

**RESERVE BANK OF INDIA
DEPARTMENT OF REGULATION
CENTRAL OFFICE, 2ND FLOOR, MAIN OFFICE BUILDING
SHAHID BHAGAT SINGH MARG, FORT, MUMBAI – 400 001**

RBI/2020-21/73

DOR.FIN.HFC.CC.No.120/03.10.136/2020-21

February 17, 2021

(Updated as on December 15, 2023*)
(Updated as on October 19, 2023*)
(Updated as on August 29, 2023*)
(Updated as on June 20, 2023*)
(Updated as on December 27, 2022*)
(Updated as on September 29, 2022*)
(Updated as on August 17, 2022*)
(Updated as on July 22, 2022*)
(Updated as on June 14, 2022*)
(Updated as on April 22, 2022*)
(Updated as on April 01, 2022*)
(Updated as on December 28, 2021*)
(Updated as on October 05, 2021*)
(Updated as on August 25, 2021*)
(Updated as on July 29, 2021*)

**Master Direction – Non-Banking Financial Company – Housing Finance
Company (Reserve Bank) Directions, 2021**

The Reserve Bank of India (the Bank), having considered it necessary in the public interest, and being satisfied that, for the purpose of enabling the Bank to regulate the financial system to the advantage of the country and to prevent the affairs of any Housing Finance Company (HFCs) from being conducted in a manner detrimental to the interest of investors and depositors or in any manner prejudicial to the interest of such HFCs, and in exercise of the powers conferred under sections 45L and 45MA of the Reserve Bank of India Act, 1934 and Sections 30, 30A, 32 and 33 of the National Housing Bank Act, 1987, hereby issues to every HFC, in supersession of the regulations/ directions as given in Chapter XVII of these directions, the [Non-Banking Financial Company – Housing Finance Company \(Reserve Bank\) Directions, 2021](#) hereinafter specified.

(J P Sharma)
Chief General Manager

* Since this Master Direction has been significantly amended, it has been replaced rather than showing the changes in track mode for reader convenience.



**Master Direction
Non-Banking Financial Company – Housing Finance
Company (Reserve Bank) Directions, 2021**

Department of Regulation

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Section I Introduction

Chapter I Preliminary

1. Short Title and Commencement and applicability of the Directions

- 1.1. These directions shall be called the **Non-Banking Financial Company –Housing Finance Company (Reserve Bank) Directions, 2021**.
- 1.2. These directions shall come into force with immediate effect.

2. Applicability

- 2.1. Unless otherwise directed by the Bank, these directions except directions contained in Chapter XII shall be applicable to every Housing Finance Company (HFC) registered under Section 29 A of the NHB Act, 1987.
- 2.2. The directions contained in Chapter XII shall be applicable to every auditor of an HFC.

2A. Regulatory Structure under Scale Based Regulation for NBFCs¹

- 2A.1. Regulatory structure for Non-Banking Financial Companies (NBFCs) shall comprise of four layers based on their size, activity and perceived riskiness. NBFCs in the lowest layer shall be known as NBFCs-Base Layer (NBFCs-BL). NBFCs in middle layer and upper layer shall be known as NBFCs-Middle Layer (NBFCs-ML) and NBFCs Upper Layer (NBFCs-UL), respectively. The Top Layer is ideally expected to be empty and will be known as NBFCs-Top Layer (NBFCs-TL).
- 2A.2. HFCs will be included in Middle Layer or the Upper Layer (and not in the Base layer), as the case may be.

2A.3. Upper Layer

The Upper Layer shall comprise of those HFCs which are specifically identified by the Reserve Bank as warranting enhanced regulatory requirement based on a set of parameters and scoring methodology as provided in the Annex I of [Master](#)

¹ Vide [circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021](#).

[Direction – Reserve Bank of India \(Non-Banking Financial Company – Scale Based Regulation\) Directions, 2023](#). The top ten eligible NBFCs (including HFCs) in terms of their asset size shall always reside in the upper layer, irrespective of any other factor.

2A.4. Top Layer

The Top Layer will ideally remain empty. This layer can get populated if the Reserve Bank is of the opinion that there is a substantial increase in the potential systemic risk from specific HFCs in the Upper Layer. Such HFCs shall move to the Top Layer from the Upper Layer.

2A.5. Multiple NBFCs in a Group - Classification in Middle Layer

NBFCs that are part of a common Group or are floated by a common set of promoters shall not be viewed on a standalone basis. The total assets of all the NBFCs, including HFCs, in a Group shall be consolidated to determine the threshold for classification of NBFCs in the Middle Layer. The provision shall not be applicable for classifying an NBFC in the Upper Layer. The procedure prescribed in 2.8 of the [Master Direction – Reserve Bank of India \(Non-Banking Financial Company – Scale Based Regulation\) Directions, 2023](#) shall be followed for the purpose.

3. Applicability of directions

3.1. The following directions, as further detailed in the [Annex I](#) shall apply mutatis mutandis to all HFCs:

3.1.1. Guidelines on Liquidity Risk Management Framework: All non-deposit taking HFCs with asset size of ₹100 crore and above and all deposit taking HFCs (irrespective of asset size) shall pursue liquidity risk management, which *inter alia* should cover adherence to gap limits, making use of liquidity risk monitoring tools and adoption of stock approach to liquidity risk. It will be the responsibility of the Board of each HFC to ensure that the guidelines are adhered to. The internal controls required to be put in place by HFCs as per these guidelines shall be subject to supervisory review.

3.1.2. Guidelines on Maintenance of Liquidity Coverage Ratio (LCR): HFCs

shall maintain a liquidity buffer in terms of LCR, which will promote resilience of HFCs to potential liquidity disruptions by ensuring that they have sufficient High Quality Liquid Asset (HQLA) to survive any acute liquidity stress scenario lasting for 30 days. Guidelines on LCR will be applicable to HFCs as per the following timeline:

i) All non-deposit taking HFCs with asset size of ₹10,000 crore & above, and all deposit taking HFCs irrespective of their asset size:

From	December 01, 2021	December 01, 2022	December 01, 2023	December 01, 2024	December 01, 2025
Minimum LCR	50%	60%	70%	85%	100%

ii) All non-deposit taking HFCs with asset size of ₹5,000 crore and above, but less than ₹10,000 crore:

From	December 01, 2021	December 01, 2022	December 01, 2023	December 01, 2024	December 01, 2025
Minimum LCR	30%	50%	60%	85%	100%

3.1.3. Loans against security of shares: HFCs lending against the collateral of listed shares shall maintain a Loan to Value (LTV) ratio of 50% for loans granted against the collateral of shares. Any shortfall in the maintenance of the 50% LTV occurring on account of movement in the share price shall be made good within seven working days.

3.1.4. Loans against security of single product - gold jewellery: HFCs shall maintain a Loan-to-Value (LTV) Ratio not exceeding 75 per cent for loans granted against the collateral of gold jewellery, and shall put in place a Board approved policy for lending against gold.

3.1.5. (Deleted)

3.1.6. Managing Risks and Code of Conduct in Outsourcing of Financial Services: It is imperative for HFCs outsourcing their activities that they ensure sound and responsive risk management practices for effective oversight, due diligence and management of risks arising from such outsourced activities.

3.1.7. Implementation of Indian Accounting Standards: HFCs shall maintain a prudential floor in respect of impairment allowances and follow instructions on regulatory capital.

3.1.8. [Master Direction - Know Your Customer \(KYC\) Direction, 2016](#), as amended from time to time.

3.1.9. [Master Direction - Monitoring of Frauds in NBFCs \(Reserve Bank\) Directions, 2016](#), as amended from time to time.

The guidelines contained in this master direction is applicable to all HFCs irrespective of asset size.

Note: The reporting/ instructions prescribed by the Bank in these directions for supervisors shall be done to the Supervisor of HFCs i.e., NHB.

3.1.10. [Master Direction on Information Technology Governance, Risk, Controls and Assurance Practices dated November 07, 2023](#), as amended from time to time.

Note: The reporting/ instructions prescribed by the Bank in these directions for supervisors shall be done to the Supervisor of HFCs i.e., NHB.

3.1A. HFCs shall ensure compliance with the applicable instructions, as prescribed in the following directions:

3.1A.1. [Master Direction – Reserve Bank of India \(Transfer of Loan Exposures\) Directions, 2021](#), as amended from time to time.

Note: The reporting/ instructions prescribed by the Bank in these directions for supervisors, except Clause 87, shall be done to the Supervisor of HFCs i.e., NHB.

3.1A.2. [Master Direction – Reserve Bank of India \(Securitisation of Standard Assets\) Directions, 2021](#), as amended from time to time.

Note: The reporting/ instructions prescribed by the Bank in these directions for supervisors, except Clause 118, shall be done to the Supervisor of HFCs i.e., NHB.

3.1A.3. [Master Direction – Reserve Bank of India \(Regulatory Framework for Microfinance Loans\) Directions, 2022](#), as amended from time to time.

Note: The reporting/ instructions prescribed by the Bank in these directions for supervisors shall be done to the Supervisor of HFCs i.e., NHB.

- 3.2.** Any other directions/ guidelines issued by any other Department of the Bank, as applicable to an HFC shall be adhered to.

Chapter II

Definitions

4. Definition

4.1. For the purpose of these directions, unless the context otherwise requires:

- 4.1.1.** "Act" means the Reserve Bank of India Act, 1934 (Act 2 of 1934).
- 4.1.2.** "Bank" means the Reserve Bank of India constituted under Section 3 of the Reserve Bank of India Act, 1934.
- 4.1.3.** "Banking Company" means a banking company as defined in Section 5 (c) of the Banking Regulation Act, 1949 (Act 10 of 1949).
- 4.1.4.** "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.
- 4.1.5.** "Carrying cost" means book value of the assets and interest accrued thereon but not received.
- 4.1.6.** "Company" means a company registered under Section 3 of the Companies Act, 1956 (Act 1 of 1956) or the corresponding provision under Companies Act, 2013 (Act 18 of 2013).
- 4.1.7.** "Companies in the group" shall mean an arrangement involving two or more entities related to each other through any of the following relationships: subsidiary – parent (defined in terms of AS 21), joint venture (defined in terms of AS 27), associate (defined in terms of AS 23), promoter – promotee (as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997) for listed companies, a related party (defined in terms of AS 18), common brand name, and investment in equity shares of 20 per cent and above.
- 4.1.8.** "Conduct of business regulations" means the directions issued by the Bank from time to time on Fair Practices Code and Know Your Customer.
- 4.1.9.** "Control" shall have the same meaning as assigned to it under clause (e) of sub-regulation (1) of regulation 2 of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

- 4.1.10.** “Current investment” means an investment which is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made.
- 4.1.11.** “Customer interface” means interaction between the HFC and its customers while carrying on its business.
- 4.1.12.** “Depositor” means any person who has made a deposit with a company; or an heir, legal representative, administrator or assignee of the depositor;
- 4.1.12A.** “Dividend Payout Ratio” means the ratio between the amount of the dividend payable in a year and the net profit as per the audited financial statements for the financial year for which the dividend is proposed. Proposed dividend shall include both dividend on equity shares and compulsory convertible preference shares eligible for inclusion in Tier 1 Capital. In case the net profit for the relevant period includes any exceptional and/or extra-ordinary profits/ income or the financial statements are qualified (including ‘emphasis of matter’) by the statutory auditor that indicates an overstatement of net profit, the same shall be reduced from net profits while determining the Dividend Payout Ratio.
- 4.1.13.** “Earning value” means the value of an equity share computed by taking 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 capitalized at the following rate:
- a. in case of predominantly manufacturing company, eight per cent;
 - b. in case of predominantly trading company, ten per cent; and
 - c. in case of any other company, including non-banking financial company/ housing finance company, twelve per cent;
- Note: If, an investee company is a loss-making company, the earning value will be taken at zero.
- 4.1.14.** “Fair value” means the arithmetic mean of the earning value and the breakup value.

- 4.1.15.** "Free reserves" means the aggregate of the balance in the share premium account, capital and debenture redemption reserves and any other reserve shown or published in the balance sheet of a company and created through an allocation of profits not being a reserve created for repayment of any future liability or for depreciation in assets or for bad debts or a reserve created by revaluation of the assets of the company.
- 4.1.16.** "Housing Finance" shall mean financing, for purchase/ construction/ reconstruction/ renovation/ repairs of residential dwelling units, which includes:
- a. Loans to individuals or group of individuals including co-operative societies for construction/ purchase of new dwelling units.
 - b. Loans to individuals or group of individuals for purchase of old dwelling units.
 - c. Loans to individuals or group of individuals for purchasing old/ new dwelling units by mortgaging existing dwelling units.
 - d. Loans to individuals for purchase of plots for construction of residential dwelling units provided a declaration is obtained from the borrower that he intends to construct a house on the plot within a period of three years from the date of availing of the loan.
 - e. Loans to individuals or group of individuals for renovation/ reconstruction of existing dwelling units.
 - f. Lending to public agencies including state housing boards for construction of residential dwelling units.
 - g. Loans to corporates/ Government agencies for employee housing.
 - h. Loans for construction of educational, health, social, cultural or other institutions/ centres, which are part of housing projects and which are necessary for the development of settlements or townships (*see note below*).
 - i. Loans for construction meant for improving the conditions in slum areas, for which credit may be extended directly to the slum-dwellers on the

guarantee of the Central Government, or indirectly to them through the State Governments.

- j. Loans given for slum improvement schemes to be implemented by Slum Clearance Boards and other public agencies.
- k. Lending to builders for construction of residential dwelling units.

All other loans including those given for furnishing dwelling units, loans given against mortgage of property for any purpose other than buying/ construction of a new dwelling unit/s or renovation of the existing dwelling unit/s as mentioned above, will be treated as non-housing loans and will not be falling under the definition of “Housing Finance”.

Note: Integrated housing project comprising some commercial spaces (e.g. shopping complex, school, etc.) can be treated as residential housing, provided that the commercial area in the residential housing project does not exceed 10 per cent of the total Floor Space Index (FSI) of the project.

4.1.17. “Housing finance company” shall mean a company incorporated under the Companies Act, 2013 that fulfils the following conditions:

- a. It is an NBFC² whose financial assets, in the business of providing finance for housing, constitute at least 60% of its total assets (netted off by intangible assets). Housing finance for this purpose shall mean providing finance as stated at clauses (a) to (k) of Paragraph 4.1.16.
- b. Out of the total assets (netted off by intangible assets), not less than 50% should be by way of housing finance for individuals as stated at clauses (a) to (e) of Paragraph 4.1.16.

Note: The above-mentioned conditions shall be treated as Principal Business Criteria for HFCs and are applicable from the date of original instructions issued vide [circular DOR.NBFC \(HFC\).CC.No.118/03.10.136/2020-21 dated October 22, 2020](#).

4.1.18. “Hybrid debt” means capital instrument which possesses certain characteristics of equity as well as of debt.

² The company will be treated as an NBFC if its financial assets are more than 50 per cent of its total assets (netted off by intangible assets) and income from financial assets should be more than 50 per cent of the gross income.

- 4.1.19.** “Insurance Company” means any company registered under section 3 of the Insurance Act, 1938 (Act 4 of 1938).
- 4.1.20.** “Investment and Credit Company - (NBFC-ICC)” means any company which is a financial institution carrying on as its principal business - asset finance, the providing of finance whether by making loans or advances or otherwise for any activity other than its own and the acquisition of securities; and is not any other category of NBFC as defined by the Bank in any of its Master Directions.
- 4.1.21.** “Lending Public Financial Institution” means –
- a. a public financial institution specified in or under Section 4A of the Companies Act, 1956 or the corresponding provision of Companies Act, 2013; or
 - b. a State Financial, Industrial or Investment Corporation; or
 - c. a scheduled commercial bank; or
 - d. the General Insurance Corporation of India established in pursuance of the provisions of Section 9 of the General Insurance Business (Nationalization) Act, 1972 (Act 57 of 1972); or
 - e. any other Institution which the Bank may, by notification, specify in this behalf.
- 4.1.22.** “Long Term Investment” means an investment other than a current investment.
- 4.1.22A.** “Major shareholder” means a person holding 10% or more of the paid-up share capital or Rupees five crore in paid-up shares, whichever is lower.
- 4.1.23.** “Net Asset Value” means the latest declared net asset value by the mutual fund concerned in respect of a particular scheme.
- 4.1.24.** “Net Book Value” means:
- a. in the case of hire purchase asset, the aggregate of overdue and future instalments receivable as reduced by the balance of unmatured finance charges and further reduced by the provisions made as per Paragraph 12.2.1 of these directions.

- b. in the case of leased asset, aggregate of capital portion of overdue lease rentals accounted as receivable and depreciated book value of the lease asset as adjusted by the balance of lease adjustment account.
- 4.1.25.** “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.
- 4.1.26.** “NHB” or “National Housing Bank” means the National Housing Bank established under Section 3 of The National Housing Bank Act, 1987.
- 4.1.27.** “NHB Act” means the National Housing Bank Act, 1987 (Act 53 of 1987).
- 4.1.28.** “Owned Fund” means paid up equity capital, preference shares which are compulsorily convertible into equity, free reserves including 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.
- 4.1.29.** “Problem housing finance company” means a housing finance company which:
- a. has refused or failed to meet within five working days any lawful demand for repayment of the matured public deposits; or
 - b. intimates the Company Law Board under section 58AA of the Companies Act, 1956 or the corresponding provision of Companies Act, 2013, about its default to a small depositor in repayment of any public deposit or part thereof or any interest thereupon; or
 - c. approaches the Bank for withdrawal of the liquid asset securities to meet its deposit obligations; or
 - d. approaches the Bank for any relief or relaxation or exemption from the provisions of these directions for avoiding default in meeting public deposit or other obligations; or
 - e. has been identified by the Bank or the NHB to be a problem housing finance company either suo moto or based on the complaints from the

depositors about non-repayment of public deposits or on complaints from the company's lenders about non-payment of dues.

- 4.1.30.** "Public Deposit" means same as contained in Paragraph 3 (xiii) of [Master Direction - Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#). Additionally, any amount received from NHB or any Public Housing Agency shall also be exempted from the definition of public deposit.
- 4.1.31.** "Public Funds" includes funds raised either directly or indirectly through public deposits, inter-corporate deposits, bank finance and all funds received from outside sources such as funds raised by issue of Commercial Papers, debentures etc. but excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding five years from the date of issue.
- 4.1.32.** "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.
- 4.1.32A.** "Relative" shall have the meaning assigned to it under clause 77 of section 2 of the Companies Act, 2013.
- 4.1.33.** "Securities" means securities as defined in Section 2(h) of the Securities Contracts (Regulation) Act, 1956 (Act 42 of 1956).
- 4.1.33A.** "Senior Officer" shall have the same meaning as assigned to "Senior Management" under section 178 of the Companies Act, 2013.
- 4.1.34.** "Subordinated Debt" means an instrument, which is fully paid up, 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 NHB. The book value of such instrument shall be subjected to discounting as provided hereunder:

Remaining Maturity of the instruments	Rate of discount
a. Up to one year	100 per cent

b. More than one year but up to two years	80 per cent
c. More than two years but up to three years	60 per cent
d. More than three years but up to four years	40 per cent
e. More than four years but up to five years	20 per cent

to the extent such discounted value does not exceed fifty per cent of Tier 1 capital.

4.1.35. “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 per cent of the paid-up capital of the company; or the capital subscribed by all the partners of a partnership firm.

