits outstanding at the beginning of the year (ii) deposits accepted/renewed during the year	181 182		

	(iii) deposits repaid during the year	183		
	(iv) deposits outstanding at the end of the year	184		
15.	Of the deposits of the type at item 5 above			
	(i) deposits outstanding at the beginning of the year	191		
	(ii) deposits accepted/renewed during the year	192		
	(iii) deposits repaid during the year	193		
	(iv) deposits outstanding at the end of the year	194		
16.	Of the total deposits at item 6 above, deposits received from non-resident Indians	195		

(B) Particulars of Deposits Mobilised [Items 14 (ii) and 15 (ii) of Part - 1(A)] During the Reporting Period

(Amount in lakhs of rupees)

Item No.	PARTICULARS	Item Code	No. of Accounts	Amount
1	2	3	4	5
1.	Of the total deposits at item no.14 (ii) of Part-1(A), those (i) Repayable on demand or on notice*	111.1		
	(ii) For a period less than 12 months.*	112.1		
	(iii) For a period of 12 months or more but less than 24 months.	113.1		
	(iv) For a period of 24 months or more but less than 48 months.	114.1		
	(v) For a period of 48 months or more but less than 60 months.	115.1		
	(vi) For a period of 60 months	116.1		
	(vii) For a period more than 60 months but less than 84 months	117.1		
	(viii) For a period of 84 months.	118.1		
	(ix) For a period more than 84 months*	119.1		

2.	Total [1 (i) to (ix)] should tally with 14 (ii) of Part-1(A)	110.1		
3.	Of the total deposits at item no. 15 (ii) of Part -1(A) (i) Repayable on demand or on notice* (ii) For a period less than 12 months.* (iii) For a period of 12 months or more but less than 24 months. (iv) For a period of 24 months or more but less than 48 months. (v) For a period of 48 months or more but less than 60 months. (vi) For a period of 60 months (vii) For a period more than 60 months but less than 84 months (viii) For a period of 84 months. (ix) For a period more than 84 months*	121.1 122.1 123.1 124.1 125.1 126.1 127.1 128.1 129.1		
4.	Total [3 (i) to (ix)] should tally with 15 (ii) of Part-1(A)	120.1		
5.	Of the total deposits at item 14 (ii) of Part-1(A), those free of interest and bearing interest (excluding brokerage, if any)Φ (Rate of interest : % per annum) (i) Free of interest (ii) Below 6% (iii) 6% or more but less than 9% (iv) 9% or more but less than 11% (v) 11% or more but less than 13% (vi) 13% or more but less than 14% (vii) At 14% (viii) More than 14%*	131.1 132.1 133.1 134.1 135.1 136.1 137.1 138.1		
6.	Total [5 (i) to (viii)] should tally with 14 (ii) of Part-1(A)	130.1		

7.	Of the total deposits at item 15 (ii) of Part-1(A), those free of interest and bearing interest (excluding brokerage, if any)Φ (Rate of interest : % per annum)			
	(i) Free of interest	141.1		
	(ii) Below 6%	142.1		
	(iii) 6% or more but less than 9%	143.1		
	(iv) 9% or more but less than 11%	144.1		
	(v) 11% or more but less than 13%	145.1		
	(vi) 13% or more but less than 14%	146.1		
	(vii) At 14%	147.1		
	(viii) More than 14%*	148.1		
8.	Total [7 (i) to (viii)] should tally with 15 (ii) of Part-1(A)	140.1		
9.	(a) Amount of brokerage paid	151.1		
	(b) Expenses reimbursed to brokers	152.1		
	(c) Amount of deposits mobilised by payment of brokerage	153.1		

Φ A statement showing the rates of interest offered as also the rates of brokerage paid on different types of deposits according to their periods i.e. exceeding 12 months, 24 months, 36 months etc. should also be submitted along with this part of the return.

* Details should be furnished separately.

PART - 2

Particulars of Borrowings and of Deposits not Included in Public Deposits as on March 31, _____

(Amount in lakhs of rupees)

Item No.	PARTICULARS	Item Code	No. of Accounts	Amount
1	2	3	4	5
1.	Money received from the Central or State Government(s) or money received from others, the repayment of which is guaranteed by the Central or State Government (s) or money received from a local authority.	221		
2.	Money received from -			
	(a) Foreign Government	222		
	(b) Foreign Authority	223		
	(c) Foreign Citizen or person	224		
	Total [(a)+(b)+(c)]	225		
3.	Borrowings from National Housing Bank	226		
4	Borrowings from -			
	(a) banks	227		
	(b) other financial institutions specified in the Directions	228		
5.	Money received from any other company	229		
6.	Money received from directors/relatives of directors	230		
7.	Money received by a private company from its shareholders (in case of joint shareholders, money received from the first named shareholder only to be included)	231		
8.	Money received from employees of the company by way of security deposit.	232		

9.	Money received by way of security or advance from purchasing, selling or other agents in the course of company's business or advance received against orders for supply of goods or properties or for rendering of services.	233		
10.	Money received by issue of debentures secured by mortgage of immovable properties or convertible debentures Of the above, debentures subscribed by banks [see also item No.(3) of Part -1(A)]	234 235		
11.	Money received by way of subscription to any shares or secured debentures pending allotment or money received by way of calls in advance on shares in accordance with the Articles of Association of the company so long as such amount is not repayable to the shareholders under the Articles of Association of the company.	236		
12.	Money brought in by promoters by way of unsecured loans in pursuance of stipulations of lending institutions	237		
13.	Commercial Papers	238		
14.	Money received from a mutual fund	239		
15.	Money received as hybrid debt or subordinated debt having maturity period of sixty months or above	240		
16.	Total (221 + 225 to 234 + 236 to 240)	250		

PART - 3

Statement Showing the “Net Owned Funds” As On March 31, _____

(Amount in lakhs of rupees)

Item No.	PARTICULARS	Item Code	Amount
1	2	3	4
1.	Paid-up Equity Capital	311	
2.	Preference shares which are compulsorily convertible into equity	312	
3.	Free reserves		
	(a) General Reserves	313	
	(b) Share premium	314	
	(c) Capital Reserves (representing surplus on sale of assets held in separate account)	315	
	(d) Debenture redemption reserve	316	
	(e) Capital redemption reserve	317	
	(f) Credit balance in P & L account	318	
	(g) Reserves under Section 36 (1) (viii) of Income Tax Act, 1961	319	
	(h) Other free reserves (to be specified)	319.1	
4.	Total (311 to 319.1)	310	
5.	Accumulated balance of loss	321	
6.	Deferred revenue expenditure	322	
7.	Other intangible assets	323	
8.	Total (321 to 323)	320	
9.	Owned Funds (310-320)	330	
10.	Book value of investment in shares of :		
	(a) Subsidiaries	341	

	(b) Companies in the same group	342		
	(c) Other housing finance institutions which are companies. (Details to be furnished in separate Annexure)	343		
11	Book value of investments in debentures and bonds of :			
	(a) Subsidiaries	344		
	(b) Companies in the same group	345		
12.	Outstanding loans and advances (including hire purchase and lease finance) to and deposits with			
	(a) Subsidiaries	346		
	(b) Companies in the same group (Details to be furnished in separate Annexure)	347		
13.	Total (341 to 347)	340		
14.	Amount of item 340 in excess of 10% of item 330 above	350		
15.	Net owned funds (330 - 350)	300		

PART - 4

Statement showing outstanding loans and advances including inter-corporate loans/deposits as on March 31, _____

(Amount in lakhs of rupees)

Item No.	PARTICULARS	Item Code	Amount
1	2	3	4
1.	Housing Loans		
(i)	Individuals	411	
(ii)	Corporate Bodies		
	(a) Companies in the same group	412	
	(b) Companies, firms and proprietary concerns where directors of the company hold substantial interest	413	

	(c) Other Corporate Bodies	414	
(iii)	Others (to be specified)	415	
	Total housing loans [1 (i) to (iii)]	410	
2.	Other loans & advances		
(i)	Companies in the same group	421	
(ii)	Companies not in the same group	422	
(iii)	Directors	423	
(iv)	Shareholders	424	
(v)	Chief Executive Officer and other employees	425	
(vi)	Purchasing, selling and other agents	426	
(vii)	Depositors	427	
(viii)	Others	428	
	Total [2 (i) to (viii)]	420	
	Grand Total (410 + 420)	430	

PART - 4.1

Statement of Housing Loans to 'Individuals' (Item Code 411 of Part-4)

(A)

Disbursements (Amount in lakhs of Rupees)

Category/size of housing loans (Rs.)	Item Code	Urban		Rural		Total		Of Which to				Repaid during the year	Outstanding as on March 31, ____
								Sch.caste		Sch.tribe			
		No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt		
1	2	3	4	5	6	7	8	9	10	11	12	13	14
For acquisition/ construction of new houses upto 50,000	451												
Above 50,000 and upto 100,000	452												
Above 100,000 and upto 300,000	453												
Above 300,000													

PART - 4.2

Term Wise Break up of Housing Loans (Item Code 410 of Part - 4)

(Amount in lakhs of Rupees)

Term of the loan	Housing loans to individuals		Housing loans to corporate bodies	
	No.	Amount	No.	Amount
Upto 1 year				
Above 1 year & upto 3 years				
Above 3 years & upto 5 years				
Above 5 years & upto 7 years				
Above 7 years				

PART - 5

Statement Showing Investments at Book Value as on March 31, _____

(Amount in lakhs of rupees)

Item No.	PARTICULARS	Item Code	Amount
1	2	3	4
1.	Investment in shares of		
	(a) Subsidiaries	511	
	(b) Companies in the same group	512	
	(c) Other housing finance institutions which are companies	513	
2.	Investment in debentures, bonds and commercial papers of		
	(a) Subsidiaries	514	
	(b) Companies in the same group	515	

3.	Investments in shares of and debenture/ bonds and commercial papers issued by companies and contribution to the capital of firms and proprietary concerns where directors of the company hold substantial interest. (Details to be furnished in separate Annexure)	516	
4.	Shares, debentures/bonds and commercial papers of other companies	517	
5.	Other Investments		
	(i) Fixed deposits with banks/certificates of deposits issued by banks	518	
	(ii) Deposits in any other deposit account with banks	519	
	(iii) Securities of central/state governments and bonds guaranteed by central/state governments	520	
	(iv) Units of Unit Trust of India	521	
	(v) Others (Please furnish a list showing book value and market value)	522	
6.	Total [511 to 522]	500	

Certificate

*Manager's/ Managing Director's/ Authorised Official's Certificate:

1. Certified that the directions contained in The Housing Finance Companies (NHB) Directions, 2001 are being complied with.
2. Further certified that the particulars/information furnished in this return have been verified and found to be correct and complete in all respects.