4.1.36. “Tier 1 Capital” means owned fund as reduced by investment in shares of other non-banking financial companies including 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 per cent of the owned fund.

4.1.37. “Tier 2 capital” includes the following:

- a. Preference shares other than those which are compulsorily convertible into equity;
- b. Revaluation reserves at discounted rate of fifty-five per cent.
- c. General provisions (including that for Standard Assets) 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 per cent of risk weighted assets;
- d. Hybrid debt capital instruments, provided the instrument complies with the regulatory requirements specified in [Annex II](#); and
- e. Subordinated debt;

to the extent the aggregate does not exceed Tier 1 capital.

- 4.1.38.** “Tiny deposit” means the aggregate amount of public deposits not exceeding ₹10,000/- standing in the name of the sole or the first named depositor in the same capacity in all the branches of the HFC.
- 4.2.** Words or expressions used but not defined herein and defined in the RBI Act, the NHB Act, [Master Direction – Reserve Bank of India \(Non-Banking Financial Company – Scale Based Regulation\) Directions, 2023](#) or [Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#) shall have the same meaning as assigned to them therein. Any words or expressions used and not defined in the aforesaid statutes or directions issued by the Reserve Bank of India, shall have the meanings assigned to them under the Banking Regulation Act, 1949, the Companies Act, 1956 or the Companies Act, 2013.
- 4.3.** If any question arises as to whether a company is a financial institution or not, such question shall be decided by the Bank in consultation with the Central Government and the decision of the Bank shall be final and binding on all the parties concerned.
- 4.4.** If any question arises as to whether a company which is a financial institution, is a housing finance company or not, such question shall be decided by the Bank, having regard to the principal business of the company and other relevant factors, and the decision of the Bank shall be final and binding on all the parties concerned.

Chapter III Registration

5. Net Owned Fund (NOF) Requirement ³

- 5.1.** In exercise of the powers conferred by clause (b) of sub-section (1) of Section 29A of the National Housing Bank Act, 1987, and all powers enabling it in that behalf, the Reserve Bank hereby specifies **Rupees Twenty crore** as the minimum net owned funds required for a company to commence housing finance as its principal business or carry on the business of housing finance as its principal business.
- 5.2.** Provided that a housing finance company holding a Certificate of Registration (CoR) and having net owned fund of less than Rupees twenty crore, may continue to carry on the business of housing finance, if such company achieves net owned fund of Rupees fifteen crore by March 31, 2022 and Rupees twenty crore by March 31, 2023.

It will be incumbent upon such HFCs whose NOF currently stands below Rupees twenty crore, to submit a statutory auditor's certificate to Reserve Bank within a period of one month evidencing compliance with the prescribed levels as at the end of the period indicated above. HFCs failing to achieve the prescribed level within the stipulated period shall not be eligible to hold the Certificate of Registration (CoR) as HFCs and registration for such HFCs shall be liable to be cancelled. Such companies, who wish to be treated as NBFC – Investment and Credit Companies (NBFC-ICCs), will be required to approach RBI for conversion of their Certificate of Registration from HFC to NBFC-ICC. Application for such conversion should be submitted with all supporting documents meant for new registration together with an auditor's certificate on principal business criteria (PBC) and necessary Board resolution approving the conversion.

- 5.3.** The registered HFCs which do not currently fulfil the criteria as specified in Paragraph 4.1.17, but wish to continue as HFCs, shall be provided with the following timeline for transition:

³ Gazette notification No. DOR.048/ED(SS)-2020 dated November 18, 2020

Timeline	Minimum percentage of total assets towards housing finance	Minimum percentage of total assets towards housing finance for individuals
March 31, 2022	50%	40%
March 31, 2023	55%	45%
March 31, 2024	60%	50%

Such HFCs were required to submit to the Reserve Bank, a Board approved plan within three months from the date of original instructions issued vide [circular DOR.NBFC \(HFC\).CC.No.118/03.10.136/2020-21 dated October 22, 2020](#), including a roadmap to fulfil the above-mentioned criteria and timeline for transition. HFCs unable to fulfil the above criteria as per the timeline shall be treated as NBFC – Investment and Credit Companies (NBFC-ICC) and they will be required to approach the Reserve Bank for conversion of their Certificate of Registration from HFC to NBFC-ICC. Application for such conversion should be submitted with all supporting documents meant for new registration together with an auditor’s certificate on principal business criteria and necessary Board resolution approving the conversion.

5.4. Investment from FATF non-compliant jurisdictions⁴

5.4.1. Investments in HFCs from FATF non-compliant jurisdictions shall not be treated at par with that from the compliant⁵ jurisdictions. New investors from or through non-compliant FATF jurisdictions, whether in existing HFCs or in companies seeking Certification of Registration (COR), should not be allowed to directly or indirectly acquire ‘significant influence’ in the investee, as defined in the applicable accounting standards. In other words, fresh investors (directly or indirectly) from such jurisdictions in aggregate should be less than the

⁴ Vide [circular DOR.CO.LIC.CC No.119/03.10.001/2020-21 dated February 12, 2021](#).

⁵ The Financial Action Task Force (FATF) periodically identifies jurisdictions with weak measures to combat money laundering and terrorist financing (AML/CFT) in its following publications: i) High-Risk Jurisdictions subject to a Call for Action, and ii) Jurisdictions under Increased Monitoring. A jurisdiction, whose name does not appear in the two aforementioned lists, shall be referred to as a FATF compliant jurisdiction.

threshold of 20 per cent of the voting power (including potential⁶ voting power) of the HFC.

- 5.4.2.** Investors in existing HFCs holding their investments prior to the classification of the source or intermediate jurisdiction/s as FATF non-compliant, may continue with the investments or bring in additional investments as per extant regulations so as to support continuity of business in India.

⁶ Potential voting power could arise from instruments that are convertible into equity, other instruments with contingent voting rights, contractual arrangements, etc. that grant investors voting rights (including contingent voting rights) in the future. In such cases, it should be ensured that new investments from FATF non-compliant jurisdictions are less than both (i) 20 per cent of the existing voting powers and (ii) 20 per cent of existing and potential voting powers assuming those potential voting rights have materialised.

Section II
Prudential Regulation
Chapter IV
Capital

6. Capital Requirement

6.1. Every housing finance company shall, maintain a minimum capital ratio on an ongoing basis consisting of Tier 1 and Tier 2 capital which shall not be less than 15 per cent of its aggregate risk weighted assets and of risk adjusted value of off-balance sheet items. The Tier 1 capital, at any point of time, shall not be less than 10 per cent. The total of Tier 2 capital, at any point of time, shall not exceed 100 per cent of Tier 1 capital.

6.1A. Internal Capital Adequacy Assessment Process (ICAAP)⁷

HFCs are required to make a thorough internal assessment of the need for capital, commensurate with the risks in their business. This internal assessment shall be on similar lines as ICAAP prescribed for commercial banks under Pillar 2 ([Master Circular – Basel III Capital Regulations, dated May 12, 2023](#), as amended from time to time). While Pillar 2 capital will not be insisted upon, HFCs are required to make a realistic assessment of risks. Internal capital assessment shall factor in credit risk, market risk, operational risk and all other residual risks as per methodology to be determined internally. The methodology for internal assessment of capital shall be proportionate to the scale and complexity of operations as per their Board approved policy. The objective of ICAAP is to ensure availability of adequate capital to support all risks in business as also to encourage HFCs to develop and use better internal risk management techniques for monitoring and managing their risks. This will facilitate an active dialogue between the supervisors and HFCs on the assessment of risks and monitoring as well as mitigation of the same.

⁷ Vide [circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021](#).

On balance sheet assets:

6.2. 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 assets shall be calculated as the weighted aggregate of funded items as detailed hereunder:

Sr. No.	Weighted risk assets - On balance Sheet items	% Weight
(1)	Cash and bank balances including fixed deposits and certificates of deposits with banks	0
(2)	Investments:	
a)	Approved Securities as defined in National Housing Bank Act, 1987 [Except at (c) below]	0
b)	Bonds of public sector banks	20
c)	Fixed deposits/ certificate of deposits/ bonds of public financial institutions	100
d)	(deleted)	
e)	Shares of all companies and debentures/ bonds/ commercial papers of all companies/ units of all mutual funds.	100
f)	HFC's investments in innovative perpetual debt of other HFCs/ banks/ financial institutions.	100
(3)	a) Domestic Sovereign:	
i)	Fund based claims on the Central Government	0
ii)	Direct loan/ credit/ overdraft exposure and investment in State Government securities	0

Sr. No.	Weighted risk assets - On balance Sheet items	% Weight
	iii) Central Government guaranteed claims	0
	iv) State Government guaranteed claims, which have not remained in default/ which are in default for a period not more than 90 days	20
	v) State Government guaranteed claims, which have remained in default for a period of more than 90 days	100
b)	(b)(i) Outstanding Housing loans to individuals up to ₹30 lakh secured by mortgage of immovable property, which are classified as standard assets with LTV Ratio $\leq 80\%$	35
	(b)(ii) Outstanding Housing loans to individuals up to ₹30 lakh secured by mortgage of immovable property, which are classified as standard assets with LTV Ratio $> 80\%$ and $\leq 90\%$	50
	(b)(iii) Outstanding Housing loans to individuals above ₹30 lakh and upto ₹75 lakh secured by mortgage of immovable property which are classified as standard assets with LTV ratio $\leq 75\%$ (loan sanctioned before 01-08-2017)	35
	(b)(iv) Outstanding Housing loans to individuals above ₹30 lakh and upto ₹75 lakh secured by mortgage of immovable property which are classified as standard assets with LTV ratio $> 75\%$ and $\leq 80\%$ (loan sanctioned before 01-08-2017)	50

Sr. No.	Weighted risk assets - On balance Sheet items	% Weight
	(b)(v) Outstanding Housing loans to individuals above ₹30 lakh and upto ₹75 lakh secured by mortgage of immoveable property which are classified as standard assets with LTV ratio \leq 80% (loan sanctioned on or after 01-08-2017)	35
	(b)(vi) Outstanding Housing loans to individuals above ₹75 lakh secured by mortgage of immoveable property, which are classified as standard assets with LTV ratio \leq 75% (loan sanctioned before 01-08-2017)	75
	(b)(vii) Outstanding Housing loans to individuals above ₹75 lakh secured by mortgage of immoveable property, which are classified as standard assets with LTV ratio \leq 75% (loan sanctioned on or after 01-08-2017)	50
	(b)(viii) Outstanding amount of Loans given for the purpose of insurance of the property/ borrower in case of individual housing loans	Same as applicable to the respective housing loan
c)	Other housing loans	100
	Note : Housing loans referred to in item b) and c) above are excluding any portion of such housing loans guaranteed by (i) a mortgage guarantee company registered with the Bank in accordance with the Reserve Bank of India Guidelines for Mortgage Guarantee Companies; and/or (ii) the Credit Guarantee Schemes (refer the instructions at Paragraph 6.2.6 of these Directions).	

Sr. No.	Weighted risk assets - On balance Sheet items	% Weight
	ca) Any portion of housing loans referred to in item b) and c) of sub-explanation (3) guaranteed by mortgage guarantee company registered with the Reserve Bank of India, the risk weight assets for such guaranteed portion shall be calculated as per cent weight mentioned against the rating of the mortgage guarantee company as below	
	Long term ratings of the mortgage guarantee company by the approved credit rating agencies	
	AAA or its equivalent	20
	AA or its equivalent	30
	Below AA or its equivalent or unrated	As applicable to unguaranteed portion
	Where '+' or '-' notation is attached to the rating, the corresponding main rating category risk weight should be used. When a guaranteed exposure is classified as nonperforming in accordance with the applicable directions, the guarantee will cease to be a credit risk mitigant and no adjustment would be permissible under this provision	
	cb) Any portion of housing loans referred to in item b) and c) of sub-explanation (3) guaranteed by Credit Guarantee Schemes subject to instructions at Paragraph 6.2.6 of these Directions.	0

Sr. No.	Weighted risk assets - On balance Sheet items	% Weight
	(d) (d)(i)(a) Fund based and non-fund based exposures to Commercial Real Estate- Residential Building	75
	(d)(i)(b) Fund based and non-fund based exposures to all other Commercial Real Estate	100
	(ii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures backed by exposures as at (i) above	125
	e) Restructured housing loans	An additional risk weight of 25% to the risk weight prescribed above
	f) ⁸ Consumer credit exposure (outstanding as well as new) categorised as retail loans, excluding housing loans, educational loans, vehicle loans, loans against gold jewellery and microfinance/ SHG loans (please see note in Paragraph 6.2.7 below)	125
(4)	Current Assets:	
	a) Stock on hire (please see note in Paragraph 6.2.2 below)	100
	b) Inter corporate loans/ deposits	100
	c) Loans and advances fully secured by company's own deposits	0
	d) Loan to staff	0

⁸ Inserted vide [Circular DOR.STR.REC.57/21.06.201/2023-24 dated November 16, 2023](#).

Sr. No.	Weighted risk assets - On balance Sheet items	% Weight
	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:

- 6.2.1.** Netting shall be done only in respect of assets where provisions for depreciation or for bad and doubtful debts have been made.
- 6.2.2.** Stock on hire shall be shown net of finance charges i.e. interest and other charges recoverable.
- 6.2.3.** Assets which have been deducted from owned fund to arrive at Tier 1 capital pursuant to Paragraph 4.1.36 shall have a weightage of "0".
- 6.2.4.** (deleted)
- 6.2.5.** LTV ratio as a percentage shall be calculated as per Paragraph 19 of these directions.
- 6.2.6.** ⁹

⁹ Inserted vide [Circular DOR.STR.REC.67/21.06.201/2022-23 dated September 07, 2022.](#)

6.2.6.1. HFCs are permitted to apply zero percent risk weights in respect of exposures guaranteed under any existing or future schemes launched by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd (NCGTC) provided they satisfy the following conditions:

- a. Prudential Aspects: The guarantees provided under the respective schemes should comply with the requirements for credit risk mitigation, in terms of paragraph 7.5 of the [‘Master Circular on Basel III Capital Regulations’ dated April 01, 2022](#), as amended from time to time, which, *inter alia*, requires such guarantees to be direct, explicit, irrevocable and unconditional;
- b. Restrictions on permissible claims: Where the terms of the guarantee schemes restrict the maximum permissible claims through features like specified extent of guarantee coverage, clause on first loss absorption by member lending institutions (MLI), payout cap, etc., the zero percent risk weight shall be restricted to the maximum permissible claim and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations.
- c. In case of a portfolio-level guarantee, effective from April 01, 2023, the extent of exposure subjected to first loss absorption by the MLI, if any, shall be subjected to full capital deduction and the residual exposure shall be subjected to risk weight as applicable to the counterparty in terms of extant regulations, on a pro rata basis. The maximum capital charge shall be capped at a notional level arrived at by treating the entire exposure as unguaranteed.

6.2.6.2. Further, subject to the aforementioned prescriptions at Paragraph 6.2.6.1, any future scheme launched under any of the aforementioned Trust Funds, in order to be eligible for zero percent risk weight, shall provide for settlement of the

eligible guaranteed claims within thirty days from the date of lodgement, and the lodgement shall be permitted within sixty days from the date of default.

6.2.6.3. The above regulatory stipulation shall be applicable to HFCs, to the extent they are recognised as eligible MLIs under the respective schemes.

6.2.6.4. Some illustrative examples of risk weights applicable on claims guaranteed under specific existing schemes are given as illustration I in section V.

6.2.7. Strengthening credit standards

6.2.7.1. The HFCs shall review their extant sectoral exposure limits for consumer credit and put in place, if not already there, Board approved limits in respect of various subsegments under consumer credit as may be considered necessary by the Boards as part of prudent risk management. In particular, limits shall be prescribed for all unsecured consumer credit exposures. The limits so fixed shall be strictly adhered to and monitored on an ongoing basis by the Risk Management Committee. All HFCs shall endeavour to comply with the provisions of this paragraph at the earliest, but in any case shall implement them by no later than February 29, 2024.

6.2.7.2. All top-up loans extended by HFCs against movable assets which are inherently depreciating in nature, such as vehicles, shall be treated as unsecured loans for credit appraisal, prudential limits and exposure purposes.

6.3. Off-Balance Sheet items :

General

6.3.1. HFCs shall calculate the total risk weighted off-balance sheet credit exposure as the sum of the risk-weighted amount of the market related and non-market related off-balance sheet items. The risk-weighted amount of an off-balance sheet item that gives rise to credit exposure shall be calculated by means of a two-step process:

Step 1: the notional amount of the transaction is converted into a credit equivalent amount, by multiplying the amount by the specified credit conversion factor or by applying the current exposure method; and

Step 2: the resulting credit equivalent amount is multiplied by the risk weight applicable, viz. zero per cent for exposure to Central Government/State Governments, 20 per cent for exposure to banks and 100 per cent for others.

Non-market-related off- balance sheet items:

6.3.2. The credit equivalent amount in relation to a non-market related off-balance sheet item shall be determined by multiplying the contracted amount of that particular transaction by the relevant credit conversion factor (CCF).

Item No.	Item Description	CCF
i.	Undisbursed amount of housing loans/ other loans	50
ii.	Financial & other guarantees	100
iii.	Share/ debenture 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.	Sale and repurchase agreement and asset sales with recourse, where the credit risk remains within the HFC	100
viii.	Forward assets purchases, forward deposits and partly paid shares and securities, which represents commitments with certain draw down	100
ix.	Lending of HFC securities or posting of securities as collateral by HFC, including instances where these arise out of repo style transactions.	100
x.	Other commitments (e.g., formal standby facilities and credit lines (including project loans)) with an original maturity of Up to one year Over one year	20 50
xi.	Similar commitments that are unconditionally cancellable at any time by the HFC without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness	0
xii.	Take-out finance in the books of taking-over institutions	

Item No.	Item Description	CCF
	(a) Unconditional take-out finance	100
	(b) Conditional take-out finance	50
	Note: As the counter party exposure will determine the risk weight, it will be 100 per cent in respect of all borrowers or zero per cent if covered by government guarantee.	
xiii.	Commitment to provide liquidity facility for securitization of standard asset transaction	100
xiv.	Second loss credit enhancement for securitization of standard asset transactions provided by the third party	100
xv.	Other contingent liabilities (To be specified)	50
xvi.	Non-fund based claims on the Central Government	0

Note:

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

6.3.2.2. Where the non-market related off-balance sheet item is an undrawn or partially undrawn fund-based facility, the amount of undrawn commitment to be included in calculating the off-balance sheet non-market related credit exposures is the maximum unused portion of the commitment that could be drawn during the remaining period to maturity. Any drawn portion of a commitment forms a part of HFC's on-balance sheet credit exposure.

For example:

A term loan of ₹100 crore is sanctioned for a large housing project which can be drawn down in stages over a three year period. The terms of sanction allow draw down in three stages – ₹25 crore in Stage I, ₹25 crore in Stage II and ₹50 crore in Stage III, where the borrower needs the HFC's explicit approval for draw down under Stages II and III after completion of certain formalities. If the borrower has drawn already ₹10 crore under Stage I, then the undrawn portion would be computed with reference to Stage I alone i.e., it will be ₹15 crore. If Stage I is scheduled to be completed within one year,

the CCF will be 20 per cent and if it is more than one year then the applicable CCF will be 50 per cent.

Market Related Off-Balance Sheet Items:

- 6.3.3.** HFCs shall take into account all market related off-balance sheet items (OTC derivatives and Securities Financing Transactions such as repo/ reverse repo/ CBLO etc.) while calculating the risk weighted off-balance sheet credit exposures. The credit risk on market related off-balance sheet items is the cost to an HFC of replacing the cash flow specified by the contract in the event of counterparty default. This shall depend, among other things, upon the maturity of the contract and on volatility of rates underlying the type of instrument.
- 6.3.4.** Market related off-balance sheet items would include:
- a. Interest rate contracts – including single currency interest rate swaps, basis swaps, forward rate agreements, and interest rate futures;
 - b. Foreign exchange contracts, including contracts involving gold - includes cross currency swaps (including cross currency interest rate swaps), forward foreign exchange contracts, currency futures, currency options;
 - c. Credit Default Swaps; and
 - d. Any other market related contracts specifically allowed by the Bank which give rise to credit risk.
- 6.3.5.** Exemption from capital requirements is permitted for:
- a. Deleted¹⁰ and;
 - b. Instruments traded on futures and options exchanges which are subject to daily mark-to-market and margin payments.
- 6.3.6.** The exposures to Central Counter Parties (CCPs), on account of derivatives trading and securities financing transactions (e.g. Collateralised Borrowing and Lending Obligations – CBLOs, Repos) outstanding against them shall be assigned zero exposure value for counterparty credit risk, as it is presumed

¹⁰ Vide [circular DOR.MRG.REC.64/00-00-005/2022-23 dated August 11, 2022](#).

that the CCPs' exposures to their counterparties are fully collateralized on a daily basis, thereby providing protection for the CCP's credit risk exposures.

6.3.7. A CCF of 100 per cent shall be applied to the corporate securities posted as collaterals with CCPs and the resultant off-balance sheet exposure shall be assigned risk weights appropriate to the nature of the CCPs. In the case of Clearing Corporation of India Limited (CCIL), the risk weight shall be 20 per cent and for other CCPs, the risk weight will be 50 per cent.

Current Exposure Method (used for measuring capital charge for default risk)

6.3.8. The total credit exposure to a counterparty in respect of derivative transactions should be calculated according to the current exposure method as explained below.

The credit equivalent amount of a market related off-balance sheet transaction calculated using the current exposure method is the sum of:

- a. current exposure; and
- b. potential future exposure of the contract.

6.3.9. Current exposure is defined as the sum of the gross positive mark-to-market value of all contracts with respect to a single counterparty (positive and negative marked-to-market values of various contracts with the same counterparty shall not be netted). The current exposure method requires periodical calculation of the current exposure by marking these contracts to market.

Note: In case of bilateral netting arrangement, refer to the definition as specified in Paragraph 6.3.10B.

6.3.10. Potential future exposure is determined by multiplying the notional principal amount of each of these contracts, irrespective of whether the contract has a zero, positive or negative mark-to-market value by the relevant add-on factor indicated below according to the nature and residual maturity of the instrument.

Credit Conversion Factors for interest rate related, exchange rate related and gold related derivatives		
	Credit Conversion Factors (%)	
	Interest Rate Contracts	Exchange Rate Contracts & Gold

One year or less	0.50	2.00
Over one year to five years	1.00	10.00
Over five years	3.00	15.00

Notes:

- a. For contracts with multiple exchanges of principal, the add-on factors are to be multiplied by the number of remaining payments in the contract.
 - b. For contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date. However, in the case of interest rate contracts which have residual maturities of more than one year and meet the above criteria, the CCF or add-on factor is subject to a floor of 1.0 per cent.
 - c. No potential future exposure would be calculated for single currency floating/ floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.
 - d. Potential future exposures should be based on 'effective' rather than 'apparent notional amounts'. In the event that the 'stated notional amount' is leveraged or enhanced by the structure of the transaction, the 'effective notional amount' must be used for determining potential future exposure. For example, a stated notional amount of USD 1 million with payments based on an internal rate of two times the lending rate of the HFC would have an effective notional amount of USD 2 million.
- 6.3.10A.** When effective bilateral netting contract as specified in **paragraph 6.3.10C** is in place, current exposure i.e. replacement cost will be the net replacement cost; and the potential future exposure i.e. add-on will be A_{Net} as calculated below:
- a. Credit exposure on bilaterally netted forward transactions will be calculated as the sum of the net mark-to-market replacement cost, if positive, plus an add-on based on the notional underlying principal.

The add-on for netted transactions (A_{Net}) will equal the weighted average of the gross add-on (A_{Gross}) and the gross add-on adjusted by the ratio of net current replacement cost to gross current replacement cost (NGR). This is expressed through the following formula:

$$A_{Net} = 0.4 * A_{Gross} + 0.6 * NGR * A_{Gross}$$

where:

NGR = level of net replacement cost/level of gross replacement cost for transactions subject to legally enforceable netting agreements^{5A}

A_{Gross} = sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors set out in the table in paragraph 6.3.10 and paragraph 6.3.11 of all transactions subject to legally enforceable netting agreements with one counterparty.

- b. For the purposes of calculating potential future exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which the notional principal amount is equivalent to cash flows, the notional principal is defined as the net receipts falling due on each value date in each currency. The reason for this is that offsetting contracts in the same currency maturing on the same date will have lower potential future exposure as well as lower current exposure.

6.3.10B. Definitions and general terminology

- a. **Current Exposure** is the larger of zero, or the market value of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty, assuming no recovery on the value of those transactions in bankruptcy. Current exposure is often also called Replacement Cost (RC).
- b. **Netting Set** is a group of transactions with a single counterparty that are subject to a legally enforceable bilateral netting arrangement and for which netting is recognised for regulatory capital purposes. Each transaction that

^{5A} HFCs must calculate NGR on a counterparty by counterparty basis for all transactions that are subject to legally enforceable netting agreements.

is not subject to a legally enforceable bilateral netting arrangement that is recognised for regulatory capital purposes should be interpreted as its own netting set for the purpose of these rules.

6.3.10C. Requirement for recognition of Bilateral Netting Contract:

- a. HFCs may net transactions subject to novation under which any obligation between such HFC and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.
- b. HFCs may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation.
- c. In both cases (a) and (b), an HFC will need to satisfy that it has:
 - (i) A netting contract or agreement with the counterparty which creates a single legal obligation, covering all included transactions, such that the HFC would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances;
 - (ii) Written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find such HFC's exposure to be such a net amount under:
 - The law of the jurisdiction in which the counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under the law of the jurisdiction in which the branch is located;
 - The law that governs the individual transactions; and
 - The law that governs any contract or agreement necessary to effect the netting.
 - (iii) Procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes in relevant law.

- d. Contracts containing walkaway clauses will not be eligible for netting for the purpose of calculating capital requirements under these guidelines. A walkaway clause is a provision which permits a non-defaulting counterparty to make only limited payments or no payment at all, to the estate of a defaulter, even if the defaulter is a net creditor.

Credit conversion factors for Credit Default Swaps (CDS)

6.3.11. A CDS creates a notional short position for specific risk in the reference asset/ obligation for the protection buyer. This position will attract a Credit Conversion Factor of 100 and a risk weight of 100. The add on factor shall be fixed as 10 per cent (of notional principal of CDS) in relation to potential future exposure.

Chapter V

Asset Classification and Provisioning

7. Accounting Standards

HFCs that are required to implement Indian Accounting Standards (Ind AS) as per the Companies (Indian Accounting Standards) Rules, 2015 shall prepare their financial statements in accordance with Ind AS notified by the Government of India and shall comply with the regulatory guidance specified in terms of Paragraph 3.1.7 of these directions. Other HFCs shall comply with the requirements of notified Accounting Standards (AS) insofar as they are not inconsistent with any of these directions.

8. Asset Classification

The asset classification norms as given below shall apply to every HFC:

8.1. Every HFC shall, 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 any other forms of credit into the following classes, namely:

- a. Standard assets
- b. Sub-standard assets
- c. Doubtful assets and
- d. Loss assets.

8.2. The class of assets referred to above shall not be upgraded merely as a result of rescheduling, unless it satisfies the conditions required for the upgradation.

8.3. Classes of Assets

8.3.1. “Standard asset” shall mean 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 or carry more than normal risk attached to the business.

8.3.2. “Sub-standard asset” shall mean:

- a. an asset which has been classified as non-performing asset for a period not exceeding 12 months;
- b. 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.

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.

Explanation: Extension in repayment tenor of a floating rate loan on reset of interest rate, so as to keep the EMI unchanged provided it is applied to a class of accounts uniformly, will not render the account to be classified as re-negotiated or rescheduled account. In other words, extension or deferment of EMIs to individual borrowers as against to an entire class, would render the accounts to be classified as re-negotiated or rescheduled accounts.

8.3.3. "Doubtful asset" shall mean:

- a. a term loan, or
- b. a lease asset, or
- c. a hire purchase asset, or
- d. any other asset,

which remains a sub-standard asset for a period exceeding 12 months.

8.3.4. “Loss asset” shall mean:

- a. an asset which has been identified as loss asset by the HFC or its internal or external auditor or by the Bank or by the NHB during the inspection of the HFC, to the extent it is not written off by the HFC; and
- b. an asset which is adversely affected by a potential threat of non-recoverability due to any one of the following, namely:
 - i. non-availability of security, either primary or collateral, in case of secured loans and advances;
 - ii. erosion in value of security, either primary or collateral, is established;
 - iii. insurance claim, if any, has been denied or settled in part;
 - iv. fraudulent act or omission on the part of the borrower;
 - v. the debt becoming time barred under Limitation Act, 1963 (Act 36 of 1963);
 - vi. 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 Bank, NHB or the auditors to consider the asset or part thereof as loss asset due to aforesaid reasons.

8.3.5. “Non-Performing Asset” (referred to in these directions as “NPA”) shall mean:

- a. an asset, in respect of which, interest has remained overdue for a period of more than ninety days.
- b. a term loan (other than the one granted to an agriculturist or to a person whose income is dependent on the harvest of crops) inclusive of unpaid interest, when the instalment is overdue for a period of more than ninety days or more or on which interest amount remained overdue for a period of more than ninety days.
- c. a demand or call loan, which remained overdue for a period of more than ninety days from the date of demand or call or on which interest amount remained overdue for a period of more than ninety days.
- d. a bill which remains overdue for a period of more than ninety days.

- e. 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 more than ninety days.
- f. any dues on account of sale of assets or services rendered or reimbursement of expenses incurred, which remained overdue for a period of more than ninety days.
- g. the lease rental and hire purchase instalment, which has become overdue for a period of more than ninety days.
- h. an inter corporate deposit, in respect of which interest or principal has remained overdue for a period of more than ninety days.
- i. a term loan granted to an agriculturist or to a person whose income is dependent on the harvest of crops if the installment of principal or interest thereon remains unpaid:
 - i. for two crop seasons beyond the due date if the income of the borrower is dependent on short duration crops, or
 - ii. for one crop season beyond the due date if the income of the borrower is dependent on long duration crop.

Explanation:

- i. For the purpose of this sub-clause "long duration" crops would be crops with crop season longer than one year and crops, which are not "long duration" crops, would be treated as "short duration" crops.
- ii. The crop season for each crop means the period up to harvesting of the crops raised, would be as determined by the State Level Bankers' Committee in each State.
- j. in respect of loans, advances and other credit facilities (including bills purchased and discounted), the balance outstanding under the credit facilities (including accrued interest) made available to the same borrower/ beneficiary when any of the above credit facilities becomes non-performing asset.

Provided that in the case of lease and hire purchase transactions, an HFC shall classify each such account on the basis of its record of recovery.

8A. Clarifications on Asset Classification, etc.¹¹

8A.1. An amount is to be treated as overdue if it is not paid on the due date fixed by the HFC. The exact due dates for repayment of a loan, frequency of repayment, breakup between principal and interest, examples of SMA/ NPA classification dates, etc. shall be clearly specified in the loan agreement and the borrower shall be apprised of the same at the time of loan sanction and also at the time of subsequent changes, if any, to the sanction terms/ loan agreement till full repayment of the loan. In cases of loan facilities with moratorium on payment of principal and/ or interest, the exact date of commencement of repayment shall also be specified in the loan agreements. In case of existing loans, compliance to these instructions shall necessarily be ensured as and when such loans become due for renewal/ review.

8A.2. Every HFC shall recognise incipient stress in loan accounts, immediately on default¹², by classifying such assets as special mention accounts (SMA) as per the following categories:

SMA Sub-categories	Basis for classification – Principal or interest payment or any other amount wholly or partly overdue
SMA-0	Upto 30 days
SMA-1	More than 30 days and upto 60 days
SMA-2	More than 60 days and upto 90 days

8A.3. The above instructions on SMA classification of borrower accounts are applicable to all loans¹³, including retail loans, irrespective of size of exposure of the lending institution.

8A.4. The borrower accounts shall be flagged as overdue by the lending institutions as part of their day-end processes for the due date, irrespective of the time of running such processes. Similarly, classification of borrower accounts as SMA as well as NPA shall be done as part of day-end process for the relevant date and the SMA

¹¹ Vide [circulars DOR.STR.REC.68/21.04.048/2021-22 dated November 12, 2021](#) and [DOR.STR.REC.85/21.04.048/2021-22 dated February 15, 2022](#)

¹² 'Default' means non-payment of debt (as defined under the IBC) when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor or the corporate debtor, as the case may be.

¹³ Agricultural advances governed by crop season-based asset classification norms shall be exempt from this instruction.

or NPA classification date shall be the calendar date for which the day end process is run. In other words, the date of SMA/NPA shall reflect the asset classification status of an account at the day-end of that calendar date.

Example: If due date of a loan account is March 31, 2021, and full dues are not received before the lending institution runs the day-end process for this date, the date of overdue shall be March 31, 2021. If it continues to remain overdue, then this account shall get tagged as SMA-1 upon running day-end process on April 30, 2021 i.e. upon completion of 30 days of being continuously overdue. Accordingly, the date of SMA-1 classification for that account shall be April 30, 2021.

Similarly, if the account continues to remain overdue, it shall get tagged as SMA-2 upon running day-end process on May 30, 2021 and if continues to remain overdue further, it shall get classified as NPA upon running day-end process on June 29, 2021.

8A.5. Loan accounts classified as NPAs may be upgraded as 'standard' asset only if entire arrears of interest and principal are paid by the borrower. HFCs shall have time till September 30, 2022 to put in place the necessary systems to implement this provision.

In case of borrowers having more than one credit facility, loan accounts shall be upgraded from NPA to standard asset category only upon repayment of entire arrears of interest and principal pertaining to all the credit facilities.

8A.6. Consumer Education on SMA/ NPA

With a view to increasing awareness among the borrowers, HFCs should place consumer education literature on their websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process. HFCs shall also consider displaying such consumer education literature in their branches by means of posters and/or other appropriate media. Further, it shall also be ensured that their front-line officers educate borrowers about all these concepts, with respect to loans availed by them, at the time of sanction/disbursal/renewal of loans.

8B. Framework for Compromise Settlements and Technical Write-offs¹⁴

HFCs shall comply with the instructions contained in [circular on 'Framework for Compromise Settlements and Technical Write-offs' dated June 08, 2023](#), as amended from time to time.

9. Income Recognition

- 9.1.** The income recognition shall be based on recognised accounting principles.
- 9.2.** 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.
- 9.3.** 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.
- 9.4.** 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.
- 9.5.** In cases of loans where moratorium has been granted for repayment of interest, the interest income may be recognised on accrual basis for accounts which continue to be classified as 'standard'.
- 9.6.** If loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalized interest corresponding to the interest accrued during such moratorium period need not be reversed.

¹⁴ Inserted vide [circular DOR.STR.REC.20/21.04.048/2023-24 dated June 08, 2023](#)

10. Income from Investment

10.1. 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 shall be taken into account on accrual basis when such dividend has been declared by the corporate body in its annual general meeting and the HFC's right to receive payment is established.

10.2. Income from bonds and debentures of corporate bodies and from Government securities/ bonds shall be taken into account on accrual basis.

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

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

11. Investment Policy and Accounting for Investments

11.1. The Board of Directors of every HFC shall frame investment policy for the company and shall implement the same. The criteria to classify the investments into current and long-term investments shall be spelt out by the Board of the company ex-ante in the investment policy. Investments in securities shall be classified into current and long term, at the time of making each investment. In case of inter-class transfer –

- a. There shall be no such transfer on ad-hoc basis.
- b. Such 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.
- c. The investments shall be transferred scrip-wise, from current to long term or vice-versa, at book value or market value, whichever is lower.
- d. The depreciation, if any, in each scrip shall be fully provided for and appreciation, if any, shall be ignored.

- e. 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.

11.2. Accounting for Investments

- 11.2.1.** Quoted current investments shall, for the purpose of valuation, be grouped into the following categories, viz.
 - a. equity shares
 - b. preference shares,
 - c. debentures and bonds,
 - d. Government securities including treasury bills,
 - e. units of mutual fund, and
 - f. others.
- 11.2.2.** 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.
- 11.2.3.** Unquoted equity shares in the nature of current investments shall be valued at cost or breakup value, whichever is lower. Where the balance sheet of the investee company is not available for two years, such shares shall be valued at one Rupee only.
- 11.2.4.** Unquoted preference shares in the nature of current investments shall be valued at cost or face value or the net asset value, whichever is lower. 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.
- 11.2.5.** Investments in unquoted Government securities or Government guaranteed bonds shall be valued at carrying cost.

11.2.6. 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.

11.2.7. Commercial papers shall be valued at carrying cost.

11.2.8. A long-term investment shall be valued in accordance with the applicable Accounting Standards.

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.

12. Provisioning Requirements

The provisioning requirements as given below shall apply to every HFC.

Every HFC shall, 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 security charged, make provision against standard assets, sub-standard assets, doubtful assets and loss assets as provided hereunder:

Loans, advances and other credit facilities including bills purchased and discounted-

12.1. The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

Loss Assets	The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100% of the outstanding shall be provided for.
Doubtful Assets	(a) 100% provision to the extent to which the advance is not covered by the realisable value of the security to which the HFC has a valid recourse shall be made. The realisable 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 25% to 100% of the secured portion (i.e. estimated realisable value of the outstanding) shall be made on the following basis:	
	Period for which the asset has been considered as doubtful	Per cent of provision (%)
	Up to one year	25
	One to three years	40
	More than three years	100
Sub-standard assets	A general provision of 15 per cent of total outstanding shall be made.	
Standard assets (not applicable to HFCs in Upper Layer)	(a) Standard Assets in respect of housing loans at teaser/ special rates i.e. housing loans at comparatively lower rates of interest in the first few years after which rates are re-set at higher rates	2% provision on the total outstanding amount of such loans. The provisioning of these loans to be reset after one year at the applicable rates from the date on which the rates are reset at higher rates if the accounts remain 'standard'
	(b)(i) Standard Assets in respect of Commercial Real Estates - Residential Housing (CRE-RH)	0.75% on the total outstanding amount of such loans
	(b)(ii) Standard Assets in respect of all other Commercial Real Estates (CRE)	1.00% on the total outstanding amount of such loans

	(b)(iii) Standard Assets in respect of Individual Housing Loans	0.25% on the total outstanding amount of such loans
	(c) Standard Assets in respect of all loans other than (a) & (b) above	A general provision of 0.4% of the total outstanding amount of loans which are standard assets shall be made

Provided that no provision need be made towards the portion of housing loan guaranteed by CRGFTLIH becomes non-performing. However, the amount outstanding in excess of the guaranteed portion should be provided for as per the extent directions on provisioning requirement.