Date :

Signature of Manager/Managing

Place:

Director/Authorised Official*

Name:

Designation :

*Strike off whichever is not applicable.

Auditor's Report

We have examined the books of account and other records maintained by _____ in respect of the data furnished in this return and report that to the best of our knowledge and according to the information and explanations given to us and shown by the records examined by us, the data furnished in this return are correct.

Place :

Date : Chartered Accountants

Enclosures to the return

The following documents should be submitted along with the return in case they have not already been sent. Please tick in the box against the item for the document enclosed and state the date of submission if already submitted.

- | | |
|-----------------------------------------------------------------------------------------------------------------------|--|
| (1) A copy of the audited balance sheet and profit and loss account dated nearest to the date of this return | |
| (2) Specimen signature card (Please see instruction no. 5) | |
| (3) A copy of the application form referred to in paragraph 6 of the Housing Finance Companies (NHB) Directions, 2001 | |
| (4) A list of principal officers and the names and addresses of directors | |
| (5) Auditor's certificate as required in paragraph 38 of the Directions | |

Instructions for Filing and Submission of the Return

General

1. The return after compilation, should be submitted by a housing finance company once a year as early as possible after March 31 and latest by September 30 with reference to its position as on March 31 irrespective of the date of closing of the financial year of the company, to the Head office of the National Housing Bank, New Delhi as specified in paragraph 40 of the Housing Finance Companies (NHB) Directions, 2001. A certificate from the auditors of the company as required in terms of paragraph 38 of the Notification should be appended to the return.
2. The submission of the return should not be delayed for any reason such as the finalisation/ completion of the audit of the annual accounts. The compilation of the return should be on the basis of the figures available in the books of accounts of the company.
3. The return wherever possible should be sent in a floppy diskette (floppy size 3.5, data structure Excel/dbase IV) together with a hard copy duly signed.
4. The number of accounts should be given in actual figures while the amounts should be given in lakhs of rupees rounded off to two decimal positions.
5. The return should be signed by the Manager(as defined in Section 2 of the Companies Act, 1956) and if there is no such Manager, by the Managing Director or any official of the company who has been duly authorised by the Board of Directors and whose specimen signature has been furnished to the National Housing Bank for the purpose. In case the specimen signature has not been furnished in the prescribed card, the return may be signed by the authorised official and his specimen signature may be furnished separately.
6. All particulars asked for in the Schedule should be filled up without leaving any part/item blank. In case there is nothing to report in any part/item of the return, it should be marked "Nil" and if any part/item is not relevant or applicable, it should be marked "NA".
7. The date to which the return pertains should invariably be filled up

in the first page as well as in all the parts of the Schedule at the appropriate place.

8. "Subsidiaries" shall have the same meaning as assigned to it in the Companies Act, 1956 (1 of 1956).

9. A body corporate shall be deemed to be in the same group as the investing company if the body corporate is the managing agent of the investing company or if the body corporate and the investing company are under the same management.

10. "Substantial interest" means holding of a beneficial interest by an individual or his/ her spouse or minor child, whether singly or taken together, in the shares of a company, the amount paid up on which exceeds ten per cent of the paid up capital of the company or total capital subscribed by all the partners of a partnership firm.

Part - 1(A)

11. If the company is a public company and a declaration as specified in instruction no.18 has not been obtained from its directors, such deposits should be shown against item 2.

12. The amount in respect of non-convertible portion of the debentures which are partly convertible and partly non-convertible, may be included under item 3 and the convertible portion may be shown against item 10 of Part 2.

13. Non-convertible unsecured debentures subscribed to by banks and institutions mentioned under clauses (iii) and (iv) of Section 45 I (bb) of the Reserve Bank of India Act, 1934 should not be included under item 3. Such amount should be included under item 4 of Part 2.

14. The period-wise classification of deposits should be made against the various heads under item 7 according to the periods for which they have been originally received/last renewed and not according to the periods they have run as from March 31 i.e. the date of return.

15. In item 11, the number of accounts and the amounts should be calculated in respect of each range of deposits.

16. Under item 13, if the aggregate amount of deposits not repaid exceeds

Rs.5 lakhs, the reasons for non-payment of each deposit and the steps taken for repayment should be indicated in an Annexure.

17. The amounts shown in Part-2 should not be included in this Part.

Part - 2

18. Only money received from such persons on a declaration in writing that the money has not been given by such person/s out of funds acquired by him/them by borrowing or accepting deposits from another person should be shown against items 6 and 7.

19. Money received from the shareholders of a private company deemed as a public company under section 43A of the Companies Act, 1956, should also be included under item 7 subject to the obtaining of declaration referred to in instruction no. 18 above.

20. The amounts already shown in Part -1(A) should not be included here.

Part -3

21. Figures relating to net owned funds should be as per the audited balance sheet pertaining to the date of return. In case auditing is not over, figures should relate to the books of accounts for the relevant period.

22. 'Free reserves' shall include balance in share premium account, capital and debenture redemption reserves and any other reserves shown in the balance sheet and created through an allocation out of profits but not being (a) a reserve created for repayment of any future liability or for depreciation on assets or for bad debts, or (b) a reserve created by revaluation of assets of the company.

23. Investment in shares includes investment in fully convertible debentures and/or convertible portion of partially convertible debentures. Investments held either in investment account or stock-in-trade should be included under item 10.

24. Debentures whether held in investment account or by way of stock-in-trade should be included under item 11. Non-convertible debentures, non-convertible portion of partially convertible debentures and optionally convertible debentures should also be included under this item.

25. Credit balance in the profit and loss account should be adjusted by the actual provisions made for NPAs.

Part - 4

26. Sundry debtors, tax paid in advance and other recoverable items not in the nature of loans and advances should not be shown in this statement.

27. Fixed deposits with other companies should be included under item 2(i) or 2(ii) as the case may be and not in Part 5.

28. Investment in unquoted debentures shall be treated as credit and not investment.

Part - 5

29. Details of shares, debentures and commercial papers held in investment account or by way of stock-in-trade should be included in this part.

30. Fixed deposits with companies should not be included here but should be shown in Part-4.

31. Investment in unquoted debentures shall be treated as credit and not investment and should not be included in Part-5.

SCHEDULE II

[See paragraph 39(1) of the Housing Finance Companies (NHB)
Directions, 2001]

Half-Yearly Return as on March 31/September 30, ____

(To be submitted within two months from close of the half year)

Name of the HFC:	
Company code number	
Registration number	

PART-A Capital Funds-Tier-I [Amount in rupees lakhs]

Item No.	PARTICULARS	Item Code	Amount
1.	Paid-up Equity Capital	111	
2.	Preference shares which are compulsorily convertible into equity	112	
3.	Free reserves		
	(a) General Reserves	113	
	(b) Share premium	114	
	(c) Capital Reserves (representing surplus on sale of assets held in separate account)	115	
	(d) Debenture redemption reserve	116	
	(e) Capital redemption reserve	117	
	(f) Credit balance in P & L account	118	
	(g) Other free reserves (to be specified)	119	
4.	Total (111 to 119)	110	
5.	Accumulated balance of loss	121	
6.	Deferred revenue expenditure	122	
7.	Other intangible assets	123	
8.	Total (121 to 123)	120	

9.	Owned Funds (110-120)	130	
10.	Book value of investment in shares of :		
	(a) Subsidiaries	141	
	(b) Companies in the same group	142	
	(c) Other housing finance institutions which are companies	143	
11.	Book value of investments in debentures and bonds of		
	(a) Subsidiaries	144	
	(b) Companies in the same group	145	
12.	Outstanding loans and advances to and deposits with		
	(a) Subsidiaries	146	
	(b) Companies in the same group	147	
13.	Total (141 to 147)	140	
14.	Amount of item 140 in excess of 10% of item 130 above	150	
15.	Tier I Capital - Net owned funds (130 - 150)	151	

PART-B-Capital Funds-Tier- II

[Amount rupees in lakhs]