Note:

- a. Loans under Rural Housing Funds Scheme/ Urban Housing Funds Schemes are not to be regarded as loans given at teaser/ special rates.
- b. Commercial Real Estate – Residential Housing (CRE–RH) would consist of loans to builders/ developers for residential housing projects (except for captive consumption) under CRE segment. Such project should ordinarily not include non-residential commercial real estate. However integrated housing project comprising of some commercial spaces (e.g. shopping complex, school etc.) can also be specified under CRE-RH, provided that the commercial area in the residential housing project does not exceed 10 per cent of the total Floor Space Index (FSI) of the project. In case the FSI of the commercial area in the predominantly residential housing complex exceed the ceiling of the project loans, the entire loan should be classified as CRE and not CRE-RH.
- c. Other commercial real estate (CRE) would consist of loan to builders/ developers/ other for office building, retail space, multi-purpose commercial premises, multi-tenanted commercial premises, industrial or warehouse space, hotels, land

acquisition, development and construction etc. other than those covered by note (b) above.

- d. Loans for third dwelling unit onwards to an individual will also be treated as CRE exposure.
- e. The revised provisioning norms relating to standard category of individual housing loans would be effective prospectively but the provisions held at present towards such loans should not be reversed. However, in future, if by applying the revised provisioning norms, any provisions are required over and above the level of provisions currently held for the standard category of such loans, these should be duly provided for.
- f. The provisions on standard assets should not be reckoned for arriving at net NPAs.
- g. The provisions towards standard assets need not be netted from gross advances but shown separately as 'Contingent Provisions against Standard Assets' in the balance sheet.

Lease and hire purchase assets –

12.2. The provisioning requirements in respect of hire purchase and leased assets shall be as under:

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

Explanation: For the purpose of this paragraph,

- i. 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 twenty per cent per annum on a straight-line method; and
- ii. 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

12.2.2. In respect of hire purchase and leased assets, additional provision shall be made as under:

(a)	Where hire charges or lease rentals are overdue up to 12 months	Nil
(b)	Where hire charges or lease rentals are overdue for more than 12 months up to 24 months	10 per cent of the net book value
(c)	Where hire charges or lease rentals are overdue for more than 24 months but up to 36 months	40 per cent of the net book value
(d)	Where hire charges or lease rentals are overdue for more than 36 months but up to 48 months	70 per cent of the net book value
(e)	Where hire charges or lease rentals are overdue for more than 48 months	100 per cent of the net book value

12.2.3. 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:

- a. The amount of caution money/ margin money or security deposits kept by the borrower with the HFC in pursuance of the hire purchase agreement shall be deducted against the provisions stipulated under Paragraph 12.2.1 above, if not already taken into account while arriving at the equated monthly instalments under the agreement. The value of any other security available in pursuance to the hire purchase agreement shall be deducted only against the provisions stipulated under Paragraph 12.2.2 above.
- b. The amount of security deposits kept by the borrower with the HFC in pursuance to the lease agreement together with the value of any other security available in pursuance to the lease agreement shall be deducted only against the provisions stipulated under Paragraph 12.2.2 above.
- c. 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 an

NPA has not been recognised shall not be taken as reason for not making provision.

- d. An asset which has been renegotiated or rescheduled as referred to in Sub-paragraph (b) of Paragraph 8.3.2 of these directions shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or re-schedulement as a doubtful asset or a loss asset as the case may be. Necessary provision shall be made as applicable to such asset till it is upgraded. In case where an asset has been rescheduled on account of natural calamities having impaired the repaying capacity of the borrower as provided in Sub-paragraph (b) of Paragraph 8.3.2, any provisioning made prior to such rescheduling shall neither be written back nor adjusted against any provisioning requirements that may arise in future.
- e. All financial leases written on or after April 1, 2002 shall attract the provisioning requirements as applicable to hire purchase assets.

13. Policy on Demand/ Call Loans

13.1. The Board of Directors of every HFC granting/ intending to grant demand/ call loans shall frame a policy for the company and implement the same.

13.2. Such policy shall, inter alia, stipulate guidelines in respect of the following -

- a. A cut-off date within which the repayment of demand or call loan shall be demanded or called up.
- b. 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.
- c. The rate of interest which shall be payable on such loans.
- d. Interest on such loans, as stipulated shall be payable either at monthly or quarterly basis.
- e. 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.

- f. A cut-off date, for review of performance of the loan, not exceeding six months commencing from the date of sanction.
- g. Such demand or call loans shall not be renewed unless the periodical review has shown satisfactory compliance with the terms of sanction.

14. Disclosure Norms

HFCs are required to make disclosures in their financial statements in accordance with the guidelines in these Directions, applicable accounting standards, laws and regulations. The disclosures specified in these directions are in addition to and not in substitution of the disclosure requirements specified under other laws, regulations, or accounting and financial reporting standards. More comprehensive disclosures than the minimum required are encouraged, especially if such disclosures significantly aid in the understanding of the financial position and performance. Please refer to the formats specified in **Annex III** and **Annex IV**.

15. Disclosure of Non-Performing Assets and Provisions in balance sheet

- 15.1.** The outstanding amount and the provisions made as per Paragraph 12 above, without netting them from the income or against the value of assets, shall be distinctly disclosed under separate heads of accounts for housing and non-housing finance business and individually for each type of assets in the balance sheet as under:
 - a. for standard, sub-standard, doubtful and loss assets separately for housing and non-housing finance business along with total; and
 - b. for depreciation in investments.
- 15.2.** Such provisions shall not be appropriated from the general provisions and loss reserves held, if any, by the housing finance company.
- 15.3.** 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 shall be written back without making adjustment against them.

16. Other Disclosures

- 16.1.** Every HFC shall disclose in their notes to accounts to the balance sheet, details on Principal Business Criteria as per Paragraph 4.1.17, CRAR, exposure to real

estate sector (both direct and indirect), maturity pattern of assets & liabilities, percentage of outstanding loans against collateral of gold jewellery to their outstanding total assets, details of levy of penalty by the Bank or NHB, adverse comments, if any, on HFC made in writing by the Bank or NHB on regulatory compliances with a specific communication to disclose the same to public, etc. (please refer to formats in [Annex III](#) and [Annex IV](#))

- 16.2.** HFCs are advised to prominently display on their website any penalty levied on the company by the RBI/ NHB.
- 16.3.** Every HFC shall append to its balance sheet prescribed under the Companies Act, 2013, the details prescribed under in [Annex III](#).
- 16.4.** With regards to the presentation of Reserve Fund in the annual accounts of the HFCs, the annual statements shall contain the disclosures as prescribed under Paragraph 3.2 of [Annex IV](#) in the 'Notes forming part of the financial statements'.

17. Accounting year

Every HFC shall prepare its financial statements for the year ending on the 31st day of March.

Chapter VI

Regulatory Restrictions and Limits

17A. Ceiling on IPO Funding¹⁵

There shall be a ceiling of ₹1 crore per borrower for financing subscription to Initial Public Offer (IPO). HFCs can fix more conservative limits.

18. Loans against HFCs own shares prohibited

No HFC shall lend against its own shares.

18A. Declaration of dividends¹⁶

HFCs shall comply with the following guidelines to declare dividends.

18A.1. The Board of Directors, while considering the proposals for dividend, shall take into account each of the following aspects:

- a. Supervisory findings of the National Housing Bank (NHB) on divergence in classification and provisioning for Non-Performing Assets (NPAs).
- b. Qualifications in the Auditors Report to the financial statements.
- c. Long term growth plans of the HFC.

18A.2. HFCs that meet the following minimum prudential requirements shall be eligible to declare dividend:

- a. HFCs shall have met the minimum capital requirements prescribed under Paragraph 6 of this Master Direction in each of the last three¹⁷ financial years including the financial year for which the dividend is proposed.
- b. The net NPA ratio shall be less than six per cent in each of the last three years, including as at the close of the financial year for which dividend is proposed to be declared.
- c. HFCs shall comply with the provisions of Section 29 C of the National Housing Bank Act, 1987.
- d. HFCs shall be compliant with the prevailing regulations/ guidelines issued by the Reserve Bank or National Housing Bank. The Reserve Bank or National

¹⁵ Vide [circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021](#).

¹⁶ Vide [Circular DOR.ACC.REC.No.23/21.02.067/2021-22 dated June 24, 2021](#)

¹⁷ Where an HFC has been in existence for less than three financial years, it shall be since registration.

Housing Bank shall not have placed any explicit restrictions on declaration of dividend.

18A.3. HFCs that meet the following eligibility criteria specified in Paragraph 18A.2 above can declare dividend upto a dividend payout ratio of 50 per cent.

18A.4. An HFC which does not meet the applicable capital requirements and/ or the net NPA ratio requirement as above, for each of the last three financial years, shall be eligible to declare dividend, subject to a cap of 10 per cent on the dividend payout ratio, provided the HFC complies with both the following conditions:

- a. meets the applicable minimum capital requirement, as per this Master Direction, in the financial year for which it proposes to pay dividend, and
- b. has net NPA of less than four per cent as at the close of the financial year.

18A.5. The Board shall ensure that the total dividend proposed for the financial year does not exceed the ceilings specified in these guidelines. The Reserve Bank or the National Housing Bank shall not entertain any request for ad-hoc dispensation on declaration of dividend.

18A.6. HFCs declaring dividend shall report details of dividend declared during the financial year as per the format prescribed in [Annex IVA](#). The report shall be furnished within a fortnight after declaration of dividend to National Housing Bank.

19. Loan to Value (LTV) Ratio for housing loans

19.1. No housing finance company shall grant housing loans to individuals:

- a. up to ₹30 lakh with LTV ratio exceeding 90 per cent,
- b. above ₹30 lakh and up to ₹75 lakh with LTV ratio exceeding 80 per cent, and,
- c. above ₹75 lakh with LTV ratio exceeding 75 per cent

Note:

- a. The LTV ratio shall be computed as a percentage with total outstanding in the account (viz, "principal + accrued interest + other charges pertaining to the loan" without any netting) in numerator and the realizable value of the residential property mortgaged to the HFC in the denominator. HFCs shall not include stamp duty, registration and other documentation charges in the cost of the housing property they finance so that the effectiveness of LTV norms is

not diluted. However, with a view to encourage availability of affordable housing to borrowers like economically weaker sections (EWS) and low income groups (LIG), in cases where the cost of the house/ dwelling unit does not exceed ₹10 lakh, HFCs may add stamp duty, registration and other documentation charges to the cost of the house/ dwelling unit for the purpose of computing LTV ratio.

- b. HFCs shall be guided by Paragraph 104 of these Directions on valuation of properties and empanelment of valuers.

20. Concentration of credit/ investment (not applicable to HFCs in Upper Layer)

20.1. Housing finance company shall not have exposure (credit/ investment taken together) exceeding

- a. twenty-five per cent of its Tier 1 Capital to a single party; and
- b. forty per cent of its Tier 1 Capital to a single group of parties.

Provided that within the overall ceiling prescribed under Sub- paragraph 20.1, investment of a housing finance company in the shares of another housing finance company (other than its subsidiary/ies) shall not exceed fifteen per cent of the equity capital of the investee company.

Provided that the ceiling on the investment in shares of another company shall not be applicable in respect of investment in the equity capital of an insurance company up to the extent specifically permitted, in writing, by the Bank.

20.2. Provided further that nothing contained in Sub-paragraph 20.1 shall apply to-

20.2.1. investments of a housing finance company in shares of

- a. its subsidiaries;
- b. companies in the same group,

to the extent they have been reduced from owned funds for the calculation of Net Owned Fund and

20.2.2. the book value of debentures, bonds, outstanding loans and advances (including hire-purchase and lease finance) made to, and deposits with-

- a. subsidiaries of a housing finance company; and
- b. companies in the same group,

to the extent they have been reduced from owned fund for the calculation of Net Owned Fund.

Notes:

- a. For determining the abovementioned limits, off-balance sheet exposures shall be converted into credit risk by applying the conversion factors, as explained in Paragraph 6.3.
- b. The investment in debentures for the above purpose shall be treated as credit and not investment.
- c. 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, subject to the ceiling prescribed in Paragraph 21.
- d. "Shares" shall mean and include investment in various instruments such as Equity Shares, Preference Shares eligible for capital status, Subordinated Debt Instruments, Hybrid Debt Capital Instruments and any other quasi-capital instruments approved as in the nature of capital.
- e. Investment of a housing finance company in the shares of its subsidiaries, companies in the same group and other housing finance companies, to the extent of ten per cent of its owned fund, shall carry a risk weight of 100 per cent as prescribed at item (2) (e) of 'Weighted Risk Assets- on balance sheet items in Paragraph 6.2 of these directions. Such investment in excess of ten per cent of its owned fund shall continue to be deducted from the Net Owned Fund of the housing finance company as prescribed at item (l) of 'Explanation' to Section 29A of the National Housing Bank Act, 1987.
- f. Tier 1 Capital shall mean 'Tier 1 Capital' as defined under Paragraph 4.1.36 of these directions and with respect to its position as per the published accounts as on March 31st of the previous year.
- g. The infusion of capital, after such published balance sheet date may be taken into account for determining the exposure ceiling but the housing finance company shall not take exposure in excess of the ceiling in anticipation of infusion of capital at a future date. The housing finance company shall furnish to the NHB, statutory

auditor's certificate on completion of the augmentation of capital before reckoning the same for above purpose.

- h. Other accretions to capital funds by way of quarterly profits, shall not be eligible to be reckoned to compute 'Tier 1 Capital' for the purpose of determining the exposure ceiling.
- i. Every HFC shall formulate a policy in respect of exposures to a single party/ a single group of parties.

21. Exposure of HFCs to group companies engaged in real estate business

In case of companies in a group engaged in real estate business, HFCs may undertake exposure either to the group company engaged in real estate business or lend to retail individual home buyers in the projects of such group companies. In case HFC prefers to undertake exposure in group companies, such exposure by way of lending/ investing, directly or indirectly, cannot be more than 15% of Tier 1 Capital for a single entity in the group and 25% of Tier 1 Capital for all such group entities. The HFC would in all such cases follow arm's length principles in letter and spirit. Every HFC shall disclose in their notes to accounts to the balance sheet, details of these exposures as per format prescribed under Paragraph 3.7.6 of [Annex IV](#).

21A. Loans to directors, senior officers and relatives of directors¹⁸

HFCs shall have a Board approved policy on grant of loans to directors, senior officers and relatives of directors and to entities where directors or their relatives have major shareholding. The Board approved policy shall include a threshold beyond which loans to abovementioned persons shall be reported to the Board. Further, HFCs shall disclose in their Annual Financial Statement, aggregate amount of such sanctioned loans and advances as per the template provided in the **Annex IVB**.

¹⁸ Vide [circular DOR.CRE.REC.No.25/03.10.001/2022-23 dated April 19, 2022](#)

21A.1. Loans and advances to Directors

21A.1.1. Unless sanctioned by the Board of Directors/ Committee of Directors, HFCs shall not grant loans and advances aggregating Rupees five crore and above to-

- a. their directors (including the Chairman/ Managing Director) or relatives of directors.
- b. any firm in which any of their directors or their relatives is interested as a partner, manager, employee or guarantor.
- c. any company in which any of their directors, or their relatives is interested as a major shareholder, director, manager, employee or guarantor.

Provided that a director or her relatives shall be deemed to be interested in a company, being the subsidiary or holding company, if she is a major shareholder or is in control of the respective holding or subsidiary company.

Provided that the director who is directly or indirectly concerned or interested in any proposal should disclose the nature of her interest to the Board when any such proposal is discussed. She should recuse herself from the meeting unless her presence is required by the other directors for the purpose of eliciting information and the director so required to be present shall not vote on any such proposal.

21A.1.2. The proposals for credit facilities of an amount less than Rupees five crore to these borrowers may be sanctioned by the appropriate authority in the HFC under powers vested in such authority, but the matter should be reported to the Board.

21A.2. Loans and advances to Senior Officers of the HFC

HFCs shall abide by the following when granting loans and advances to their senior officers

- a. Loans and advances sanctioned to senior officers of the HFC shall be reported to the Board.
- b. No senior officer or any Committee comprising, *inter alia*, a senior officer as member, shall, while exercising powers of sanction of any credit facility, sanction any credit facility to a relative of that senior officer. Such a facility

shall be sanctioned by the next higher sanctioning authority under the delegation of powers.

- 21A.3.** In respect of grant of loans mentioned at Paragraph 21A.1 and 21A.2 above –
- a. HFCs shall obtain a declaration from the borrower giving details of the relationship of the borrower to their directors/ senior officers for loans and advances aggregating Rupees five crore and above. HFCs shall recall the loan if it comes to their knowledge that the borrower has given a false declaration.
 - b. These guidelines shall be duly brought to the notice of all directors and placed before the HFC's Board of Directors.
 - c. HFCs shall disclose in their Annual Financial Statement, aggregate amount of such sanctioned loans and advances as per template provided in the **Annex IVB.**

21A.4. The above norms as mentioned at Paragraph 21.A.1, 21.A.2 and 21.A.3 relating to grant of loans and advances will equally apply to awarding of contracts.

Explanation: The term 'loans and advances' will not include loans or advances against

- a. Government securities.
- b. Life insurance policies.
- c. Fixed deposits.
- d. Stocks and shares.
- e. Housing loans, car advances, etc., granted to an employee of the HFC under any scheme applicable generally to employees.

Provided that HFC's interest/ lien is appropriately marked with legal enforceability.

22. Restrictions on investment in real estate

No housing finance company, shall invest in land or buildings, except for its own use, an amount exceeding twenty per cent of its capital fund (i.e. sum of Tier 1 and Tier 2 capital),

Provided that such investment over and above ten per cent of its owned fund, shall be made only in residential units.

Provided that the land or buildings acquired in satisfaction of its debts shall be disposed of by the housing finance company within a period of three years or within such a period as may be extended by the NHB, 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.

23. Exposure to capital market

23.1. Limits on housing finance companies' exposure to capital market

23.1.1. The aggregate exposure of a housing finance company to the capital market in all forms (both fund based, and non-fund based) should not exceed 40 per cent of its net worth as on March 31 of the previous year.

23.1.2. Within the overall ceiling specified in Paragraph 23.1.1 above, direct investment in shares, convertible bonds/ debentures, units of equity-oriented mutual funds and all exposures to Venture Capital Funds (VCFs) [both registered and unregistered] of the housing finance company should not exceed 20 per cent of its net worth.

23.1.3. Net worth for the purpose of this paragraph would comprise of Paid-up capital plus Free Reserves including Share Premium but excluding Revaluation Reserves, plus credit balance in Profit & Loss account, less debit balance in Profit and Loss account, Accumulated Losses and Intangible Assets. No general or specific provisions should be included in computation of net worth. Infusion of capital through equity shares after the published balance sheet date, may also be taken into account for determining the ceiling on exposure to capital market. However, before reckoning such infusion, the HFC shall furnish to the NHB, a certificate from its statutory auditors certifying completion of the augmentation of capital.

23.2. Components of Capital Market Exposure

23.2.1. Capital market exposure of an HFC shall include both direct exposures and indirect exposures. The items which are to be included and excluded are enumerated in the table below.

Items included in capital market exposure	Items excluded from capital market exposure
<p>a. Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds, the corpus of which is not exclusively invested in corporate debt;</p> <p>b. Advances against shares/ bonds/ debentures or other securities or on clean basis to individuals for investment in shares (including Initial Public Offers/ Employees Stock Options), convertible bonds, convertible debentures, and units of equity oriented mutual funds;</p> <p>c. Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;</p> <p>d. Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds, i.e. where the primary security other than shares/ convertible bonds/ convertible debentures/ units of equity oriented mutual funds does not fully cover the advances;</p>	<p>a. Investment of an HFC in its own subsidiaries, joint ventures, and investments in unlisted shares and convertible debentures, convertible bonds issued by institutions forming crucial financial infrastructure and other All India Financial Institutions as detailed below. After listing, the exposures in excess of the original investment (i.e. prior to listing) shall form part of the Capital Market Exposure.</p> <p>(i) National Securities Depository Ltd. (NSDL)</p> <p>(ii) Central Depository Services (India) Ltd. (CDSL)</p> <p>(iii) National Securities Clearing Corporation Ltd. (NSCCL)</p> <p>(iv) National Stock Exchange (NSE)</p> <p>(v) Clearing Corporation of India Ltd., (CCIL)</p> <p>(vi) Credit Information Bureau of India Ltd. (CIBIL)</p> <p>(vii) Multi Commodity Exchange Ltd. (MCX)</p> <p>(viii) National Commodity and Derivatives Exchange Ltd. (NCDEX)</p> <p>(ix) National Multi-Commodity Exchange of India Ltd. (NMCEIL)</p> <p>(x) National Collateral Management Services Ltd. (NCMSL)</p> <p>(xi) Industrial Finance Corporation of India, Ltd. (IFCI)</p>

Items included in capital market exposure	Items excluded from capital market exposure
<p>e. Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;</p> <p>f. Loans sanctioned to corporates against the security of shares/ bonds/ debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;</p> <p>g. Bridge loans to companies against expected equity flows/ issues;</p> <p>h. Underwriting commitments taken up by the housing finance companies in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;</p> <p>i. Financing to stockbrokers for margin trading; and</p> <p>j. All exposures to Venture Capital Funds (both registered and unregistered). These will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect).</p>	<p>(xii) Tourism Finance Corporation of India Ltd. (TFCI)</p> <p>(xiii) Risk Capital & Technology Finance Corporation Ltd. (RCTC)</p> <p>(xiv) Technology Development & Information Co. of India Ltd. (TDICI)</p> <p>(xv) National Housing Bank (NHB)</p> <p>(xvi) Small Industries Development Bank of India (SIDBI)</p> <p>(xvii) National Bank for Agriculture & Rural Development (NABARD)</p> <p>(xviii) Export Import Bank of India (EXIM Bank)</p> <p>(xix) Industrial Investment Bank of India (IIBI)</p> <p>(xx) Life Insurance Corporation of India (LIC)</p> <p>(xxi) General Insurance Corporation of India (GIC)</p> <p>b. Investments in Tier 1 and Tier 2 debt instruments issued by other HFCs;</p> <p>c. Investment in Certificates of Deposit (CDs) of other housing finance companies;</p> <p>d. Investments in Preference Shares, non-convertible debentures and non-convertible bonds;</p> <p>e. Investments in units of Mutual Funds under schemes where the corpus is invested exclusively in debt instruments;</p> <p>f. Shares acquired by housing finance companies as a result of conversion of</p>

Items included in capital market exposure	Items excluded from capital market exposure
	debt/ overdue interest into equity under a Corporate Debt Restructuring (CDR) mechanism.

23.2.2. Computation of Exposure

For computing the exposure to the capital markets, loans/ advances sanctioned and guarantees issued for capital market operations shall be reckoned with reference to sanctioned limits or outstanding, whichever is higher. Further, direct investment of a housing finance company in shares, convertible bonds, convertible debentures and units of equity oriented mutual funds shall be calculated at their cost price.

23A. Sensitive Sector Exposure (SSE)¹⁹

Exposure to capital market (direct and indirect) and commercial real estate²⁰ shall be reckoned as sensitive exposure for HFCs. In addition to exposure limits prescribed in Paragraphs 22 and 23 above, HFCs shall fix Board-approved internal limits for SSE separately for capital market and commercial real estate exposures. Dynamic vulnerability assessments of various sectors and their likely impact on business, as evaluated periodically, should help HFCs determine such internal exposure limits. While the Board is free to determine various sub-limits within the overall SSE internal limits, the following are specifically prescribed:

- a. A sub-limit within the commercial real estate exposure ceiling shall be fixed internally for financing land acquisition.
- b. Ceiling on IPO Funding as mentioned at Paragraph 17A of these Directions.

24. Engagement of Brokers

For engagement of brokers to deal in investment transactions, the housing finance companies shall observe the following:

¹⁹ Vide [circular DOR.CRE.REC.No.60/03.10.001/2021-22 dated October 22, 2021](#).

²⁰ Sensitive Sector Exposure as enumerated in paragraph 3.7 of Annex IV of these Directions.

- 24.1.** 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.
- 24.2.** 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.
- 24.3.** 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.
- 24.4.** Based on 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.
- 24.5.** With the approval of their top management, HFCs 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.
- 24.6.** 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 per cent 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 therefore 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 per cent would not be applicable:

- a. to a housing finance company whose total transactions in a year do not exceed ₹20 crore; and
- b. to housing finance companies' dealings through Primary Dealers/ NDS-OM.

24.7. The auditors who audit the treasury operations should scrutinize 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.

24.8. Housing finance companies shall undertake securities transactions through stock brokers only on National Stock Exchange/ Bombay Stock Exchange/ Over the Counter Exchange of India.

Chapter VII

Acceptance of Public Deposits

25. Acceptance/ renewal of public deposits

- 25.1.** No housing finance company shall accept or renew public deposit unless the HFC has obtained minimum investment grade rating for fixed deposits from any one of the approved credit rating agencies, at least once a year and a copy of the rating is sent to the NHB and it is complying with all the prudential norms.
- 25.2.** The names of approved credit rating agencies and the minimum investment grade credit rating shall be as specified in Paragraph 9 of [Master Direction – Non-Banking Financial Companies Acceptance of Public Deposits \(Reserve Bank\) Directions, 2016](#)²¹.
- 25.3.** In the event of downgrading of the credit rating to any level below the minimum specified investment grade as provided for in the paragraph above, an HFC shall:
- a. with immediate effect, stop accepting fresh public deposits;
 - b. reduce such excess deposit by repayment on maturity; and
 - c. report the position within fifteen working days, to NHB.

26. Maintenance of a minimum percentage of liquid assets²²

- 26.1.** Every housing finance company accepting public deposits shall:
- 26.1.1.** 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 and a half per cent of the public deposits outstanding at the close of business on the last working day of the second preceding quarter.
- 26.1.2.** maintain in India an account with a scheduled bank in term deposits or certificate of deposits (free of charge or lien) or in deposits with/ subscription to 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 Paragraph 26.1.1 shall

²¹ [DOR.FIN.REC.No.34/03.10.136/2021-22 dated July 29, 2021.](#)

²² Gazette Notification [No.NHB.HFC.LA-2/MD&CEO/2019](#) No. 183 dated June 03, 2019 issued by NHB.

not be less than thirteen per cent of the public deposits outstanding at the close of business on the last working day of the second preceding quarter.

26.1.3. All other provisions of Section 29B of NHB Act 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.

26.2. Valuation of Approved Securities

With a view to putting in place a uniform practice for valuation of the approved securities, HFCs shall adopt the following procedure for valuation of approved securities on a daily basis:

26.2.1. Quoted Securities

The ‘market value’ of such securities will be as available from the trades/ quotes on the stock exchanges, SGL account transactions, price list of RBI, the price declared by Primary Dealers Association of India (PDAI)/ Fixed Income Money Market and Derivatives Association of India (FIMMDA)/ Financial Benchmark India Pvt Ltd (FBIL).

26.2.2. Unquoted Securities

26.2.2.1. Central Government Securities

- a. HFCs should value the unquoted Central Government securities on the basis of the prices/ Yield to Maturity (YTM) rates put out by the FBIL at periodical intervals.
- b. Treasury Bills should be valued at carrying cost.

26.2.2.2. State Government Securities

HFCs should value the unquoted State Government securities on the basis of the prices/ Yield to Maturity (YTM) rates put out by the FBIL at periodical intervals.

26.2.2.3. Other ‘approved’ Securities

Other approved securities will be valued applying the YTM method by marking it up by 25 basis points above the yields of the Central Government Securities of equivalent maturity put out by FBIL periodically.

27. Ceiling on quantum of deposit

27.1. A housing finance company having obtained credit rating for its public deposits not below the minimum investment grade rating and complying with all the prudential norms, may accept public deposits not exceeding three times of its NOF.

Provided no matured public deposit shall be renewed without the express and voluntary consent of the depositor.

27.2. 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 as also loans or other assistance from the NHB, in excess of twelve times of its NOF.

Note:

NOF for the purpose of determination of the above limits shall be as at March 31st of the previous financial year based on the audited financial statements for that year. Infusion of capital after such balance sheet date may, however, be reckoned for determining the limits, subject to certification of the same by the statutory auditors.

27.3. Where a housing finance company holds public deposits or deposits inclusive of the items mentioned in Paragraph 27.2 in excess of the limits specified 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.

28. Period of Public Deposit

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

28.1. Which is repayable on demand or on notice; or

28.2. unless such deposit is repayable after a period of twelve months or more but not later than one hundred and twenty 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.

29. Ceiling on the rate of interest & brokerage and Deposits from Non-Resident Indians

29.1. No HFC shall invite or accept or renew public deposit at a rate of interest exceeding twelve and half per cent per annum or as revised by the Reserve Bank. Interest may be paid or compounded at rests which shall not be shorter than monthly rests.

29.2. No HFC shall pay to any broker on public deposit collected by or through him, -
a. brokerage, commission, incentive or any other benefit by whatever name called, in excess of two per cent of the deposit so collected; and
b. expenses by way of reimbursement on the basis of relative vouchers/ bills produced by him, in excess of 0.5 percent of the deposit so collected.

29.3. No HFC 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](#), as amended from time to time, under Non-Resident (External) Account Scheme at a rate exceeding the rate specified by the Bank for such deposits with scheduled commercial banks.

Explanation - The period of above deposits shall be not less than one year and not more than three years.

30. Payment of interest on overdue public deposits:

30.1. An HFC 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

a. 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

- b. 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 an HFC fails to repay the deposit along with interest on maturity on the claim made by the depositor, the HFC shall be liable to pay interest from the date of claim till the date of repayment at the contracted rate as applicable to the deposit.

30.2. In regard to the payment of interest on such deposit which have either been seized by the government authorities, and/or have been frozen till further clearance is received by the concerned government authorities, the HFCs shall follow the procedure mentioned below:

- a. A request letter shall be obtained from the depositor on maturity. While obtaining the request letter from the depositor for renewal, HFCs shall also advise the depositor to indicate the term for which the deposit is to be renewed. In case the depositor does not exercise his option of choosing the term for renewal, HFCs shall renew the same for a term equal to the original term.
- b. No new receipt shall be issued. However, suitable note shall be made regarding renewal in the deposit ledger.
- c. Renewal of deposit shall be advised by registered letter/ speed post/ courier service to the concerned Government department under advice to the depositor. In the advice to the depositor, the principal amount and the rate of interest at which the deposit is renewed shall also be mentioned.
- d. If overdue period does not exceed 14 days on the date of receipt of the request letter, renewal shall be done from the date of maturity. If it exceeds 14 days, HFCs shall pay interest for the overdue period as per the policy adopted by them, and keep it in a separate interest free account which shall be released when the original fixed deposit is released.

However, the final repayment of the principal and the interest so accrued shall be done only after the clearance regarding the same is obtained by the HFCs from the respective Government agencies.

31. Renewal of public deposit

Where an HFC permits an existing depositor to renew the deposit before maturity for availing of the benefit of higher rate of interest, such company shall pay the depositor the increase in the rate of interest provided that, -

- a. the 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
- b. the interest on the expired period of the deposit is reduced by one percentage point from the rate which the company would have ordinarily paid, had the deposit been accepted for the period for which such deposit had run; any interest paid earlier in excess of such reduced rate is recovered/ adjusted.

32. Joint deposit

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".

33. Nomination rules

- 33.1.** Nomination in favor of one person can be made by the depositor/s in respect by the deposits held by him/them with an HFC in terms of section 36B of the National Housing Bank Act, 1987. Such nomination can be made in the manner prescribed in the Banking Companies (Nomination) Rules, 1985 made by the Central Government u/s 45ZA of the Banking Regulation Act 1949. In terms of the Rule 2(9) of the said rules, the companies are required to acknowledge in writing to the depositor/s the filling of the relevant duly completed form of nomination, cancellation and/or variation of the nomination.
- 33.2.** HFCs which are accepting public deposits shall strictly comply with the above provision of the Banking Companies (Nomination) Rules, 1985 and devise a proper system of acknowledging the receipt of duly completed form of nomination, cancellation and/or variation of the nomination. Such acknowledgement shall be given to all the customers irrespective of whether the same is demanded by the customers.
- 33.3.** HFCs shall introduce the practice of recording on the face of the RD passbooks/ FDRs the position regarding availment of nomination facility with the legend

“Nomination Registered” and they shall also indicate the name of the Nominee in the RD passbook/ FDRs, in case the customer is agreeable to the same.

34. Particulars to be specified in application form soliciting public deposits

34.1. 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 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 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.

34.2. 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 NHB, the National Consumers Disputes Redressal Forum, the State Level Consumers Disputes Redressal Forum or the District Level Consumers Dispute 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 Reserve Bank of India. It must, however, be distinctly understood that the Reserve Bank of India or 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."
- h. the form should solicit the details of the bank account of the depositor or depositor/s in case of deposits accepted in joint names.

35. Advertisement and statement in lieu of advertisement

35.1. Every HFC soliciting public deposit 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, other advantage to the depositor;
- b. the mode of repayment of deposit;
- c. the maturity period of deposit;
- d. the interest payable on deposit;
- e. the rate of interest which will be payable to the depositor 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 deposit is accepted/ renewed;
 - 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 HFC are holding substantial interest and the total amount of exposure to such entities; and
 - i. that the deposits solicited by it are not insured.
- 35.2.** Where an HFC displays any advertisement in electronic media such as TV, even without soliciting deposits, it shall incorporate a caption/ band in such advertisements indicating the following:
- a. As regards deposit taking activity of the company, the viewers may refer to the advertisement in the newspaper/ information furnished in the application form for soliciting public deposits;
 - b. The company is having a valid Certificate of Registration dated _____ issued under Section 29A of the National Housing Bank Act, 1987. However, the Reserve Bank of India or the National Housing Bank does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayment of deposits/ discharge of the liabilities by the company.
- 35.3.** Where an HFC intends to accept public deposit without inviting or allowing or causing any other person to invite such deposit, it shall, before accepting such deposit, deliver to NHB for record, 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 and also the particulars stated in Paragraph 35.1, duly signed in the manner provided in the aforesaid Rules.
- 35.4.** A statement delivered under Paragraph 35.3 above 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 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 or the Companies Act, 2013, whichever is earlier, and a fresh statement shall be delivered after the expiry of the validity of the statement, in each succeeding financial year before accepting public deposit in that financial year.

36. General provisions regarding repayment of deposits

36.1. No HFC shall grant any loan against a public deposit or make premature repayment of a public deposit within a period of three months (lock-in period) from the date of its acceptance.

Provided that in the event of death of a depositor, an HFC shall repay the public deposit prematurely, even within the lock – in period, to the surviving depositor/s in the case of joint holding with survivor clause, or to the nominee or the legal heir/s of the deceased depositor, on the request of the surviving depositor/s/ nominee/ legal heir, and only against submission of proof of death, to the satisfaction of the company, with interest at the contracted rate up to the date of repayment.

36.2. Subject to the above provisions, an HFC not being a problem HFC may,

36.2.1. permit premature repayment of a public deposit at its sole discretion:

Provided such HFC shall, if so permitted by the terms and conditions of acceptance of such deposit, repay it prematurely at the request of the depositor, after the expiry of three months from the date of deposit;

36.2.2. grant a loan up to seventy-five percent of the amount of public deposit to a depositor after the expiry of three months from the date of deposit at a rate of interest two percentage points above the interest rate payable on the deposit.

36.3. Subject to the above provisions, in order to enable a depositor to meet expenses of an emergent nature, a problem HFC may make premature repayment of, or grant a loan against, a public deposit in the following cases only, namely:

36.3.1. repay a tiny deposit in entirety or repay any other public deposit up to an amount not exceeding ₹10,000/-; or

- 36.3.2.** grant a loan against a tiny deposit or up to an amount not exceeding ₹10,000/- against any other deposit, at a rate of interest two percentage points above the interest rate payable on the deposit.
- 36.4.** All deposit accounts standing to the credit of sole/ first named depositor in the same capacity shall be clubbed and treated as one deposit account for the purpose of premature repayment or grant of loan by a problem HFC.
Provided that this clause shall not apply to premature repayment in the event of death of depositor as provided in the paragraph.
- 36.5.** In order to meet certain expenses of an emergent nature, subject to the satisfaction of the housing finance company concerned about such circumstances –
- 36.5.1.** ‘Tiny deposits’ may prematurely be paid to individual depositors, at the request of the depositor, before the expiry of three months from the date of acceptance of such deposits, in entirety, without interest;
- 36.5.2.** In case of other public deposits, not more than fifty per cent of the amount of the principal sum of deposit or ₹5 lakh, whichever is lower, may be prematurely paid to individual depositors, at the request of the depositors, before the expiry of three months from the date of acceptance of such deposits, without interest; the remaining amount with interest at the contracted rate shall be governed by the provisions of the extant directions as applicable for public deposits;
Provided further that in cases of critical illness, hundred per cent of the amount of the principal sum of deposit, may be prematurely paid to individual depositors, at the request of the depositors, before the expiry of three months from the date of acceptance of such deposits, without interest.

Explanation:

- a. For the purpose of Sub-paragraph 36.5, expenses of an emergent nature includes medical emergency or expenses due to natural calamities/ disaster as notified by the concerned Government/ authority.

- b. For the definition of 'Critical illness', HFCs shall be guided by the IRDAI (Health Insurance) Regulations, 2016 and the guidelines issued thereunder, as amended from time to time.
- c. The amount of these provisions shall also apply to the existing deposit contracts wherein the individual depositor does not have a right to premature withdrawal of the deposit before the expiry of three months.

36.6. Where a housing finance company at the request of depositor/s repays a public deposit before its maturity, it shall pay interest at the following rate:

Sr. No.	Period for which deposit has run	Rate of interest
1.	Within three months subject to lock-in period requirements	No interest <i>(Please also refer Paragraph 36.1)</i>
2.	After three months but before or up to six months	The maximum interest payable shall be four per cent per annum for individual depositor, and no interest in case of other depositors
3.	After six months but before the date of maturity	The interest payable shall be one per cent lower than the interest rate applicable to a public deposit for the period for which the deposit has run or if no rate has been specified for that period, then two per cent lower than the minimum rate at which the public deposits are accepted by that HFC

36.7. It shall be the obligation of the housing finance company to intimate the details of maturity of the deposit to the depositor at least fourteen days before the date of maturity of the deposit. However, in the absence of any specific maturity instruction, the maturity amount shall be remitted to the designated bank account maintained in the name of the depositor/s.

37. Furnishing of receipt to depositor

37.1. Every HFC shall furnish to every depositor or his agent or group of joint depositors, a receipt for every amount received by the company by way of deposit.