Item Name	Item Code	Amount
(1)	(2)	(3)
(i) Preference shares (other than those compulsorily convertible into equity)	161	
(ii) Revaluation Reserves	162	
(iii) General provisions and loss reserves	163	
(iv) Hybrid capital instruments	164	
(v) Subordinated debt	165	
(vi) Aggregate Tier-II Capital	160	
Total Capital Funds (151+160)	170	

PART C - Risk Assets & Off-Balance Sheet Items

[Amount rupees in lakhs]

Items	Item code	Amount
(i) Adjusted value of funded risk assets, ie, on-balance sheet items (To tally with Part D)	181	
(ii) Adjusted value of non-funded and off-balance sheet items (To tally with Part E)	182	
(iii) Total risk weighted assets/exposures[total (i) + (ii)]	180	
(iv) Percentage of capital funds to risk weighted assets/exposures:		
(a) Tier-I capital	191	
(b) Tier-II capital	192	
(c) Total capital	193	

PART D - Weighted assets, i.e., on-balance sheet items

[Amount rupees in lakhs]

Item description	Item code	Book Value	Risk weight	Adjusted Value
I. Cash and bank balances including fixed deposits & certificate of deposits	210		0	
II. Investments				
(a) Approved securities as defined in the National Housing Bank Act, 1987	221		0	
(b) Bonds of public sector banks and FDs/CDs/ bonds of public financial institutions				
(i) Amount deducted in item 14 in Part A	222		0	
(ii) Amount not deducted in item 14 in Part A	223		20	
(c) Unit Trust of India	224		20	
(d) Shares of all companies and debentures/bonds/ commercial papers of companies other than (b) above/units of mutual fund other than (c) above				

(i) Amount deducted in item 14 in Part A	225		0	
(ii) Amount not deducted in item 14 in Part A	226		100	
III. Current assets				
(a) Stock on hire (see Note 2 below)				
(i) Amount deducted in item 14 in Part A	231		0	
(ii) Amount not deducted in item 14 in Part A	232		100	
(b) Inter corporate loans /deposits				
(i) Amount deducted in item 14 in Part A	233		0	
(ii) Amount not deducted in item 14 in Part A	234		100	
(c) Loans and advances fully secured by company's own deposits	235		0	
ca) Mortgage backed security, receipt or other security evidencing the purchase or acquisition by a housing finance company of an undivided right, title or interest in any debt or receivable originated by a housing finance company recognised and supervised by National Housing Bank or a scheduled commercial bank and secured by mortgage of residential immovable property, provided the conditions specified below in Note (4) are fulfilled	235a		50	
(d) Loans to staff	236		0	
(e) Housing loans to individuals secured by mortgage of immovable property, which are classified as standard assets	237		50	
(f) Other housing loans (including those to individuals but not qualifying under (e))	238		100	
(g) Other loans & advances				
(i) Amount deducted in item 14 in Part A	241		0	

(ii) Amount not deducted in item 14 in Part A	242		100	
(h) Bills purchased/discounted (i) Amount deducted in item 14 in Part A	243		0	
(ii) Amount not deducted in item 14 in Part A	244		100	
(i) Others (to be specified)	245		100	
IV. Fixed assets [net of depreciation]				
(a) Assets leased out (i) Amount deducted in item 14 in Part A	251		0	
(ii) Amount not deducted in item 14 in Part A	252		100	
(b) Premises	253		100	
(c) Furniture & Fixtures	254		100	
V. Other assets				
(a) Income tax deducted at source (net of provisions)	255		0	
(b) Advance tax paid (net of provisions)	256		0	
(c) Interest due on Government securities	257		0	
(d) Others (to be specified)	258		100	
Total weighted assets	200			

Notes:

1. Netting may be done in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.
2. Stock on hire should be shown net of finance charges, i.e., interest and other charges recoverable.
3. Assets which have been deducted (item code 150) from owned fund to arrive at net owned fund will have a weightage of '0'.

PART - E - Weighted non-funded exposures/off-balance sheet items

Amount rupees in lakhs

Item description	Item code	Book value	Conversion factor	Equivalent	Risk weight	Adjusted value
1. Undisbursed amount of housing loans sanctioned	310		50		100	
2. Financial & other guarantees	320		100		100	
3. Shares / debenture underwriting obligations	330		50		100	
4. Partly paid shares/debentures	340		100		100	
5. Bills discounted/rediscounted	350		100		100	
6. Lease contracts entered in to but yet to be executed	360		100		100	
7. Other contingent liabilities (to be specified)	370		50		100	
Total non-funded exposures	300					

Note: Cash margin/deposits shall be deducted before applying the conversion factor where ever applicable.

PART- F - Asset classification

[Amount rupees in lakhs]

Aggregate of credit exposures and provisioning in respect of them:

Item description	Item code	Amount	Provision required as per directions	Actual provision made
(i) Standard Assets	411			
(ii) Sub-standard assets				
Individual housing loans	412			
Housing loans to corporate/ agencies	413			
Lease and hire purchase assets	414			
Other credit facilities	415			
(iii) Doubtful Assets				
Individual housing loans	416			
Housing loans to corporate/ agencies	417			
Lease and hire purchase assets	418			
Other credit facilities				
(iv) Loss Assets	419			
Individual housing loans	420			
Housing loans to corporate/ agencies	421			
Lease and hire purchase assets	422			
Other credit facilities	423			
Aggregate provisioning	400			
Other provisions in respect of:				
(i) Depreciation of fixed assets	451			
(ii) Depreciation in investments	452			
(iii) Loss/intangible assets	453			
(iv) Provision for taxation	454			
(v) Gratuity /provident fund	455			
(vi) Others (to be specified)	456			
Total	450			

**PART G - Particulars regarding investments in and advances to companies/
firms in the same group and other HFCs.**

[Amount rupees in lakhs]

Item description	Item code	Amount
(i) Book value of bonds and debentures and outstanding loans and advances to and deposits with subsidiaries and companies in the same group (Details to be enclosed in separate sheet)	510	
(ii) Investment in shares of subsidiaries and companies in the same group and all HFCs (Details to be enclosed in separate sheet)	520	
(iii) Investment by way of shares, debentures, loans and advances, leasing, hire purchase finance, deposits etc, in other companies, firms and proprietary concerns where directors of HFC hold substantial interest.	530	

**PART H - Particulars regarding concentration of advances including off-balance
sheet exposures and investment to parties including those in Part G above**

[Amount rupees in lakhs]

Item description	Item code	Amount
(i) Loans and advances including off-balance sheet exposures to any single party in excess of 15 percent of owned fund of the HFC (Details to be enclosed in separate sheet)	610	
(ii) Loans and advances including off-balance sheet exposures to a single group of parties in excess of 25 percent of owned fund of the HFC (Details to be enclosed in separate sheet)	620	
(iii) Investment in a single company in excess of 15 percent of the owned fund of the HFC (Details to be enclosed in separate sheet)	630	
(iv) Investments in the shares issued by a single group of companies in excess of 25 percent of the owned fund of the HFC	640	

(v)	Loans, advances to (including debentures, bonds and off-balance sheet exposures) and investment in shares of a single party in excess of 25 percent of owned fund of the HFC	650	
(vi)	Loans, advances to (including debentures, bonds and off-balance sheet exposures) and investment in a single party in excess of 40 percent of net owned fund of the HFC	660	

Notes:

- (1) All these exposure limits are applicable to the HFC's own group as well as to the borrower/investee company's group.
- (2) Investment in debentures for this purpose shall be treated as credit and not investment.

[PART I - Particulars regarding investments in premises and exposure to stock markets]¹

Item description	Item code	Amount
(i) [Investments in premises (land & buildings), except for own use, held by the HFC in excess of 20 percent of the capital fund] ³		
(a) Acquired by the HFC independently	710	
(b) Acquired in satisfaction of its debts	720	
[(ii) Investments in shares, convertible debentures of corporates and units of equity-oriented mutual funds, in excess of	730	
(a) 5 percent of the total outstanding advances (including commercial paper) or		
(b) 20% of the net worth of the company as on March 31 of the previous year, whichever is lower] ²		

¹ Substituted by Paragraph 12(1) of Notification No.NHB.HFC.DIR.3/CMD/ 2002 dated 27th December,2002 (effective from 18.01.2003)

² Substituted by Paragraph 12(2) of Notification No.NHB.HFC.DIR.3/CMD/ 2002 dated 27th December,2002 (effective from 18.01.2003)

³Substituted by Notification No.NHB.HFC.DIR.7/CMD/ 2003 dated 10th December,2003

PART J - Credit Rating

Deposits Instrument	Name of rating agency	Date of rating	Rating assigned	Valid up to	Borrowing limit or conditions imposed by rating agency, if any

Note : A copy of the rating should be furnished along with this return.