37.2. The said receipt shall be duly signed by an officer authorised by the company in that behalf and shall state the date of deposit, the name of the depositor, the amount in words and figures received by the 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 and date and amount of deposit.

38. Register of deposit

38.1. Every HFC shall keep one or more registers in respect of all deposits in which shall be entered separately in 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 the due date of each deposit,
- d. date and amount of accrued interest or premium on each deposit,
- e. date of claim made by the depositor,
- f. date and amount of each repayment, whether of principal, interest or premium,
- g. the reasons for delay in repayment beyond five working days and
- h. any other particulars relating to the deposit.

38.2. The register or registers aforesaid shall be kept at each branch in respect of the deposit accounts opened by that branch of the company and a consolidated register for all the branches taken together at the registered office of the company and shall be preserved in good order for a period of not less than eight calendar 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 company keeps the books of account referred to in sub-section (1) of section 209 of the Companies Act, 1956 or the corresponding provision of Companies Act, 2013, at any place other than its registered office in accordance with the proviso to that sub-section, it shall be deemed to be sufficient compliance with this clause if the register aforesaid is kept at such other place, subject to the condition that the company delivers to NHB a copy of the notice filed with the Registrar of Companies under the proviso to the said sub-section within seven days of such filing.

- 38.3.** HFCs which maintain the particulars/ details of the deposits, as required under these directions, on centralized computer database may continue to do so; provided the authenticated particulars of public deposits are sent to the respective branches, updating the information on quarterly basis i.e. as on March 31, June 30, September 30 and December 31, every year irrespective of the fact that the branch does not open deposit accounts. The information pertaining to a quarter should reach the branch concerned before the 10th day of the next quarter.

39. Closure of branches

- 39.1.** No deposit-taking HFC 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 indicating therein the purpose and arrangements being made to service depositors etc. and without advising the NHB, before ninety days of the proposed closure.
- 39.2.** An intimation along with a copy of the notice in respect of above should be sent within 7 days of its publication in the newspapers to NHB.

40. Safe custody of approved securities

- 40.1.** 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 bankers at a place other than the place at which its registered office is situated or to keep them in the form of Constituent's Subsidiary General Ledger Account with a schedule commercial bank, or with a depository participant registered with Securities and Exchange Board of India established under Securities and Exchange Board of India Act, 1992 (15 of 1992), it shall obtain the prior approval in writing, of the NHB.

40.2. the securities mentioned in Sub-paragraph 40.1 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.

Provided that,

- a. 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;
- b. where the HFC 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 excluding a Regional Rural Bank or a Co-operative Bank.

41. Employees Security Deposit

An HFC 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 company on the conditions that -

- a. it shall not withdraw the amount without the consent in writing of the employee;
and
- b. the amount shall be repayable, as per the HFC's internal rules, 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 company for the failure on the part of the employee for due performance of his duties.

42. Full cover for public deposits - Creation of Floating Charge in favour of the Depositors

42.1. HFCs should ensure that at all times there is full cover available for public deposits accepted by them. While calculating this cover the value of all debentures (secured and unsecured) and outside liabilities other than the aggregate liabilities to depositors may be deducted from the total assets. Further, the assets should be evaluated at their book value or realizable/ market value whichever is lower for this purpose.

42.2. All HFCs accepting/ holding public deposits shall create floating charge on the assets invested by them in terms of sub-sections (1) and (2) of Section 29B of the National Housing Bank Act, 1987 in favour of their depositors through the mechanism of a "Trust Deed". The charge so created shall also be registered with the Registrar of Companies and the information in this regard shall be furnished to the Trustees and to NHB. A copy of the 'Trust Deed' proforma containing the details and the 'Trustee Guidelines' are enclosed in [Annex V](#).

43. HFCs failing to repay public deposit prohibited from making loans and investments

An HFC 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 NHB 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.

44. Information to be included in the Board's report:

44.1. In every report of the Board of Directors laid before the company in a general meeting under sub-section (1) of section 217 of the Companies Act, 1956 or the

corresponding provision of Companies Act, 2013, there shall be included in the case of an HFC, the following particulars or information, namely:-

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

44.2. The said particulars or information shall be furnished with reference to the position as on the last day of the financial year to which the report relates and if the amounts remaining unclaimed or undisbursed as referred to in Paragraph 44.1 (b) exceed in the aggregate a 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 remaining unclaimed or undisbursed.

Section III
Governance
Chapter VIII
Acquisition/ Transfer of Control

45. Prior written permission of Reserve Bank of India shall be required for the following:

45.1. any takeover or acquisition of control of an HFC, which may or may not result in change of management;

45.2. any change in the shareholding of an HFC accepting/ holding public deposits, including progressive increases over time, which would result in acquisition/ transfer of shareholding of 10 per cent or more of the paid-up equity capital of the HFC by/to a foreign investor

or

any change in the shareholding of an HFC, including progressive increases over time, which would result in acquisition/ transfer of shareholding of 26 per cent or more of the paid-up equity capital of the HFC;

Provided that, prior approval would not be required in case of any shareholding going beyond 10 per cent or 26 per cent, as applicable, due to buyback of shares/ reduction in capital where it has approval of a competent Court. However, the same is to be reported to the NHB not later than one month from the date of its occurrence.

45.3. any change in the management of the HFC which would result in change in more than 30 per cent of the directors, excluding independent directors.

Provided that, prior approval would not be required in case of directors who get re-elected on retirement by rotation.

Note: Notwithstanding Paragraph 45, HFCs shall continue to inform the NHB regarding any change in their directors/ management.

46. Application for prior approval

46.1. HFCs shall submit an application, in the company's letter head, for obtaining prior approval of the Bank, along with the following documents:

46.1.1. Information about the proposed directors/ shareholders as per [Annex VI](#);

- 46.1.2. Sources of funds of the proposed shareholders acquiring the shares in the HFC;
- 46.1.3. Declaration by the proposed directors/ shareholders that they are not associated with any unincorporated body that is accepting public deposits;
- 46.1.4. Declaration by the proposed directors/ shareholders that they are not associated with any company, the application for Certificate of Registration (CoR) of which has been rejected by the Reserve Bank of India/ National Housing Bank;
- 46.1.5. Declaration by the proposed directors/ shareholders that there is no criminal case, including for offence under Section 138 of the Negotiable Instruments Act, against them; and
- 46.1.6. Bankers' Report on the proposed directors/ shareholders.
- 46.1.7. Declaration on the status of supervisory compliances.
- 46.2. Applications in this regard shall be submitted to the Chief General Manager-in-Charge, Department of Regulation, Reserve Bank of India, 2nd Floor, Main Office Building, Fort, Mumbai – 400 001.

47. Requirement of Prior Public Notice about change in control/ management.

- 47.1. A public notice of at least 30 days shall be given before effecting the sale of, or transfer of the ownership by sale of shares, or transfer of control, whether with or without sale of shares. Such public notice shall be given by the HFCs and also by the other party or jointly by the parties concerned, after obtaining the prior permission of the Bank.
- 47.2. The public notice shall indicate the intention to sell or transfer ownership/ control, the particulars of transferee and the reasons for such sale or transfer of ownership/ control. The notice shall be published in at least one leading national and in one leading local (covering the place of registered office) vernacular newspaper.

Provided that nothing contained in this paragraph shall apply in case of any change in shareholding of an HFC accepting/ holding public deposits, including progressive increases over time, which would result in acquisition/ transfer of

shareholding of 10 per cent or more and less than 26 per cent of the paid-up equity capital of the HFC by/to a foreign investor.

48. Permission to accept public deposits in cases of acquisition or transfer of control of HFCs holding CoR valid for accepting public deposits

In cases of acquisition or transfer of control of HFCs holding CoR valid for accepting public deposits, the Bank reserves the right to review the grant of permission to accept public deposits.

48A. Investment from FATF non-compliant jurisdictions

HFC shall also ensure compliance to the instructions as specified in the Paragraph 5.4 of these directions.

Chapter IX

Corporate Governance

49. Applicability

The directions prescribed in this Chapter shall apply to all HFCs, irrespective of asset size.

49A. Experience of the Board

Considering the need for professional experience in managing the affairs of the HFCs, at least one of the directors shall have relevant experience of having worked in a bank/ NBFC/ HFC.

50. Constitution of Committees of the Board

50.1. Audit Committee

50.1.1. All HFCs shall constitute an Audit Committee, consisting of not less than three members of its Board of Directors.

Explanation I: If an HFC is required to constitute Audit Committee under section 177 of the Companies Act, 2013, the Audit Committee so constituted by it shall be treated as the Audit Committee for the purpose of this paragraph.

Explanation II: The Audit Committee constituted under this paragraph shall have the same powers, functions and duties as laid down in Section 177 of the Companies Act, 2013.

50.1.2. The Audit Committee must ensure that an Information System Audit of the critical and significant internal systems and processes is conducted at least once in two years to assess operational risks faced by the HFC.

Note: The Information System Audit as prescribed shall be carried out separately through a Certified Information System Auditor (CISA).

50.2. Nomination and Remuneration Committee

All HFCs shall form a Nomination and Remuneration Committee (NRC) and have a policy to ensure 'fit and proper' status of proposed/ existing directors and proper framework in relation to remuneration of directors, Key Managerial Personnel and senior management personnel.

The Nomination and Remuneration Committee shall ensure that there is no conflict of interest in appointment of directors and their independence is not subject to potential threats.

Explanation I: If an HFC is required to constitute NRC under section 178 of the Companies Act, 2013, the NRC so constituted by it shall be treated as the NRC for the purpose of this paragraph.

50.3. Risk Management Committee

In order that the Board is able to focus on risk management and to manage the integrated risk, all HFCs shall constitute a Risk Management Committee (RMC), besides the Asset Liability Management Committee, either at the Board or executive level. The RMC shall be responsible for evaluating the overall risks faced by the HFC including liquidity risk and shall report to the Board.

51. Appointment of Chief Risk Officer

51.1. HFCs with asset size of more than ₹5000 crore are required to appoint a Chief Risk Officer (CRO) with clearly specified role and responsibilities. The CRO is required to function independently so as to ensure highest standards of risk management.

51.2. The HFCs shall strictly adhere to the following instructions in this regard:

51.2.1. The CRO shall be a senior official in the hierarchy of an HFC and shall possess adequate professional qualification/ experience in the area of risk management.

51.2.2. The CRO shall be appointed for a fixed tenure with the approval of the Board. The CRO can be transferred/ removed from his post before completion of the tenure only with the approval of the Board and such premature transfer/ removal shall be reported to the NHB. In case the HFC is listed, any change in incumbency of the CRO shall also be reported to the stock exchanges.

51.2.3. The Board shall put in place policies to safeguard the independence of the CRO. In this regard, the CRO shall have direct reporting lines to the MD & CEO/ Risk Management Committee (RMC) of the Board. In case the CRO reports to the MD & CEO, the RMC/ Board shall meet the CRO without the presence of the MD & CEO, at least on a quarterly basis. The CRO shall not

have any reporting relationship with the business verticals of the HFC and shall not be given any business targets. Further, there shall not be any 'dual hatting' i.e. the CRO shall not be given any other responsibility.

51.2.4. The CRO shall be involved in the process of identification, measurement and mitigation of risks. All credit products (retail or wholesale) shall be vetted by the CRO from the angle of inherent and control risks. The CRO's role in deciding credit proposals shall be limited to being an advisor.

51.2.5. In HFCs that follow committee approach in credit sanction process for high value proposals, if the CRO is one of the decision makers in the credit sanction process, the CRO shall have voting power and all members who are part of the credit sanction process, shall individually and severally be liable for all the aspects, including risk perspective related to the credit proposal.

52. Fit and Proper Criteria

All HFCs shall

52.1. ensure that a policy is put in place with the approval of the Board of Directors for ascertaining the 'fit and proper' criteria of the directors at the time of appointment, and on a continuing basis. The policy on the 'fit and proper' criteria shall be on the lines of the guidelines contained in [Annex VII](#);

52.2. obtain a declaration and undertaking from the directors giving additional information on the directors. The declaration and undertaking shall be on the lines of the format given in [Annex VIII](#);

52.3. obtain a Deed of Covenant signed by the directors, which shall be in the format as given in [Annex IX](#);

52.4. furnish to the NHB a quarterly statement on change of directors, and a certificate from the Managing Director of the HFC that fit and proper criteria in selection of the directors has been followed. The statement must reach NHB within 15 days of the close of the respective quarter. The statement submitted by HFCs for the quarter ending March 31, should be certified by the auditors. Further, in case of no change in the directors during a quarter, a 'Nil' statement should be submitted.

Provided that the Bank, if it deems fit and in public interest, reserves the right to examine the 'fit and proper' criteria of directors of any HFC irrespective of the asset size of such HFCs.

52A. Key Managerial Personnel (KMP)²³

Except for directorship in a subsidiary, Key Managerial Personnel of an HFC shall not hold any office (including directorships) in any other NBFC-ML or NBFC-UL (including HFCs). A timeline of two years is provided with effect from October 01, 2022 to ensure compliance with these norms. It is clarified that they can assume directorship in NBFC-BL.

52B. Independent Director

Within the permissible limits in terms of Companies Act, 2013, an independent director shall not be on the Board of more than three NBFCs/ HFCs (NBFCs-ML or NBFCs-UL) at the same time. Further, the Board of the HFC shall ensure that there is no conflict arising out of their independent directors being on the Board of another NBFC/ HFC at the same time. A timeline of two years is provided with effect from October 01, 2022 to ensure compliance with these norms. There shall be no restriction to directorship on the Boards of NBFCs-BL, subject to provisions of Companies Act, 2013.

52C. Guidelines on Compensation of KMP and Senior Management²⁴ in HFCs²⁵

52C.1. In order to address issues arising out of excessive risk taking caused by misaligned compensation packages, HFCs are required to put in place a Board approved compensation policy. The policy shall at the minimum include:

- a. Constitution of a Remuneration Committee,
- b. Principles for fixed/variable pay structures, and
- c. Malus/ clawback provisions.

The Board of HFCs should delineate the role of various committees, including Nomination and Remuneration Committee (NRC). Further, HFCs shall comply with the guidelines on Compensation of KMP and Senior Management in NBFCs:

²³ As defined in Section 2 (51) of Companies Act, 2013, as amended from time to time.

²⁴ As defined in 'Explanation' to Section 178 of the Companies Act, 2013.

²⁵ Vide [circular DOR.GOV.REC.No.29/18.10.002/2022-23 dated April 29, 2022](https://www.dor.gov.in/circulars/2022/23/2022-23-002-29-04-2022)

Minimum Scope and Coverage, furnished in Annex XXIV of [Master Direction- Reserve Bank of India \(Non-Banking Financial Company – Scale Based Regulation\) Directions, 2023](#).

52C.2. The guidelines are intended only for providing broad guidance to HFCs and their NRCs in formulating their compensation policy. While formulating the compensation policy, it has to be ensured that all statutory mandates and the rules and directions issued under them are fully complied with.

52C.3. These guidelines shall be for fixing the compensation policy of Key Managerial Personnel and members of senior management of all HFCs except Government owned HFCs.

53. Disclosure and transparency

53.1. All HFCs shall put up to the Board of Directors, at regular intervals, as may be prescribed by the Board in this regard, the following:

- a. the progress made in putting in place a progressive risk management system and risk management policy and strategy followed by the HFC;
- b. conformity with corporate governance standards viz., in composition of various committees, their role and functions, periodicity of the meetings and compliance with coverage and review functions, etc.

53.2. All HFCs shall also disclose the following in their Annual Financial Statements:

- a. registration/ license/ authorisation, by whatever name called, obtained from other financial sector regulators;
- b. ratings assigned by credit rating agencies and migration of ratings during the year;
- c. penalties, if any, levied by any regulator/ supervisor/ enforcement authority;
- d. information namely, area, country of operation and joint venture partners with regard to joint ventures and overseas subsidiaries; and
- e. Asset-Liability profile, extent of financing of parent company products, NPAs and movement of NPAs, details of all off-balance sheet exposures, exposure to real estate, exposure to capital market, structured products issued by them as also securitization/ assignment transactions and other disclosures, as given in [Annex IV](#);

54. Appointment of Statutory Central Auditors/ Statutory Auditors

HFCs shall adhere to the instructions contained in circular titled '[Guidelines for Appointment of Statutory Central Auditors \(SCAs\)/ Statutory Auditors \(SAs\) of Commercial Banks \(excluding RRBs\), UCBs and NBFCs \(including HFCs\)](#)' dated [April 27, 2021](#), as amended from time to time. Further, the reporting prescribed under this circular shall be done to the Supervisor of HFCs i.e., NHB. However, HFCs not covered under the guidelines have the option to continue with their extant procedure²⁶.

55. Framing of Internal Guidelines

All HFCs shall frame their internal guidelines on corporate governance with the approval of the Board of Directors, enhancing the scope of the guidelines without sacrificing the spirit underlying the above guidelines and it shall be published on the company's website, for the information of various stakeholders.

²⁶ Extant regulations applicable for non-deposit taking HFCs with asset size below ₹1,000 crore:

All HFCs shall rotate the partner/s of the Chartered Accountant firm conducting the audit, every three years so that same partner shall not conduct audit of the company continuously for more than a period of three years. However, the partner so rotated shall be eligible for conducting the audit of the HFC after an interval of three years, if the HFC, so decides. The HFC shall incorporate appropriate terms in the letter of appointment of the firm of auditors and ensure its compliance.

Section IV
Miscellaneous Instructions
Chapter X
Opening of Branches/ Offices

56. Opening of Branches/Offices

- 56.1.** An HFC shall, before opening a branch or an office in India, inform the NHB in writing, of its intention to open a branch or an office.
- 56.2.** No housing finance company shall open a branch outside India.
- 56.3.** No housing finance company shall open a representative office outside India without obtaining prior approval in writing from the NHB.
- 56.4.** The application from HFC seeking approval shall be considered keeping in view the instructions prescribed in Paragraph 46 of [Master Direction – Reserve Bank of India \(Non-Banking Financial Company – Scale Based Regulation\) Directions, 2023](#) as updated from time to time, issued by the Reserve Bank of India and shall be subject to the following:
- a. The representative office can be set up outside India for the purpose of liaison work, undertaking market study and research but not undertaking any activity which involves outlay of funds, provided it is subject to regulation by a regulator in the host country. As it is not envisaged that such office would be carrying on any activity other than liaison work, no line of credit should be extended.
 - b. The HFC shall obtain periodical reports about the business undertaken by the representative office outside India. If the representative office has not undertaken any activity or such reports are not forthcoming, the approvals given for the purpose shall be reviewed/ recalled.

Chapter XI

Guidelines on Private Placement of Non-Convertible Debentures (NCDs)

57. Purpose of the issue

- 57.1.** A housing finance company shall issue non-convertible debentures only for deployment of funds on its own balance sheet.
- 57.2.** No housing finance company shall issue non-convertible debentures to facilitate resource requests of or utilization by group entities/ parent company/ associates.

58. Maturity

- 58.1.** NCDs shall not be issued for maturities of less than 12 months from the date of issue.
- 58.2.** The exercise date of option (put/call), if any, attached to the non- convertible debentures shall not fall within the period of one year from the date of issue.
- 58.3.** No roll-over of non-convertible debentures is permitted.
- 58.4.** The tenor of the non-convertible debentures shall not exceed the validity period of the credit rating of the instrument, if any.