PART K - Particulars on suit filed and decreed debts by the HFC and against it

Item	Item code	Amount
(i) Loans, advances and other credit facilities for which the HFC has filed suits in any court of law for recovery of its dues including the decreed debts	810	
Pending for over 5 years	811	
Pending for 3 to 5 years	812	
Pending for 1 to 3 years	813	
Pending for less than 1 year	814	
(ii) Out of (I) above, the loans, advances and other credit facilities for which decree has been obtained by the HFC	820	
(iii) Recoveries made in suit filed/decreed debts (including amounts deposited in the court)	830	
(iv) Suit filed and decreed against the company	840	

[CERTIFICATE

Certified that

- (1) the data/information furnished in this statement are in accordance with the Housing Finance Companies (NHB) Directions, 2001. The statement has been compiled from the books of account and other records of the company and to the best of my knowledge and belief they are correct;
- (2) the company has accepted public deposit and the quantum of such deposit is within the limits applicable to the company;
- (3) the company has not paid interest/brokerage on deposit beyond the ceiling prescribed under the Directions;

- (4) the company has not defaulted in repayment of matured deposit;
- (5) the credit rating for fixed deposits assigned by credit rating agency, viz.____at _____(rating level) is valid;
- (6) the capital adequacy disclosed in Part C of the return after taking into account the particulars contained in Parts, D, E and F has been correctly worked out;
- (7) the aggregate of amount outstanding in respect of loans, equipment leasing, hire purchase finance and investment held together with other assets of the company during the half year ended March/September _____is taken into account to ensure that the minimum stipulated capital adequacy ratio as applicable to the company has been maintained through the relevant period on an ongoing basis;
- (8) classification of assets as disclosed in Part F of the return has been verified and found to be correct. No roll-over/rephasing of loans, lease and hire purchase transactions and bills discounted beyond due dates has been observed. The sub-standard or doubtful or loss asset, if upgraded, has been done so, in conformity with relevant provisions of the Directions;
- (9) investment in group companies as disclosed in Part G of the return and exposures to individuals/firms/other companies exceeding the credit / investment concentration norms as disclosed in Part H of the half-yearly return, investments in premises and exposure to stock market as disclosed in Part I of the return and particulars on suit filed and decreed debts by the company and against it as disclosed in Part K of the return and classification of such asset is correct; and
- (10) net owned fund as per Tier-I capital of the company has been correctly worked out.

For and on behalf of

(name of the company)

Place:

Managing Director/

Date:

Chief Executive Officer

Office seal

Auditor's Report

We have examined the books of accounts and other records maintained by _____ Company Limited in respect of the capital funds, risk assets/exposures and risk asset ratio etc., as on _____ and statements/certificate hereinabove made by the Managing Director/Chief Executive Officer of the company or his authorised representative. On the basis of random checking, we certify the statement in paragraph 7 above. We further report that to the best of our knowledge and according to the information and explanations given to us and as shown by the record examined by us the figures shown in Parts A, B, C, D, E, F, G, H, I, J and K of the statement hereinabove are correct.

Place:	Statutory auditors
Date:	Membership No.
	Name of signatory:
	Office seal”] ¹

¹ *Substituted by Paragraph 12(3) of Notification No.NHB.HFC.DIR.3/CMD/2002 dated 27th December,2002 (effective from 18.01.2003)*

SCHEDULE III

Return on Statutory Liquid Assets for the

Quarter ended March/June/September/December, 20.....

(See Section 29 B of the National Housing Bank Act, 1987 and paragraph 39(1) of the Housing Finance Companies (NHB) Directions, 2001)

1.	Name of the Company				
2.	Company Code				
3.	Address of the Registered Office				
		PIN			
	Phone Nos.		Fax No.		e-mail address
4.	Address of the Corporate/ Head Office				
		PIN			
	Phone Nos.		Fax No.		e-mail address
5.	Status of registration with NHB in terms of section 29A of the National Housing Bank Act, 1987: i) Number and date of Certificate of Registration if issued by NHB				
	ii) If not registered, indicate whether the application submitted for registration is rejected/ pending				

Part A

Details of Public Deposits and Maintenance of Liquid Assets

I Details of Public Deposits outstanding as at the end of preceding second quarter i.e. March/June/September/December 20 . (Please see Note 1 below):

(Rupees in lakhs)

Sr. No.	Particulars	Item Code	Amount
1.	Deposits received from public in the form of Fixed Deposits, Recurring Deposits etc.	111	
2.	(i) Deposits received from shareholders by a Public Limited Company	112	
	(ii) Deposits received from Joint shareholders other than the first named shareholder by a Private Limited Company.	113	
3.	(i) Money received by issue of Non-convertible unsecured debentures (please see Note 2 below)	114	
	(ii) Any other type of public deposits	115	
4.	Total (111 to 115)	100	

II. Details of Liquid Assets maintained:

1.	Minimum amount of liquid assets required to be invested in unencumbered approved securities at ____ % of public deposits shown against item code 100 above	121	
2.	Minimum amount of total liquid assets required to be maintained in form of unencumbered approved securities together with other specified forms of liquid assets at ____ % of public deposits shown against item code 100 above	122	
3.	Liquid assets actually maintained :		
	A. Unencumbered approved securities [details to be furnished as per Annex 1]	123	
	B. In term deposits or certificates of deposits with scheduled banks	124	

	C. In deposits with NHB [details of B and C to be furnished as per Annex 2]	125		
	D. In bonds issued by NHB [details to be furnished as per Annex 4]	126		
	Total (123 to 126)	120		
4.	(a) Name of the designated bank and address where the securities are lodged [details to be furnished as per Annex 3] (b) Amount of securities lodged			
	(i) Book Value	126		
	(ii) Market Value	127		
	Indicate whether the company has maintained the required level of liquid assets on a daily basis during the quarter A. in unencumbered approved securities (please tick)		Yes	
			No	
	B. on total basis (i.e. investment in unencumbered approved securities together with other specified forms of liquid assets) (please tick)		Yes	
			No	
	If not, indicate the date wise position of the shortfall during the quarter [as per Annexure 5]			
5.	(a) Whether the requirement of SLR was complied with during the last quarter? (please tick)		Yes	
			No	
	(b) If not, whether demand for penal interest was made by NHB? (please tick)		Yes	
			No	
	(c) If yes,			
	(i) amount	128		
	(ii) date of payment thereof	129		

Part B

**Information regarding compliance of the Housing Finance Companies (NHB)
Directions, 2001 (as amended from time to time)**

(Rupees in lakhs)

1.	Net owned fund (as per the last audited balance sheet of the company)	131	
2.	Capital Adequacy Ratio (as per the last audited balance sheet of the company)	132	
3.	Credit rating :		
	i) Rating assigned	133	
	ii) Date of rating	134	
	iii) Name of the Rating Agency	135	
	iv) Whether any change has occurred since the last rating (Please furnish details separately)	136	
4.	Public deposits outstanding as at the close of business on the date of commencement of the Housing Finance Companies (NHB) Directions, 2001	137	
5.	Quantum of excess public deposits held, if any, by the company as on the date of commencement of the Housing Finance Companies (NHB) Directions, 2001	138	
6.	Public Deposits outstanding as on date of this return (i.e. last working day of the quarter to which this return relates)	139	
7.	Quantum of public deposits permissible as per the provisions of the Housing Finance Companies (NHB) Directions, 2001 as on date of this return	140	
8.	Quantum of excess public deposits remaining to be regularised on the date of this return	141	
9.	Deposits accepted during the quarter under reference	142	
10.	Deposits renewed during the quarter under reference	143	

11.	Deposits matured but remained unpaid/ not renewed as on the date of this return:		
	(a) No. of accounts	144	
	(b) Amount	145	
12.	Of 11 above, those where orders of authorised officer of National Housing Bank have been received		
	(a) No. of accounts	146	
	(b) Amount	147	
13.	(a) Steps taken/being taken to regularise the excess public deposits within the time frame permitted under the Directions (please furnish details in a separate statement)		
	(b) Steps taken to comply with orders of authorised officer of National Housing Bank (please furnish details in a separate statement)		

Part C

Information relating to opening and closing of branches / offices for collection of deposits

(a) List of branches/offices opened:

Name and address of the branches/offices	Date of opening	Reference No. and date of communication to NHB	Remarks

(b) List of branches/offices closed:

Name and address of the branches/offices	Date of publicity	Date of closing	Reference No. and date of communication to NHB	Remarks

We declare that the above information is true and correct.

Place :

Date : _____ Name and signature of the authorised official

NOTE:

1. For the purpose of this return, assets should be maintained on daily basis and should relate to the public deposit liabilities (including interest accrued thereon) as defined in paragraph 2 (1)(w) of the Housing Finance Companies (NHB) Directions, 2001 as on the last working day of the second preceding quarter. For example, the liquid assets to be maintained on each day during the quarter ended 30th June 2000 (i.e. 1.4.2000 to 30.6.2000) should relate to the public deposit liabilities as at the close of business on the last working day of the quarter ended 31st December 1999.
2. The non-convertible unsecured debentures/bonds (other than those subscribed by banks and FIs) including interest accrued thereon should be included under this item.
3. The return shall be submitted within fifteen days from the last day of the respective quarter.