59. Rating Requirement

- 59.1.** A housing finance company having minimum NOF as prescribed in Paragraph 5 and intending to issue non-convertible debentures shall obtain credit rating for the same from one of the credit rating agencies, viz., the Credit Rating Information Services of India Ltd. (CRISIL) or the Investment Information and Credit Rating Agency of India Ltd. (ICRA) or the Credit Analysis and Research Ltd. (CARE), or the FITCH Ratings India Pvt. Ltd or Brickwork Ratings India Pvt. Ltd or such other agencies registered with Securities and Exchange Board of India (SEBI) or such other credit rating agencies as may be specified by the Reserve Bank of India from time to time, for the purpose.
- 59.2.** The housing finance company should have minimum credit rating of moderate degree of safety regarding timely servicing of financial obligations.
- 59.3.** The housing finance company shall ensure at the time of issuance of the non-convertible debentures that the rating so obtained is current and has not fallen due for review.

60. Maximum number of investors and minimum amount of subscription per investor

- 60.1.** There shall be a limit of 200 subscribers for every financial year, for issuance of NCDs with a maximum subscription of less than ₹1 crore, and such subscription shall be fully secured.
- 60.2.** There shall be no limit on the number of subscribers in respect of issuances with a minimum subscription of ₹1 crore and above; and the option to create security in favour of subscribers will be with the issuers. Such unsecured debentures shall not be treated as public deposits as defined in these directions.
- 60.3.** The minimum subscription per investors shall be ₹20,000/-.
- 60.4.** The issuance of private placement²⁷ of NCDs shall be in two separate categories, those with a maximum subscription of less than ₹1 crore and those with a minimum subscription of ₹1 crore and above per investor.

61. Limits and the amount of Issue of non-convertible debentures

- 61.1.** The aggregate amount of non-convertible debentures issued by a housing finance company shall be within such limit as may be approved by the Board of Directors of the housing finance company or the quantum indicated by the Credit Rating Agency for the rating granted, whichever is lower.
- 61.2.** The total amount of non-convertible debentures proposed to be issued shall be completed within a period of 30 days from the date on which the housing finance company opens the issue for subscription.

62. Conditions for issue of non-convertible debentures

- 62.1.** A housing finance company shall have in place, a Board approved policy for resource planning which, inter alia, should cover the planning horizon and the periodicity of private placement of non-convertible debentures.
- 62.2.** The offer document for private placement should be issued within a maximum period of 6 months from the date of the Board resolution authorizing the issue.

²⁷ "Private Placement" means non-public offering of Non-Convertible Debentures (NCDs) by housing finance companies to such number of select subscribers and such subscription amounts, as may be specified by the Reserve Bank of India, from time to time.

63. Procedure for Issuance

- 63.1.** The housing finance company shall disclose to the prospective investors, its financial position as per the standard market practice. In particular, the offer document should include the names and designations of the officials who are authorized to issue such offer document. The Board resolution and the offer document must contain information on purpose for which the resources are being raised. The offer document may be printed or typed "For Private Circulation Only". General information including the address of the Registered Office of the HFC, date of opening/ closing of the issue, maturity period, rate of interest, etc. shall be clearly mentioned in the offer document.
- 63.2.** The auditors of the housing finance company shall certify to the investors that all the eligibility conditions set forth in these directions for the issue of non-convertible debentures are met by the housing finance company.
- 63.3.** The requirements of all the provisions of the Companies Act, 2013 and the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008, or any other law, that may be applicable, shall be complied with by the housing finance company.
- 63.4.** The Debenture Certificate shall be issued within the period prescribed in the Companies Act, 2013 or any other law as in force at the time of issuance.
- 63.5.** (Deleted)

64. Debenture Trustee

- 64.1.** Every housing finance company issuing non-convertible debentures shall appoint a Debenture Trustee for each issue.
- 64.2.** Any entity that is registered as a Debenture Trustee with the Securities and Exchange Board of India under the Securities and Exchange Board of India (Debenture Trustees) Regulations, 1993, shall be eligible to act as Debenture Trustee for issue of the non-convertible debentures.
- 64.3.** Any information as required by NHB, HFCs shall procure such information from Debenture Trustee and shall submit it to the NHB from time to time.

65. Security Cover for non-convertible debentures

- 65.1.** A housing finance company issuing non-convertible debentures shall ensure that at all points of time such debentures are fully secured.
- 65.2.** In case, at the stage of issue, the security cover is insufficient/ not created, the issue proceeds shall be placed under escrow until creation of security, which in any case should be within one month from the date of issue.
- 65.3.** The provisions of the above paragraph shall not apply to any amount received as 'hybrid debt' or 'subordinated debt', as defined in these directions having the minimum maturity period of which is not less than sixty months.
- 65.4.** The provisions of the above paragraph shall not apply to any amount raised by issuance of non-convertible debentures with a maturity more than one year and having the minimum subscription per investor at ₹1 crore and above, provided that such debentures have been issued in accordance with the guidelines issued by the Reserve Bank of India as in force from time to time in respect of such non-convertible debentures.

66. Preference for Dematerialization

While option is available to the housing finance companies to issue non-convertible debentures in dematerialized or physical form, they are encouraged to issue debentures in dematerialized form.

67. Loan against debentures

No housing finance company shall extend loans against the security of its own debentures issued either by way of private placement or public issue²⁸.

68. Board's report

The Board's report attached to every balance sheet laid before a housing finance company in general meeting shall include a statement showing:

- 68.1.** The total number of non-convertible debentures which have not been claimed by the Investors or not paid by the housing finance company after the date on which the non-convertible debentures became due for redemption; and
- 68.2.** The total amount in respect of such debentures remaining unclaimed or unpaid beyond the date referred to in Paragraph 68.1 as aforesaid.

68A. Tax exempt bonds offered by HFCs are exempt from the applicability of the Directions contained in this Chapter.

²⁸ "Public Issue" means an invitation by a housing finance company to public to subscribe to the securities offered through a prospectus.

Chapter XII

Auditor's Report

69. Auditors to submit additional Report to the Board of Directors

In addition to the report made by the auditor under Section 143 of the Companies Act, 2013 on the accounts of a housing finance company examined for every financial year ending on any day on or after the commencement of these directions, the auditor shall also make a separate report to the Board of Directors of the Company on the matters specified in Paragraphs 70 and 71 below.

70. Material to be included in the Auditor's Report to the Board of Directors

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

70.1.1. Conducting housing finance activity without a valid Certificate of Registration (CoR) granted under Section 29 A of the NHB Act, 1987 is an offence under Chapter VII of the NHB Act, 1987. Therefore, if the company is engaged in the business of Housing Finance Institution as defined in Section 2 (d) of the NHB Act and meeting Principal Business Criteria as laid down under Paragraph 4.1.17 of these directions, the auditor shall examine whether the company has obtained a CoR under Section 29 A of the NHB Act, 1987. The auditor shall also certify the Principal Business Criteria as specified in Paragraph 4.1.17.

70.1.2. Whether the housing finance company is meeting the Net Owned Fund (NOF) requirement as prescribed under Section 29A of the National Housing Bank Act, 1987 including paid-up preference shares which are compulsorily convertible into equity.

70.1.3. Whether the housing finance company has complied with Section 29C of the National Housing Bank Act, 1987.

70.1.4. Whether the total borrowings of the housing finance company are within the limits prescribed under Paragraph 27.2 of these directions.

- 70.1.5.** Whether the housing finance company has complied with the prudential norms on income recognition, accounting standards, asset classification, loan-to-value ratio, provisioning requirements, disclosure in balance sheet, investment in real estate, exposure to capital market and engagement of brokers, and concentration of credit/investments as specified in these directions;
- 70.1.6.** Whether the capital adequacy ratio as disclosed in the half-yearly statutory return, submitted to the NHB, as per the directions issued by NHB in this regard, has been correctly determined and whether such ratio is in compliance with the prescribed minimum capital to risk weighted asset ratio (CRAR);
- 70.1.7.** Whether the housing finance company has furnished to the NHB within the stipulated period the half-yearly statutory return, as specified in the directions issued by NHB;
- 70.1.8.** Whether the housing finance company has furnished to the NHB within the stipulated period the quarterly statutory return on Statutory Liquid Assets, as specified in the directions issued by NHB;
- 70.1.9.** Whether, in the case of opening of new branches/ offices or in the case of closure of existing branches/ offices, the housing finance company has complied with the requirements contained in these directions.
- 70.1.10.** Whether the housing finance company has complied with the provisions contained in Paragraph 3.1.3, Paragraph 3.1.4 and Paragraph 18 of these directions.
- 70.1.11.** Whether the Board of Directors of the housing finance company has passed a resolution for non-acceptance of any public deposits;
- 70.1.12.** Whether the housing finance company has accepted any public deposits during the relevant period/ year;
- 70.2.** In case of a housing finance companies accepting/ holding public deposits:
Apart from the matters enumerated in Paragraph 70.1 above, the auditor shall include a statement on the following matters, namely: -

- 70.2.1.** Whether the public deposits accepted by the housing finance company together with other borrowings indicated below viz.
- a. from public by issue of unsecured non-convertible debentures/ bonds;
 - b. from its shareholders (if it is a public limited company); and
 - c. which are not excluded from the definition of 'public deposit' as per Paragraph 4.1.30 of these directions,
- are within the limits admissible to the company as per the provisions of these directions;
- 70.2.2.** Whether the public deposits held by the housing finance company in excess of the quantum of such deposits permissible to it under the provisions of these directions are regularised in the manner provided in the direction;
- 70.2.3.** Whether the housing finance company is accepting/ holding "public deposits" without minimum investment grade credit rating from an approved credit rating agency;
- 70.2.4.** In respect of housing finance company referred to in Paragraph 70.2.3 above,
- 70.2.4.1. whether the credit rating, for each of the fixed deposit schemes that has been assigned by one of the Credit Rating Agencies mentioned in these directions are in force; and
 - 70.2.4.2. whether the aggregate amount of deposits outstanding as at any point during the year has exceeded the limit specified by the such Credit Rating Agency;
- 70.2.5.** Whether the housing finance company has defaulted in paying to its depositors the interest and/or principal amount of the deposits after such interest and/or principal became due;
- 70.2.6.** Whether the housing finance company has complied with the liquid assets requirement as prescribed by the Bank in exercise of powers under section 29B of the National Housing Bank Act, 1987 and the requirements as specified in Paragraphs 40 and 42 of these directions;
- 70.2.7.** Whether the housing finance company has violated any provisions contained under restriction on acceptance of public deposits, period of public deposits, joint public deposit, particulars to be specified in application form soliciting

public deposits, ceiling on the rate of interest and brokerage and interest on overdue public deposits, renewal of public deposits before maturity as provided in these directions.

71. Reasons to be stated for unfavourable or qualified statements/ remarks/ notes

Where, in the auditor's report, the statement/ remarks/ notes regarding any of the items referred to in Paragraph 70 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 70 above, his report shall indicate such fact together with reasons therefor.

72. Obligation of auditor to report to the Reserve Bank of India and the National Housing Bank

72.1. Where, in the case of a housing finance company, the statement regarding any of the items referred to in Paragraph 70 above, is unfavourable or qualified, or in the opinion of the auditor the company has not complied with:

- a. the provisions of Chapter V of the National Housing Bank Act, 1987;
- b. the provisions of Chapter III B of the RBI Act, except Sections 45-IA, 45-IB and 45-IC; or
- c. the provisions contained in these directions (i.e. Master Direction Non - Banking Financial Company – Housing Finance Company (Reserve Bank of India) Directions, 2021)

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 noncompliance, as the case may be, in respect of the housing finance company to the NHB and Department of Regulation, Reserve Bank of India, Mumbai.

72.2. The duty of the auditor under Sub-paragraph 72.1 shall be to report only the contraventions of the provisions of NHB Act, 1987, the RBI Act, 1934 and directions, guidelines, instructions referred to in Sub-paragraph 72.1 and such report shall not contain any statement with respect to compliance of any of those provisions.

Chapter XIII

Fair Practice Code

73. Application of the Code

This Code shall apply to all the products and services, whether they are provided by the HFCs, its subsidiaries or Digital Lending Platforms (self-owned and/or under an outsourcing arrangement²⁹) across the counter, over the phone, by post, through interactive electronic devices, on the internet or by any other method.

74. Applications for loans and their processing

- 74.1.** All communications to the borrower shall be in the vernacular language or a language as understood by the borrower.
- 74.2.** HFCs shall transparently disclose to the borrower all information about fees/ charges payable for processing the loan application, the amount of fees refundable if loan amount is not sanctioned/ disbursed, pre-payment options and charges, if any, penal charges for delayed repayment, if any, conversion charges for switching loan from fixed to floating rates or vice-versa, existence of any interest reset clause and any other matter which affects the interest of the borrower. In other words, HFCs must disclose 'all in cost' inclusive of all charges involved in processing/ sanctioning of loan application in a transparent manner. It should also be ensured that such charges/ fees are non-discriminatory.
- 74.3.** Loan application forms shall include necessary information which affects the interest of the borrower, so that a meaningful comparison with the terms and conditions offered by other HFCs can be made and informed decision can be taken by the borrower. The loan application form may indicate the list of documents required to be submitted with the application form.
- 74.4.** The HFCs shall devise a system of giving acknowledgement for receipt of all loan applications. Preferably, the time frame within which loan applications will be disposed should also be indicated in the acknowledgement.

²⁹ In case of outsourced lending platforms, HFCs must meticulously follow regulatory instructions on outsourcing of financial services and IT services.

75. Loan appraisal, terms/ conditions and communication of rejection of loan application

- 75.1.** Normally all particulars required for processing the loan application shall be collected by the HFCs at the time of application. In case it needs any additional information, the customer should be told immediately that he would be contacted again.
- 75.2.** HFCs shall convey in writing to the borrower in the vernacular language or a language as understood by the borrower by means of sanction letter or otherwise, the amount of loan sanctioned along with all terms and conditions including annualized rate of interest, method of application, EMI Structure, prepayment charges, penal charges (if any) and keep the written acceptance of these terms and conditions by the borrower on its record.
- 75.3.** HFCs shall mention the penal charges which are charged for late repayment in bold in the loan agreement.
- 75.4.** HFCs shall invariably furnish a copy of the loan agreement along with a copy of each of the enclosures quoted in the loan agreement to every borrower at the time of sanction/ disbursement of loans, against acknowledgement.
- 75.5.** If an HFC cannot provide the loan to the customer, it shall communicate in writing the reason(s) for rejection.

**76. Disbursement of loans including changes in terms and conditions; and
³⁰ Release of Movable/ Immovable Property Documents on Repayment/
Settlement of Personal³¹ Loans (including Housing Loans)**

- 76.1.** Disbursement should be made in accordance with the disbursement schedule given in the Loan Agreement/ Sanction Letter.
- 76.2.** The HFCs shall give notice to the borrower in the vernacular language or a language as understood by the borrower of any change in the terms and conditions including disbursement schedule, interest rates, penal charges (if any),

³⁰ Inserted vide [DoR.MCS.REC.38/01.01.001/2023-24 dated September 13, 2023](#).

³¹ As defined in Annex to the [Circular on 'XBRL Returns – Harmonization of Banking Statistics' dated January 04, 2018](#).

service charges, prepayment charges, other applicable fee/ charges, etc. HFCs should also ensure that changes in interest rates and charges are effected only prospectively. A suitable condition in this regard should be incorporated in the loan agreement.

- 76.3.** If such change is to the disadvantage of the customer, he/ she may within 60 days and without notice close his/ her account or switch it without having to pay any extra charges or interest.
- 76.4.** Decision to recall/ accelerate payment or performance under the agreement or seeking additional securities, should be in consonance with the loan agreement.
- 76.5.** HFCs shall release all securities on repayment of all dues or on realization of the outstanding amount of loan subject to any legitimate right or lien for any other claim HFCs may have against borrower. If such right of set off is to be exercised, the borrower shall be given notice about the same with full particulars about the remaining claims and the conditions under which HFCs are entitled to retain the securities till the relevant claim is settled/ paid.
- 76.6.** HFCs are required to release all movable/ immovable property documents upon receiving full repayment and closure of loan account. However, it has been observed that the HFCs follow divergent practices in release of such movable/ immovable property documents leading to customer grievances and disputes. To address the issues faced by the borrowers and towards promoting responsible lending conduct among the HFCs, the following Directions shall be followed by HFCs:
- 76.6.1.** Release of Movable/ Immovable Property Documents:
- a. HFCs shall release all the original movable/ immovable property documents and remove charges registered with any registry within a period of 30 days after full repayment/ settlement of the loan account.
 - b. The borrower shall be given the option of collecting the original movable/ immovable property documents either from the branch where the loan account was serviced or any other office of the HFC where the documents are available, as per her/ his preference.

- c. The timeline and place of return of original movable/ immovable property documents shall be mentioned in the loan sanction letters issued on or after the effective date.
- d. In order to address the contingent event of demise of the sole borrower or joint borrowers, the HFCs shall have a well laid out procedure for return of original movable/ immovable property documents to the legal heirs. Such procedure shall be displayed on the website of the HFCs along with other similar policies and procedures for customer information.

76.6.2. Compensation for delay in release of Movable/ Immovable Property Documents:

- a. In case of delay in releasing of original movable/ immovable property documents or failing to file charge satisfaction form with relevant registry beyond 30 days after full repayment/ settlement of loan, the HFC shall communicate to the borrower reasons for such delay. In case where the delay is attributable to the HFC, it shall compensate the borrower at the rate of ₹5,000/- for each day of delay.
- b. In case of loss/ damage to original movable/ immovable property documents, either in part or in full, the HFCs shall assist the borrower in obtaining duplicate/ certified copies of the movable/ immovable property documents and shall bear the associated costs, in addition to paying compensation as indicated at sub-paragraph (i) above. However, in such cases, an additional time of 30 days will be available to the HFCs to complete this procedure and the delayed period penalty will be calculated thereafter (i.e., after a total period of 60 days).
- c. The compensation provided under these directions shall be without prejudice to the rights of a borrower to get any other compensation as per any applicable law.

76.6.3. The Directions under Paragraph 76.6 shall be applicable to all cases where release of original movable/ immovable property documents falls due on or after December 01, 2023.

76A. Loans sourced over Digital Lending Platforms³²

Outsourcing of any activity by HFCs does not diminish their obligations, as the onus of compliance with regulatory instructions rests solely with them. Wherever HFCs engage digital lending platforms as their agents to source borrowers and/ or to recover dues, they must follow the following instructions:

76A.1. Names of digital lending platforms engaged as agents shall be disclosed on the website of HFCs.

76A.2. Digital lending platforms engaged as agents shall be directed to disclose upfront to the customer, the name of the HFC on whose behalf they are interacting with him.

76A.3. Immediately after sanction but before execution of the loan agreement, the sanction letter shall be issued to the borrower on the letter head of the HFC concerned.

76A.4. A copy of the loan agreement along with a copy each of all enclosures quoted in the loan agreement shall be furnished to all borrowers at the time of sanction/ disbursement of loans.

76A.5. Effective oversight and monitoring shall be ensured over the digital lending platforms engaged by the HFCs.

76A.6. Adequate efforts shall be made towards creation of awareness about the grievance redressal mechanism.

76B. Guidelines on Digital Lending

HFCs shall also comply with the instructions contained in [circular on 'Guidelines on Digital Lending' dated September 02, 2022](#)³³, as amended from time to time.