A n n e x u r e - 1

List of approved securities held towards liquid assets requirement

(Rupees in lakhs)

Sr. No.	Name of the security	Amount (at market value or carrying cost as the case may be)	Interest collection dates

A n n e x u r e - 2

List of deposits held with scheduled commercial banks or with National Housing Bank

(Rupees in lakhs)

Sr. No.	Name of the bank	Address of the bank's branch	Amount (including interest accrued)

A n n e x u r e - 3

Name and address of designated bank(s)

Sr. No.	Name of the bank	Name of the branch and address	Remarks (Reference no. of letters of information to NHB)

Annexure - 4

Details of investment in bonds issued by National Housing Bank*

Serial no.	Description	Amount	Interest collection dates

*Other than those already included in approved securities (Annexure - 1)

Annexure - 5

Details of shortfall in maintenance of liquid assets

A. Shortfall in approved securities

(Rupees in lakhs)

Date			Amount required to be maintained	Amount actually maintained	Shortfall
From	To	No. of days			

B. Shortfall in total liquid assets (i.e. approved securities taken together with other permissible forms of liquid assets)

(Rupees in lakhs)

Date			Amount required to be maintained	Amount actually maintained	Shortfall
From	To	No. of days			

Appendix 3

RECORDS AND DOCUMENTS COLLECTED BY HFCS FOR LENDING OPERATIONS

I. FINANCIAL AND GENERAL DOCUMENTS

The financial and general documents collected along with the loan application are as under:

1. Where the applicant is an individual

- A passport size photograph of the loan applicant/co-applicant.
- Age verification proof-photocopy of PAN card/driving license/passport/voters identity card.
- Photocopies of bank statements for the last six months.
- Photocopy of ration card.
- Income tax/ wealth tax returns of the applicant/co-applicant for the last three years certified by a Chartered Accountant.

(a) *Additional documents to be collected if applicant is employed*

- Employment contract
- Latest salary slips showing all deductions.
- Identity card issued by current employer, if any.
- If the job is transferable, permanent address of the applicant where correspondence relating to the application can be mailed.
- A letter from the employer agreeing to deduct the monthly instalment towards repayment of the loan from the salary.
- If the applicant has been in present employment for less than a year, details of occupation for previous 5 years, giving position held, period of employment and reasons for the change.

(b) *Additional documents to be collected if applicant is self-employed*

- Balance Sheet and Profit & Loss Account of the business or profession for the last three years certified by a Chartered Accountant.
- A note giving information on the nature of business / profession, form of organisation, clients, suppliers, etc.
- If the applicant has been in present business or profession for less than a year, details of the business or profession for previous 5 years, period of the same and giving reasons for the change.

(c) *Additional documents to be taken for NRI loans*

- 3 years NRE bank account statements.
- Proof of investment of margin money with inward remittance certificate or satisfactory proof of debit to permitted sources.

(d) *Documents to be collected where the applicant has no proof of his income*

In case of loans in rural areas and small towns, where the applicant is not filing his return of income, the following documents are collected by the HFC:

- Ownership proof of Agricultural land owned and other property of the applicant.
- Documents related to business ownership and income.
- Any other information regarding the repayment capacity of the proposed borrower which will assist the HFC in appraising the case.

2. Where the applicant is a Company

- Memorandum and Articles of Association for limit of borrowing powers and powers relating to sell, lease, mortgage property of the company, powers relating to giving guarantee etc.

- Board resolution for taking loan and authorisation to negotiate, finalise and execute documents.
- Income tax/ wealth tax returns for the last three years certified by a Chartered Accountant.

3. Where the applicant is a Co-operative Society

- Copy of by-laws, objects, borrowing powers.
- Resolution for taking loan and authorisation to negotiate, finalise and execute documents.
- Income tax returns for the last three years certified by a Chartered Accountant.

4. Where the applicant is a Government/Statutory Authority/ Corporation

- Copy of respective Act under which the entity has been set up.
- Copy of objects, borrowing powers.
- Resolution for taking loan and authorisation to negotiate, finalise and execute documents.
- Income tax returns for the last three years certified by a Chartered Accountant.

5. Where the applicant is a partnership firm:

- Certified true copy of the Partnership Deed.
- Certified true copy of the Registration certificate.
- Copy of Objects, powers to take loan.
- Consent of all partners.
- Income tax returns for the last three years certified by a Chartered Accountant.

6. Other documents required to be collected from all the above-mentioned applicants

- DD/cheque/cash for processing fees.
- Name, address proofs of the guarantors, net worth/income proof.
- Any other information regarding the repayment capacity that is necessary and will assist the HFC in appraising the case.

II. TECHNICAL AND LEGAL DOCUMENTS

Following are the technical and legal documents, which are generally collected for different types of loan proposals. However, additional documents may be required having regard to the laws prevailing in different states.

1. In case of purchase of property from builder

- Original agreement for sale between purchaser and builder.
- Commencement certificate.
- Blue print copy of the plan with the approval.
- Copy of Property development agreement along with copy of Power of attorney from the builder.
- No Objection certificate from builder to create mortgage in favour of the HFC.
- Original stamped receipts from builder for payments made to him towards cost of purchase of property.
- Registration receipt.
- Legal opinion in respect of the property certifying that the land owner/builder/developer has clear marketable unencumbered title to the property and no equitable mortgage is subsisting.
- Valuation certificate of the property from a Chartered Engineer.

- Encumbrance certificate from the date of registration till date.
- Copy of latest receipt of tax paid.
- Any other document necessary as per any other state procedures or laws.

2. In case of allotment of site/house/flat on lease basis or on outright sale basis by a statutory authority like Urban Development Authority, CIDCO etc.

- Original allotment letter.
- Original receipts of payment.
- Certified copy of lease cum sale agreement/original absolute sale deed, as the case may be.
- Original possession certificate.
- Original permission letter from the statutory authority to mortgage the property in favour of HFC.
- Copy of latest receipt of tax paid.
- Encumbrance certificate from the date of registration till date.
- Sanctioned building plan/license.
- Any other document necessary as per any other state procedures or laws.

3. In case of subsequent sale of property

- Registration Certificate.
- Original agreement for sale between purchaser and seller.
- Previous chain of agreements for transfer of property.
- Approved building plan.

- Original possession certificate.
- Original permission letter from the statutory authority to transfer the property in the name of the purchaser, where the property is allotted by a statutory authority.
- Original permission letter from the statutory authority to mortgage the property in favour of HFC, where the property is allotted by a statutory authority.
- No objection certificate from the owner of the property to create mortgage in favour of the HFC
- Valuation certificate of the property from a Chartered Engineer.
- Copy of latest receipt of tax paid.
- Encumbrance certificate from the date of registration till date.
- Original stamped receipts from the seller for payments towards purchase of property.
- Where the property is allotted by a co-operative society, share certificate in society, in original duly transferred in the name of the purchaser
- Any other document necessary as per any other state procedures or laws.

4. For repairs/renovation/extension of property

- Original registered title deeds of property under repairs/renovation/extension.
- No objection certificate from the owner of the property to create mortgage in favour of HFC.
- Encumbrance certificate from the date of registration till date.
- Sanctioned plan and license for repairs/renovation/extension.

- Estimate of repairs/renovation/extension from a qualified engineer.
- Copy of latest receipt of tax paid.
- Any other document necessary as per any other state procedures or laws.

Appendix 4

ADVERTISEMENT OR STATEMENT IN LIEU OF ADVERTISEMENT

(A) The Central Government, after consultation with the RBI, has issued Notification No. SO 523(E), dated 18.9.1975, to the effect that the provisions of Section 58A of the Companies Act, 1956 [except for the provisions relating to advertisement contained in Section 58A(2)(b)] will not be applicable to Non Banking Financial Companies, that is, a company which is a “financial institution” as defined in Section 45-I(c) of the RBI Act. Therefore, the provisions of section 58A(2)(b) of the Companies Act, 1956 relating to advertisement to invite deposits as are applicable to HFCs. The said provisions are reproduced as under:

“(2) No company shall invite, or allow any other person to invite or cause to be invited on its behalf, any deposit unless-

...

(b) an advertisement, including therein a statement showing the financial position of the company, has been issued by the company, in such form and manner as may be prescribed, and

...”

(B) The provisions of section 30 and 35 of the National Housing Bank Act, 1987 relating to advertisement to invite deposits are reproduced as under:

“30. The National Housing Bank may, if it considers necessary in the public interest so to do, by general or special order, -

(a) regulate or prohibit the issue by any housing finance institution of any prospectus or advertisement soliciting deposit of money from the public; and

(b) specify the conditions subject to which any such prospectus or advertisement, if not prohibited, may be issued.

35. No person shall solicit on behalf of any housing finance institution either by publishing or causing to be published any prospectus or advertisement or in any other manner deposits of money from the public unless-

- (a) He has been authorised in writing by the said housing finance institution to do so and specifies the name of the institution which has so authorised him; and
- (b) The prospectus or advertisement complies with any order made by the National Housing Bank under section 30 and with any other provision of law for the time being in force applicable to the publication of such prospectus or advertisement”

(C) Paragraph 16 of the Housing Finance Companies (NHB) Directions, 2001 issued by the NHB stipulates the provisions regarding advertisement and statement in lieu of advertisement which are reproduced as under:

- “16. (1) every housing finance company soliciting public deposits shall comply with the provisions of the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977 and shall also specify in every advertisement to be issued thereunder, the following:
- (a) the actual rate of return by way of interest, premium, bonus or other advantage to the depositors;
 - (b) the mode of payment to the depositors;
 - (c) maturity period of deposits;
 - (d) the interest payable on a specified deposit;
 - (e) the rate of interest which will be payable to the depositors in case the depositor withdraws the deposit prematurely;
 - (f) the terms and conditions subject to which a deposit will be renewed;
 - (g) any other special features relating to the terms and conditions subject to which the deposits are accepted/renewed; and

(h) the information, relating to the aggregate dues (including the non-fund based facilities) provided to/from companies in the same group or other entities or business ventures in which the directors and/or the housing finance company are holding substantial interest and the total amount of exposure to such entities.

(2) where a housing finance company intends to accept public deposits without inviting or allowing or causing any other person to invite such deposits, it shall, before accepting deposits, deliver to the office of the National Housing Bank at New Delhi for registration, a statement in lieu of advertisement containing all the particulars required to be included in the advertisement pursuant to the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977 as also the particulars stated in sub-paragraph (1) hereinabove, duly signed in the manner provided in the aforesaid Rules.

(3) A statement, delivered under sub-paragraph (2) shall be valid till the expiry of six months from the date of closure of the financial year in which it is so delivered, or until the date on which the balance sheet is laid before the housing finance company in general meeting, or where the annual general meeting for any year has not been held, the latest day on which that meeting should have been held in accordance with the provisions of the Companies Act, 1956 (1 of 1956), whichever is earlier and a fresh statement shall be delivered in each succeeding financial year before accepting deposits in that financial year.”

Appendix 5

KNOW YOUR CUSTOMER GUIDELINES FOR HOUSING FINANCE COMPANIES

In terms of the provisions under paragraph 7 of the Housing Finance Companies (NHB) Directions, 2001, every housing finance company is required to obtain proper introduction of new depositors before opening their accounts and accepting the deposits and keep on its record the evidence on which it has relied upon for the purpose of such introduction. These Guidelines have been reviewed in the context of the provisions of the Prevention of Money Laundering Act, 2002 and the need to put in place systems and procedures to help control financial frauds, identify money laundering and suspicious activities. These guidelines are also applicable to the deposits received from non-resident Indians.

2. “KNOW YOUR CUSTOMER GUIDELINES” FOR NEW DEPOSITS

The following guidelines will be applicable to all new customers with effect from October 1, 2004.

2.1 Customer identification

“Know Your Customer” (KYC) should be the key guiding principle for identification of an individual / corporate customer (depositor or borrower). Accordingly, the KYC framework should have two fold objectives, (i) to ensure customer identification and verifying his identity and residential address and (ii) to monitor transactions of a suspicious nature. HFCs should ensure that the identity of the customer, including beneficial owner is done based on disclosures by customers themselves. Typically easy means of establishing identity would be documents such as permanent account number (PAN), ration card, driving license, Election Commission’s identity card, passport, etc. in case of individuals and registration certificate, partnership deed/agreement, etc and other reliable documents in respect of companies, firms and other bodies. Verification through such documents should be in addition to the introduction by a person known to the HFC.

2.2 “Know Your Customer” procedures for existing customers

In respect of existing customers, HFCs should ensure that gaps and missing information in compliance of KYC guidelines on customer identification procedure is filled up and completed before December 31, 2004.

3. CEILING AND MONITORING OF CASH TRANSACTIONS

HFCs would normally not have large cash withdrawals and deposits. However, wherever transactions of Rs. 10.00 lakhs and above are undertaken, they should keep record of these transactions in a separate register maintained at branch, as well as at Registered Office. Such information should be made available to regulatory and investigating authorities, when demanded.

4. GUIDELINES AND MONITORING PROCEDURES

The Board of Directors of HFCs should formulate policies and procedures to operationalise the guidelines and put in place an effective monitoring system to ensure compliance by their branches. Early computerisation of branch/office reporting will facilitate prompt generation of such reports and monitoring.

4.1 Internal Control Systems

Duties and responsibilities should be explicitly allocated among the staff for ensuring that policies and procedures are managed effectively and that there is full commitment and compliance to an effective KYC programme in respect of both existing and prospective customers/clients.

4.2 Internal Audit/Inspection

Internal auditors must specifically scrutinize and comment on the effectiveness of the measures taken by branches / offices of HFC in adoption of KYC norms and steps towards prevention of money laundering. Specific cases of violation should be immediately brought to the notice of Head / Controlling / Registered Office.

5. RECORD KEEPING

HFCs should prepare and maintain proper documentation on their customer relationships and cash transactions of Rs.10.00 lakhs and above. The records of all such transactions should be retained for at least ten years after the transaction has taken place and should be available for perusal and scrutiny by audit functionaries as well as regulators and law enforcement authorities; as and when required, at the branch as well as at Registered Office.

6. TRAINING OF STAFF AND MANAGEMENT

It is important that all the operating and management staff is made fully aware of the implications and understand the need for strict adherence to KYC norms. HFCs may take suitable steps to impart training to their operational staff on Anti-Money Laundering measures.”

7. These guidelines are issued under Section 31(3) of the National Housing Bank Act, 1987 and any contravention of the same will attract penalties under the relevant provisions of the Act.

Appendix 6

PENALTIES

In case of HFCs penalties are imposed according to the provisions of section 49 to 52A of the National Housing Bank Act, 1987. Provisions of these sections are as under:

(1) According to section 49(1) of the National Housing Bank Act, 1987, whoever in any return, balance sheet, or other document or in any information required or furnished by or under or for the purposes of any provision of the said Act, wilfully makes a statement which is false in any material particular, knowing it to be false, or wilfully omits to make a material statement, shall be punishable with imprisonment for a term which may extend to three years and shall also be liable to fine.

(2) According to section 49(2) of the National Housing Bank Act, 1987, if any person fails to produce any book, account or other document, or to furnish any statement or information which, under the provisions of the said Act, it is his duty to produce or furnish, he shall be punishable with fine which may extend to two thousand rupees in respect of each offence and in the case of a continuing failure, with an additional fine which may extend to one hundred rupees for every day during which the failure continues after conviction for the first such failure.

(3) According to section 49(2A) of the National Housing Bank Act, 1987, if any person contravenes the provisions of sub-section (1) of section 29A of the said Act, (i.e. application for registration as discussed in paragraph 2.59 of this Technical Guide), he shall be punishable with imprisonment for a term which shall not be less than one year but which may extend to five years and with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees.

(4) According to section 49(2B) of the National Housing Bank Act, 1987, if any auditor fails to comply with any direction given or order made by the NHB under section 33 of the said Act, (as discussed in paragraphs 5.43 to 5.45 of this Technical Guide) he shall be punishable with fine, which may extend to five thousand rupees.

(5) According to section 49(2C) of the National Housing Bank Act, 1987, whoever fails to comply with any order made by the authorised

officer of NHB under sub-section (2) of section 36A of the said Act (as discussed in paragraph 2.50 of this Technical Guide) for repayment of deposit shall be punishable with imprisonment for a term which may extend to three years and shall also be liable to a fine of not less than rupees fifty for every day during which such non-compliance continues;

(6) According to section 49(3) of the National Housing Bank Act, 1987, if any person other than an auditor -

- (a) receives any deposit in contravention of any direction given or order made under Chapter V of the National Housing Bank Act, 1987; or
- (aa) fails to comply with any direction given or order made by the NHB under any of the provisions of Chapter V of the National Housing Bank Act, 1987; or
- (b) issues any prospectus or advertisement otherwise than in accordance with section 35 or any order made under section 30 of the National Housing Bank Act, 1987(as discussed in Appendix 4),as the case may be;

he shall be punishable with imprisonment for a term which may extend to three years and shall also be liable to fine which may extend,-

- (i) in the case of a contravention falling under clause (a), to twice the amount of deposit received; and
- (ii) in the case of a contravention falling under clause (b), to twice the amount of the deposit called for by the prospectus or advertisement.

(7) According to section 49(4) of the National Housing Bank Act, 1987, if any other provision of this Act is contravened or if any default is made in complying with any other requirement of this Act, or of any order, regulation or direction made or given or condition imposed thereunder, any person guilty of such contravention or default shall be punishable with fine which may extend to two thousand rupees and where a contravention or default is a continuing one, with further fine which may extend to one hundred rupees for every day, after the first, during which the contravention or default continues.

(8) According to section 50(1) of the National Housing Bank Act, 1987, where an offence has been committed by a company, every person who, at the time the offence was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly.

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such offence.

(9) According to section 50(2) of the National Housing Bank Act, 1987, notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation- For the purposes of this section-

(a) “company” means any body corporate and includes a firm or other association of individuals; and

(b) “director”, in relation to a firm, means a partner in the firm.

(10) According to section 51(1) of the National Housing Bank Act, 1987, no court shall take cognizance of any offence punishable under this Act except upon a complaint in writing made by an officer of the National Housing Bank, generally or specially authorised in writing in this behalf by the National Housing Bank, and no court other than that of a Metropolitan Magistrate or a Judicial Magistrate of the first class or a court superior thereto shall try any such offence.

(11) According to section 51(2) of the National Housing Bank Act, 1987, notwithstanding anything contained in the Code of Criminal Procedure, 1973, a Magistrate may, if he sees reasons so to do, dispense with the personal attendance of the officer of the National Housing Bank filing the complaint but the Magistrate may in his discretion, at any stage of the proceedings, direct the personal attendance of the complainant.

(12) According to section 52 of the National Housing Bank Act, 1987, a court imposing fine under the Act may direct that the fine, if realised shall be applied-

- (a) firstly in, or towards payment of, the cost of the proceedings, and
- (b) secondly for repayment of the deposit to the person to whom repayment of the deposit was to be made, and on such payment, the liability of the housing finance institution to make repayment of the deposit shall, to the extent of the amount paid by the Court, stand discharged.

(13) According to section 52A(1) of the National Housing Bank Act, 1987, notwithstanding anything contained in section 49, if the contravention or default of the nature referred to in section 49, is committed by an HFC, the NHB may impose on such HFC –

- (a) a penalty not exceeding five thousand rupees; or
- (b) where the contravention or default is under sub-section (2A) or clause (a) or clause (aa) of sub section 3 of section 49 (as discussed in (3) and (6) above), a penalty not exceeding five lakh rupees or twice the amount involved in such contravention or default, where the amount is quantifiable, whichever is more; and where such contravention or default is a continuing one, further penalty which may extend to twenty-five thousand rupees for every day, after the first, during which the contravention or default continues.

According to section 52A(2) of the National Housing Bank Act, 1987, for the purpose of imposing penalty, under section 52(A)(1) (as discussed above), the NHB shall serve a notice on the HFC requiring it to show cause why the amount specified in the notice should not be imposed as a penalty and a reasonable opportunity of being heard shall also be given to such HFC.

Further, according to section 52A(3) of the National Housing Bank Act, 1987, any penalty imposed by the NHB under section 52A shall be payable within a period of thirty days from the date on which notice issued by the NHB demanding payment of the sum is served on the HFC

and, in the event of failure of the HFC to pay the sum within such period, may be levied on a direction made by the principal civil court having jurisdiction in the area where the registered office or the head office of the HFC is situated:

Provided that no such direction shall be made, except on an application made by an officer of the NHB authorised in this behalf, to the principal civil court.

Appendix 7

LIST OF ACCOUNTING STANDARDS AS ON JANUARY 1, 2005

Sl. No.	Accounting Standard (AS) No.	Title of the Accounting Standard	Applicability to Level I Enterprises (see Note 1)	Applicability to Level II Enterprises (see Note 1)	Applicability to Level III Enterprises (see Note 1)
1.	AS 1	Disclosure of Accounting Policies	Yes	Yes	Yes
2.	AS 2 (Revised)	Valuation of Inventories	Yes	Yes	Yes
3.	AS 3 (Revised)	Cash Flow Statements	Yes	Not required, but encouraged	Not required, but encouraged
4.	AS 4 (Revised)	Contingencies ¹ and Events Occuring After the Balance Sheet Date	Yes	Yes	Yes
5.	AS 5 (Revised)	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies	Yes	Yes	Yes
6.	AS 6 (Revised)	Depreciation Accounting	Yes	Yes	Yes

¹Pursuant to AS 29, 'Provisions, Contingent Liabilities and Contingent Assets', becoming mandatory in respect of accounting periods commencing on or after 1-4-2004, all paragraphs of AS 4 that deal with contingencies stand withdrawn except to the extent they deal with impairment of assets not covered by other Indian Accounting Standards. For full text of the Announcement, reference may be made to 'The Chartered Accountant', April 2004, pp. 1151.

7.	AS 7 (Revised) (See Note 2 also)	Construction Contracts	Yes	Yes	Yes
8.	AS 8 (with- drawn pursuant to AS 26 becoming m a n d a - tory)	Accounting for Research and Development	N.A	N.A.	N.A.
9.	AS 9	Revenue Recognition	Yes	Yes	Yes
10.	AS 10	Accounting for Fixed Assets	Yes	Yes	Yes
11.	AS 11 (Revised 2003) (See Note 3 also)	The Effects of Changes in Foreign Exchange Rates	Yes	Yes	Yes
12.	AS 12	Accounting for Government Grants	Yes	Yes	Yes
13.	AS 13	Accounting for Investments	Yes	Yes	Yes
14.	AS 14	Accounting for Amalga- mations	Yes	Yes	Yes
15.	AS 15	Accounting for Retirement Benefits in the Financial Statements of Employers	Yes	Yes	Yes
16.	AS 16	Borrowing Costs	Yes	Yes	Yes

17.	AS 17	S e g m e n t Reporting	Yes	N.A.	N.A.
18.	AS 18	Related Party Disclosures	Yes	N.A.	N.A.
19.	AS 19 (See Note 4 also)	Leases	Yes	Yes {Except paragraphs 22 (c), (e) and (f); 25 (a) (b) and (e); 37 (a), (f) and (g); and 46 (b), (d) and (e)}	Yes {Except paragraphs 22 (c), (e) and (f); 25 (a), (b) and (e); 37(a), (f) and (g); and 46(b), (d) and (e)}
20.	AS 20	Earnings Per Share	See Note 5	See Note 5	See Note 5
21.	AS 21	Consolidated Financial Statements	See Note 6	See Note 6	See Note 6
22.	AS 22	Accounting for Taxes on Income	See Note 7	See Note 7	See Note 7
23.	AS 23	Accounting for Investments in Associates in Consolidated Financial Statements	See Note 6	See Note 6	See Note 6
24.	AS 24	Discontinuing Operations	Yes	N.A.	N.A.
25.	AS 25	Interim Financial Reporting	Yes	N.A. (See Note 8 also)	N.A. (See Note 8 also)
26.	AS 26 (See Note 9 also)	I n t a n g i b l e Assets	Yes	Yes	Yes
27.	AS 27	F i n a n c i a l Reporting of Interests in Joint Ventures	See Note 6	See Note 6	See Note 6

28.	AS 28	Impairment of Assets	Yes (w.e.f. 1.4.2004)	Yes (w.e.f. 1.4.2006)	Yes (w.e.f. 1.4.2008)
29.	AS 29	Provisions, Contingent Liabilities and Contingent Assets	Yes	Yes {Except paragraph 67}	Yes {Except paragraphs 66 and 67}

Notes

Note 1:

The Council, at its 236th meeting, held on September 16-18, 2003, considered the matter relating to applicability of Accounting Standards to Small and Medium Sized Enterprises (SMEs). The Council decided the following scheme for applicability of accounting standards to SMEs. This scheme comes into effect in respect of accounting periods commencing on or after 1-4-2004.

1. For the purpose of applicability of Accounting Standards, enterprises are classified into three categories, viz., Level I, Level II and Level III. Level II and Level III enterprises are considered as SMEs. The criteria for different levels are given below.

Level I Enterprises

Enterprises which fall in any one or more of the following categories, at any time during the accounting period, are classified as Level I enterprises:

- (i) Enterprises whose equity or debt securities are listed whether in India or outside India.
- (ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.
- (iii) Banks including co-operative banks.
- (iv) Financial institutions.
- (v) Enterprises carrying on insurance business.

- (vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.
- (vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.
- (viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level II Enterprises

Enterprises which are not Level I enterprises but fall in any one or more of the following categories are classified as Level II enterprises:

- (i) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 40 lakhs but does not exceed Rs. 50 crore. Turnover does not include 'other income'.
- (ii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 1 crore but not in excess of Rs. 10 crore at any time during the accounting period.
- (iii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

Level III Enterprises

Enterprises which are not covered under Level I and Level II are considered as Level III enterprises.

The following may also be noted in respect of applicability of Accounting Standards to Small and Medium Sized Enterprises (SMEs):

- (i) An enterprise, which does not disclose certain information pursuant to the exemptions/relaxations available to an SME, should disclose the fact.

- (ii) Where an enterprise has previously qualified for any exemption/relaxation (being under Level II or Level III), but no longer qualifies for the relevant exemption/relaxation in the current accounting period, the relevant standards/requirements become applicable from the current period. However, the corresponding previous period figures need not be disclosed.
- (iii) Where an enterprise has been covered in Level I and subsequently, ceases to be so covered, the enterprise will not qualify for exemption/relaxation available to Level II enterprises, until the enterprise ceases to be covered in Level I for two consecutive years. Similar is the case in respect of an enterprise, which has been covered in Level I or Level II and subsequently, gets covered under Level III.

Note 2: AS 7 (revised 2002) is applicable in respect of all contracts entered into during accounting periods commencing on or after 1-4-2003. In respect of all contracts entered into during accounting periods commencing on or before 31-3-2003, AS 7 (issued 1983) is applicable.

Note 3: AS 11 (revised 2003) comes into effect in respect of accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date. The revised Standard (2003) supersedes AS 11 (1994), except that in respect of accounting for transactions in foreign currencies entered into by the reporting enterprise itself or through its branches before the date the revised AS 11 (2003) comes into effect, AS 11 (1994) continues to be applicable.

It may be noted that the Institute has issued an Announcement titled 'Treatment of exchange differences under Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates vis-à-vis Schedule VI to the Companies Act, 1956'. As per the Announcement², the requirement with regard to treatment of exchange difference contained in AS 11 (revised 2003), is different from Schedule VI to the Companies Act, 1956, since AS 11 (revised 2003) does not require the adjustment of exchange differences in the carrying amount of the fixed assets, in the situations envisaged in Schedule VI. It has been clarified that pending the

²For full text of the Announcement, reference may be made to the Chartered Accountant, November 2003, pp. 497.

amendment, if any, to Schedule VI to the Companies Act, 1956, in respect of the matter, a company adopting the treatment described in Schedule VI will still be considered to be complying with AS 11 (revised 2003) for the purposes of section 211 of the Act. Accordingly, the auditor of the company should not assert non-compliance with AS 11 (2003) under section 227(3)(d) of the Act in such a case and should not qualify his report in this regard on the true and fair view of the state of the company's affairs and profit or loss of the company under section 227(2) of the Act.

It may be noted that in June 2004, the Institute issued an Announcement titled 'Applicability of Accounting Standard (AS) 11 (revised 2003), The Effects of Changes in Foreign Exchange Rates, in respect of exchange differences arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction'. The Announcement clarifies that AS 11 (revised 2003) does not deal with the accounting of exchange difference arising on a forward exchange contract entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. It is also separately clarified by an Announcement that AS 11 continues to be applicable to exchange differences on other forward exchange contracts.

Note 4: AS 19, Leases, comes into effect and is mandatory in nature in respect of all assets leased during accounting periods commencing on or after 1-4-2001.

Note 5: AS 20, Earnings Per Share, comes into effect in respect of accounting periods commencing on or after 1-4-2001 and is mandatory in nature, from that date, in respect of enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India.

An enterprise which has neither equity shares nor potential equity shares which are so listed but which discloses earnings per share, should calculate and disclose earnings per share in accordance with this Standard from the aforesaid date. However, in respect of accounting periods commencing on or after 1-4-2004, if any such enterprise does not fall in any of the following categories, it need not disclose diluted earnings per share (both

including and excluding extraordinary items) and information required by paragraph 48 (ii) of this Standard³ :

- (i) Enterprises whose equity securities or potential equity securities are listed outside India and enterprises whose debt securities (other than potential equity securities) are listed whether in India or outside India.
- (ii) Enterprises which are in the process of listing their equity or debt securities as evidenced by the board of directors' resolution in this regard.
- (iii) Banks including co-operative banks.
- (iv) Financial institutions.
- (v) Enterprises carrying on insurance business.
- (vi) All commercial, industrial and business reporting enterprises, whose turnover for the immediately preceding accounting period on the basis of audited financial statements exceeds Rs. 50 crore. Turnover does not include 'other income'.
- (vii) All commercial, industrial and business reporting enterprises having borrowings, including public deposits, in excess of Rs. 10 crore at any time during the accounting period.
- (viii) Holding and subsidiary enterprises of any one of the above at any time during the accounting period.

It is also clarified that every company, which is required to give information under part IV of Schedule VI to the Companies Act, 1956,

³Originally, no exemption was available to an enterprise, which had neither equity shares nor potential equity shares which were listed on a recognised stock exchange in India, but which disclosed earnings per share. It is clarified that no exemption is available even in respect of accounting periods commencing on or after 1-4-2004 to enterprises whose equity shares or potential equity shares are listed on a recognised stock exchange in India. It also clarified that this Standard is not applicable to an enterprise which has neither equity shares nor potential equity shares which are listed on a recognised stock exchange in India and which also does not disclose earnings per share.

should calculate and disclose earnings per share in accordance with AS 20, whether or not its equity shares or potential equity shares are listed on a recognised stock exchange in India.

Note 6: AS 21, AS 23 and AS 27 (relating to consolidated financial statements) are required to be complied with by an enterprise if the enterprise, pursuant to the requirements of a statute/regulator or voluntarily, prepares and presents consolidated financial statements.

Note 7: AS 22 comes into effect in respect of accounting periods commencing on or after 1-4-2001. It is mandatory in nature for:

- (a) All the accounting periods commencing on or after 01.04.2001, in respect of the following:
 - (i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.
 - (ii) All the enterprises of a group, if the parent presents consolidated financial statements and the Accounting Standard is mandatory in nature in respect of any of the enterprises of that group in terms of (i) above.
- (b) All the accounting periods commencing on or after 01.04.2002, in respect of companies not covered by (a) above.
- (c) All the accounting periods commencing on or after 01.04.2006, in respect of all other enterprises.

Note 8: AS 25, Interim Financial Reporting, does not require any enterprise to present interim financial report. It is applicable only if an enterprise is required or elects to prepare and present an interim financial report. However, the recognition and measurement requirements contained in this Standard are applicable to interim financial results, e.g., quarterly financial results required by the SEBI.

At present, in India, enterprises are not required to present interim financial report within the meaning of AS 25. Therefore, no enterprise in India is

required to comply with the disclosure and presentation requirements of AS 25 unless it voluntarily presents interim financial report within the meaning of AS 25. The recognition and measurement principles contained in AS 25 are also applicable only to certain Level I enterprises since only these enterprises are required by the concerned regulators to present interim financial results.

In view of the above, at present, AS 25 is not mandatorily applicable to Level II and Level III enterprises in any case.

Note 9: AS 26 comes into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2003 and is mandatory in nature from that date for the following:

- (i) Enterprises whose equity or debt securities are listed on a recognised stock exchange in India, and enterprises that are in the process of issuing equity or debt securities that will be listed on a recognised stock exchange in India as evidenced by the board of directors' resolution in this regard.
- (ii) All other commercial, industrial and business reporting enterprises, whose turnover for the accounting period exceeds Rs. 50 crore.

In respect of all other enterprises, the Accounting Standard comes into effect in respect of expenditure incurred on intangible items during accounting periods commencing on or after 1-4-2004 and is mandatory in nature from that date.

In respect of intangible items appearing in the balance sheet as on the aforesaid date, i.e., 1-4-2003 or 1-4-2004, as the case may be, AS 26 has limited application as stated in paragraph 99 of this Standard.

Appendix 8

Format of Auditor's Certificate to be submitted by HFCs on September 30 and March 31 every year confirming that the outstanding refinance due to NHB does not exceed the sum aggregate of all outstanding housing loans in respect of which refinance has been availed of by the HFC

As on 30 September/31 March 20__

Table 1

		Rs. in lakhs		
		Individual	Project	
		housing	Loans	Total
		loans		
a)	Refinance Outstanding due to NHB as on September 30/ March 31, 20_#			
b)	Sum aggregate of all outstanding housing loans in respect of which refinance has been availed as on September 30/March 31, 20__			
c)	Adverse Balance, if (a - b) is a +ve figure			

Table 2 (This table is required to be filled in only if there is an adverse balance indicated at column (c) above)

S. No.	Refinance Loan A/c No.*	Date of release	Refinance O/s as on September 30/ March 31, 20_# (A)	Sum aggregate of O/s housing loans (B)	Difference (A) – (B)
1.					
2.					
<i>Total</i>					* *

Certified that:

1. The figures of (a) in Table 1 above, are based on the books of accounts maintained by the company, which have been duly audited by the Statutory Auditors as on 30 September / 31 March 20__.
2. The loan accounts that were pre-closed due to shifting from fixed interest rate structure to variable rate of interest or for any other reasons and opening a new loan account of the same borrower and with the same housing unit financed as a primary security continue to be covered under the outstanding refinance from NHB. Such accounts have not been excluded while arriving at (a) in Table 1 above.
3. Book debts flagged for the purpose of collateral security/additional margin as stipulated for refinance, over and above the book debts created out of refinance, has not be counted for in the calculation of (a) in Table 1 above.
4. The loan accounts for which refinance has been taken from NHB can be distinctly identified from the records of the company. A list of all

*All loan accounts should be included in the above table irrespective of whether the adverse difference (A–B) in the last column in each row is +ve or -ve.

The outstanding refinance as on September 30/March 31 should not show lesser balance due to repayment made in advance in the last week of September/March for the demand due on 1st October/1st April of the ensuing quarter

**This figure should tally with 1(c) above.

such flagged loans is enclosed in the format **NHB-ROD[HFC]-06**, in a floppy disc. The figures mentioned above in Table 1 and 2 have been verified by us from this list.

5. This certificate has been placed before the ___ meeting of our Board of Directors held on _____ and they have taken note of the same vide their resolution as under: _____

Authorised Signatory of the company	Countersigned by [Statutory Auditors]
----------------------------------------	------------------------------------------

Note:

1. Funds released towards prospective loans within 3 months before the half yearly statement should not be included under NHB outstanding while computing the adverse balance in view of the lag time involved in generating housing loans.

2. For the purpose of this certificate, outstanding refinance availed by the HFC under any scheme including this scheme will have to be mentioned and similarly the housing loans outstanding in respect of all the loans for which refinance was availed will have to be mentioned under the outstanding housing loans column.

Encl. List of flagged loans in the format NHB-ROD[HFC]-06, in a floppy disc.

Format NHB-ROD [HFC]-06 is as under:-

NHB-ROD [HFC]-06

Format of statement of book debts

S. No.	Refinance loan a/c no.	Name & Address of Constituent	Description of property Mortgaged Pledged	Date of Mortgage/ Pledge	Loan outstanding as on 30th September/31st March, _____
--------	------------------------	-------------------------------	-------------------------------------------	--------------------------	---------------------------------------------------------

Note

1. HFCs will submit this statement as on 30th September and 31st March in respect of housing loans for which refinance has been obtained from NHB. This will include refinance availed earlier under the old scheme as well as that availed under the new scheme of 2003.
2. HFCs, where refinance is secured by charge on all their book-debts shared on pari-passu basis with other lenders, will in addition submit this statement as on 31st March in respect of all book debts charged to NHB.

Appendix 9

Format of Auditor's Certificate to be Submitted by HFCs for Full Disclosure of Liabilities to Depositors in Balance Sheet

A suggested format issued by RBI in pursuance of the erstwhile Non-Banking (Reserve Bank) Directions, 1977 is reproduced as under:

“We have examined the books of accounts and other records maintained by _____ for the period 1st April, _____ to 31st March, _____ and have to state that on the basis of checks carried out by us and according to the information and explanations given to us, we are of the opinion that full liabilities to the depositors of the company including interest payable thereon have been reflected in the financial statements as on 31st March, _____ and that the company, as per the said financial statements and on a going concern basis and based on the information and explanations given to us is in a position to meet the liabilities to the depositors as on that date.

Place:

Date:

Chartered Accountants”