76C. Guidelines on Default Loss Guarantee (DLG) in Digital Lending³⁴

HFCs shall also comply with the instructions contained in [circular on 'Guidelines on Default Loss Guarantee \(DLG\) in Digital Lending' dated June 08, 2023](#), as amended from time to time.

³² Inserted vide [circular DOR\(NBFC\)\(PD\)CC.No.112/03.10.001/2019-20 dated June 24, 2020](#)

³³ Refer to [circular DOR.CRE.REC.66/21.07.001/2022-23 dated September 02, 2022](#)

³⁴ Inserted vide [circular DOR.CRE.REC.21/21.07.001/2023-24 dated June 08, 2023](#)

77. Responsibility of Board of Directors

- 77.1.** The Board of Directors of HFCs should lay down the appropriate grievance redressal mechanism within the organization to resolve complaints and grievances. Such a mechanism should ensure that all disputes arising out of the decisions of lending institution's functionaries are heard and disposed of at least at the next higher level.
- 77.2.** The Board of Directors of each HFC should provide for periodical review of the compliance of the Fair Practices Code and the functioning of the grievances redressal mechanism at various levels of management. A consolidated report of such reviews may be submitted to the Board at regular intervals, as may be prescribed by it.

78. Complaints and Grievance Redressal

- 78.1.** Every HFC shall have a system and a procedure for receiving, registering and disposing of complaints and grievances in each of its offices, including those received on-line.
- 78.2.** If a complaint has been received in writing from a customer, an HFC shall endeavor to send him/ her an acknowledgement/ response within a week. The acknowledgement should contain the name & designation of the official who will deal with the grievance. If the complaint is relayed over phone at HFC's designated telephone helpdesk or customer service number, the customer shall be provided with a complaint reference number and be kept informed of the progress within a reasonable period of time.
- 78.3.** After examining the matter, an HFC shall send the customer its final response or explain why it needs more time to respond and shall endeavor to do so within six weeks of receipt of a complaint and he/ she should be informed how to take his/ her complaint further if he/ she is still not satisfied.
- 78.4.** Every HFC shall publicize its grievance redressal procedure (e-mail id and other contact details at which the complaints can be lodged, turnaround time for resolving the issue, matrix for escalation, etc.) for lodging the complaints by the aggrieved borrower and ensure specifically that it is made available on its website. HFC shall clearly display in all its offices/ branches and on the website that in

case the complainant does not receive response from the company within a period of one month or is dissatisfied with the response received, the complainant may approach the Complaint Redressal Cell of National Housing Bank by lodging its complaints online on the website of NHB or through post to NHB, New Delhi.

79. Language and mode of communicating Fair Practice Code

Fair Practices Code (which shall preferably be in the vernacular language or a language as understood by the borrower) based on the directions outlined hereinabove shall be put in place by all HFCs with the approval of their Boards. HFCs will have the freedom of drafting the Fair Practices Code, enhancing the scope of the directions but in no way sacrificing the spirit underlying the above directions. The same shall be put up on their website, for the information of various stakeholders.

80. Regulation of excessive interest charged by HFCs

- 80.1.** The Board of each HFC shall adopt an interest rate model taking into account relevant factors such as cost of funds, margin and risk premium and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradation of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter. The Board of the HFC shall also have clearly laid down policy for penal charges (if any).
- 80.2.** The rates of interest and the approach for gradation of risks, and penal charges (if any) shall also be made available on the website of the companies or published in the relevant newspapers. The information published in the website or otherwise published shall be updated whenever there is a change in the rates of interest.
- 80.3.** The rate of interest must be annualised rate so that the borrower is aware of the exact rates that would be charged to the account.
- 80.4.** Instalments collected from borrowers should clearly indicate the bifurcation between interest and principal.

81. Excessive interest charged by HFCs

Though interest rates are not regulated by the Bank, rates of interest beyond a certain level may be seen to be excessive and can neither be sustainable nor be conforming to normal financial practice. HFCs shall lay out appropriate internal principles and procedures in determining interest rates and processing and other charges (including penal charges, if any). In this regard the directions in the Fair Practices Code about transparency in respect of terms and conditions of the loans are to be kept in view. HFCs are also advised to put in place an internal mechanism to monitor the process and the operations so as to ensure adequate transparency in communications with the borrowers.

81A. Penal Charges in Loan Accounts³⁵

- 81A.1.** Penalty, if charged, for non-compliance of material terms and conditions of loan contract by the borrower shall be treated as 'penal charges' and shall not be levied in the form of 'penal interest' that is added to the rate of interest charged on the advances. There shall be no capitalisation of penal charges i.e., no further interest computed on such charges. However, this will not affect the normal procedures for compounding of interest in the loan account.
- 81A.2.** The HFCs shall not introduce any additional component to the rate of interest and ensure compliance to these guidelines in both letter and spirit.
- 81A.3.** The HFCs shall formulate a Board approved policy on penal charges or similar charges on loans, by whatever name called.
- 81A.4.** The quantum of penal charges shall be reasonable and commensurate with the non-compliance of material terms and conditions of loan contract without being discriminatory within a particular loan / product category.
- 81A.5.** The penal charges in case of loans sanctioned to 'individual borrowers, for purposes other than business', shall not be higher than the penal charges applicable to non-individual borrowers for similar non-compliance of material terms and conditions.
- 81A.6.** The quantum and reason for penal charges shall be clearly disclosed by HFCs to the customers in the loan agreement and most important terms & conditions

³⁵ Inserted vide [circular DoR.MCS.REC.28/01.01.001/2023-24 dated August 18, 2023](#).

/ Key Fact Statement (KFS) as applicable, in addition to being displayed on REs website under Interest rates and Service Charges.

81A.7. Whenever reminders for non-compliance of material terms and conditions of loan are sent to borrowers, the applicable penal charges shall be communicated. Further, any instance of levy of penal charges and the reason therefor shall also be communicated.

81A.8. These instructions shall come into effect from January 01, 2024. HFCs may carry out appropriate revisions in their policy framework and ensure implementation of the instructions in respect of all the fresh loans availed/ renewed from the effective date. In the case of existing loans, the switchover to new penal charges regime shall be ensured on next review or renewal date or six months from the effective date of these instructions, whichever is earlier.

81B. ³⁶Reset of Floating Interest Rate on Equated Monthly Instalments (EMI) based Personal Loans³⁷ (including housing loans)

81B.1. At the time of sanction of EMI based floating rate personal loans, HFCs are required to take into account the repayment capacity of borrowers to ensure that adequate headroom/ margin is available for elongation of tenor and/ or increase in EMI, in the scenario of possible increase in the external benchmark rate/ interest rates during the tenor of the loan. However, in respect of EMI based floating rate personal loans, in the wake of rising interest rates, several consumer grievances related to elongation of loan tenor and/or increase in EMI amount, without proper communication with and/or consent of the borrowers have been received. In order to address these concerns, the HFCs are advised to put in place an appropriate policy framework meeting the following requirements for implementation and compliance:

81B.1.1. At the time of sanction, HFCs shall clearly communicate to the borrowers about the possible impact of change in interest rate on the loan leading to changes in EMI and/or tenor or both. Subsequently, any increase in the EMI/

³⁶ Inserted vide [circular DOR.MCS.REC.32/01.01.003/2023-24 dated August 18, 2023](#).

³⁷ As defined in the [RBI circular No. DBR.No.BP.BC.99/08.13.100/2017-18 dated January 04, 2018](#) on "XBRL Returns – Harmonization of Banking Statistics.

tenor or both on account of the above shall be communicated to the borrower immediately through appropriate channels.

- 81B.1.2.** At the time of reset of interest rates, HFCs shall provide the option to the borrowers to switch over to a fixed rate as per their Board approved policy. The policy, *inter alia*, may also specify the number of times a borrower will be allowed to switch during the tenor of the loan.
- 81B.1.3.** The borrowers shall also be given the choice to opt for (i) enhancement in EMI or elongation of tenor or for a combination of both options; and, (ii) to prepay, either in part or in full, at any point during the tenor of the loan. Levy of foreclosure charges/ pre-payment penalty shall be subject to extant instructions.
- 81B.1.4.** All applicable charges for switching of loans from floating to fixed rate and any other service charges/ administrative costs incidental to the exercise of the above options shall be transparently disclosed in the sanction letter and also at the time of revision of such charges/ costs by the HFCs from time to time.
- 81B.1.5.** HFCs shall ensure that the elongation of tenor in case of floating rate loan does not result in negative amortisation.
- 81B.1.6.** HFCs shall share / make accessible to the borrowers, through appropriate channels, a statement at the end of each quarter which shall at the minimum, enumerate the principal and interest recovered till date, EMI amount, number of EMIs left and annualized rate of interest / Annual Percentage Rate (APR) for the entire tenor of the loan. The HFCs shall ensure that the statements are simple and easily understood by the borrower.
- 81B.2.** Apart from the equated monthly instalment loans, these instructions would also apply, *mutatis mutandis*, to all equated instalment based loans of different periodicities.
- 81B.3.** HFCs shall ensure that the above instructions are extended to the existing as well as new loans suitably by December 31, 2023. All existing borrowers shall be sent a communication, through appropriate channels, intimating the options available to them.

82. Advertising, Marketing and Sales

HFC shall;

- 82.1.** Ensure that all advertising and promotional material is clear, and factual.
- 82.2.** In any advertising in any media and promotional literature that draws attention to a service or product and includes a reference to an interest rate, HFCs shall also indicate whether other fees and charges will apply and that full details of the relevant terms and conditions are available on request or on the website.
- 82.3.** HFCs shall provide information on interest rates, common fees and charges (including penal charges, if any) through putting up notices in their branches; through telephone or help-lines; on the company's website; through designated staff/ help desk; or providing service guide/ tariff schedule.
- 82.4.** If HFCs avail of the services of third parties for providing support services, HFCs shall require that such third parties handle customer's personal information (if any available to such third parties) with the same degree of confidentiality and security as the HFCs would.
- 82.5.** HFCs may, from time to time, communicate to customers various features of their products availed by them. Information about their other products or promotional offers in respect of products/ services, may be conveyed to customers only if he/ she has given his/ her consent to receive such information/ service either by mail or by registering for the same on the website or on customer service number.
- 82.6.** Prescribe a code of conduct for their Direct Selling Agencies (DSAs) whose services are availed to market products/ services which amongst other matters require them to identify themselves when they approach the customer for selling products personally or through phone.
- 82.7.** HFCs shall adopt the Model Code of Conducts for Direct Selling Agents (DSAs)/ Direct Marketing Agents (DMAs) as per [Annex X](#) with the approval of their Board.
- 82.8.** In the event of receipt of any complaint from the customer that HFC's representative/ courier or DSA has engaged in any improper conduct or acted in violation of this Code, appropriate steps shall be initiated to investigate and to handle the complaint and to make good the loss.

83. Guarantors

When a person is considering being a guarantor to a loan, he/ she should be informed about

- a. his/ her liability as guarantor;
- b. the amount of liability he/ she will be committing him/herself to the company;
- c. circumstances in which HFC will call on him/her to pay up his/ her liability;
- d. whether HFC has recourse to his/her other monies in the company if he/ she fail to pay up as a guarantor;
- e. whether his/her liabilities as a guarantor are limited to a specific quantum or are they unlimited; and
- f. time and circumstances in which his/ her liabilities as a guarantor will be discharged as also the manner in which HFC will notify him/ her about this.
- g. In case the guarantor refuses to comply with the demand made by the creditor/ lender, despite having sufficient means to make payment of the dues, such guarantor would also be treated as a wilful defaulter.

HFCs shall keep him/her informed of any material adverse change/s in the financial position of the borrower to whom he/ she stands as a guarantor.

84. Privacy and Confidentiality

All personal information of customers, both present and past, shall be treated as private and confidential and shall be guided by the following principles and policies.

- 84.1.** HFCs shall not reveal information or data relating to customer accounts, whether provided by the customers or otherwise, to anyone, including other companies/ entities in their group, other than in the following exceptional cases:
- a. If the information is to be given by law.
 - b. If there is a duty towards the public to reveal the information.
 - c. If the HFC's interests require them to give the information (for example, to prevent fraud). However, it should not be used as a reason for giving information about customer or customer accounts (including customer name and address) to anyone else, including other companies in the group, for marketing purposes.

- d. If the customer asks the HFC to reveal the information, or with the customer's permission.
 - e. If HFCs are asked to give a reference about customers, they shall obtain his/her written permission before giving it.
- 84.2.** The customer shall be informed the extent of his/ her rights under the existing legal framework for accessing the personal records that an HFC holds about him/ her.
- 84.3.** HFCs shall not use customer's personal information for marketing purposes by anyone including HFCs, unless the customer specifically authorizes them to do so.

85. General

- 85.1.** HFCs shall refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless information, not earlier disclosed by the borrower, has been noticed).
- 85.2.** In case of receipt of request from the borrower for transfer of borrowal account, the consent or otherwise i.e. objection of the HFC, if any, shall be conveyed within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
- 85.3.** Whenever loans are given, HFCs shall explain to the customer the repayment process by way of amount, tenure and periodicity of repayment. However, if the customer does not adhere to repayment schedule, a defined process in accordance with the laws of the land shall be followed for recovery of dues. The process will involve reminding the customer by sending him/ her notice or by making personal visits and/or repossession of security if any.
- 85.4.** In the matter of recovery of loans, an HFC shall not resort to harassment viz. persistently bothering the borrowers at odd hours, use muscle power for recovery of loans etc. As complaints from customers also include rude behavior from the staff of the companies, HFCs shall ensure that the staff is adequately trained to deal with the customers in an appropriate manner.
- 85.5.** The Bank has formulated the guidelines (as per [Annex XI](#)) for engaging Recovery Agents, for adoption by the HFCs with the approval of their respective Boards.

85.6. HFCs shall not charge pre-payment levy or penalty on pre-closure of housing loans under the following situations:

- a. Where the housing loan is on floating interest rate basis and pre-closed from any source.
- b. Where the housing loan is on fixed interest rate basis and the loan is pre-closed by the borrower out of their own sources.

The expression “own sources” for the purpose means any source other than by borrowing from a bank/ HFC/ NBFC and/or a financial institution.

All dual/ special rate (combination of fixed and floating) housing loans will attract the pre-closure norms applicable to fixed/ floating rate depending on whether at the time of pre-closure, the loan is on fixed or floating rate. In case of a dual/ special rate housing loans, the pre-closure norm for floating rate will apply once the loan has been converted into floating rate loan, after the expiry of the fixed interest rate period. This applied to all such dual/ special rate housing loans being foreclosed hereafter. It is also clarified that a fixed rate loan is one where the rate is fixed for entire duration of the loan.

85.7. HFCs shall not impose foreclosure charges/ pre-payment penalties on any floating rate term loan sanctioned for purposes other than business to individual borrowers, with or without co-obligant(s).

85.8. To facilitate quick and good understanding of the major terms and conditions of housing loan agreed upon between HFC and the individual borrower, HFCs shall obtain a document containing the most important terms and conditions (MITC) of such loan in all cases in the suggestive format as per [Annex XII](#). The document will be in addition to the existing loan and security documents being obtained by the HFCs. HFCs are advised to prepare the said document in duplicate and in the language understandable by the borrower. Duplicate copy duly executed between the HFC and the borrower should be handed over to the borrower under acknowledgement.

85.9. Display of various key aspect such as service charges, interest rates, Penal charges (if any), services offered, product information, time norms for various transactions and grievance redressal mechanism, etc., is required to promote

transparency in the operations of HFCs. HFCs shall follow the instructions on “Notice Board”, “Booklets/ Brochures”, “Website”, “Other Modes of Display” and on “Other Issues” as per [Annex XII](#).

85.10. HFC shall display about their products and services in any one or more of the following languages: Hindi, English or the appropriate local language.

85.11. HFCs shall not discriminate on grounds of sex, caste and religion in the matter of lending. Further, HFCs shall also not discriminate visually impaired or physically challenged applicants on the ground of disability in extending products, services, facilities, etc. However, this does not preclude HFCs from instituting or participating in schemes framed for different sections of the society.

85.12. To publicise the Code, HFCs shall:

- a. provide existing and new customers with a copy of the Code;
- b. make this Code available on request either over the counter or by electronic communication or mail;
- c. make available this Code at every branch and on their website; and
- d. ensure that their staff are trained to provide relevant information about the Code and to put the Code into practice.

Chapter XIV

Miscellaneous Instructions

86. Finance for Housing Projects-Incorporating clause in the terms and conditions to disclose in pamphlets/ brochures/ advertisements information regarding mortgage of property to the HFC

While granting finance to housing/ development projects, HFCs shall stipulate as part of the terms and conditions that:

- a. The builder/ developer/ company shall disclose in the pamphlets/ brochures/ display boards on-site, the name (s) of the HFC/ other lenders to which the property is mortgaged.
- b. The builder/ developer/ company shall append the information relating to mortgage while publishing advertisement of a particular scheme in newspapers/ magazines etc.
- c. The builder/ developer/ company shall indicate in their pamphlets/ brochures that they would provide No Objection Certificate (NOC)/ permissions of the mortgagee HFC for sale of flats/ property, if required.

HFCs shall ensure compliance of the above terms and conditions and funds shall not be released unless the builder/ developer/ company fulfils the above requirements.

87. Housing Loans

87.1. Housing Loan for Building Construction

87.1.1. In cases where the applicant owns a plot/ land and approaches the HFC for a credit facility to construct a house, a copy of the sanctioned plan by competent authority in the name of the person applying for such credit facility must be obtained by the HFC before sanctioning the home loan.

87.1.2. An affidavit-cum-undertaking must be obtained from the person applying for such credit facility that he shall not violate the sanctioned plan, the construction shall be strictly as per the sanctioned plan and it shall be the sole responsibility of the executant to obtain completion certificate within 3 months of completion of construction, failing which the HFC shall have the

power and the authority to recall the entire loan with interest, costs and other usual bank charges.

87.1.3. An architect appointed by the HFC must certify at various stages of construction of building that the construction is strictly as per sanctioned plan. He/ She shall also certify, at a particular point of time that the completion certificate of the building issued by the competent authority has been obtained.

87.2. Housing Loan for purchase of constructed property/ built up property

87.2.1. In cases where the applicant approaches the HFC for a credit facility to purchase the built-up house/ flat, it should be mandatory for him to declare by way of an effective affidavit-cum-undertaking that built up house has been constructed as per the sanctioned plan and/or building by-laws and as far as possible has a completion certificate also.

87.2.2. An Architect appointed by the HFC must also certify before disbursement of the loan that built up house is strictly as per the sanctioned plan and/or building by-laws.

87.3. No loan shall be given in respect of those properties which fall in the category of unauthorised colonies unless and until they have been regularized and development and other charges paid.

87.4. No loan shall also be given in respect of properties meant for residential use but which the applicant intends to use for commercial purposes and declares so while applying for loan.

88. Disbursement of housing loan to individuals linked to the stages of construction

88.1. Disbursal of housing loans sanctioned to individuals shall be strictly linked to the stages of construction of the housing projects/ houses and upfront disbursal shall not be made in case of incomplete/ under-construction/ green field housing project/ houses.

88.2. HFCs while introducing any kind of product shall take into account the customer suitability and appropriateness issues and also ensure that the borrowers/ customers are made fully aware of the risk and liabilities under such products.

- 88.3.** In cases of projects sponsored by Government/ Statutory Authorities, HFCs may disburse the loans as per the payment stages prescribed by such authorities, even where payments sought from house buyers are not linked to the stages of construction, provided such authorities have no past history of non-completion of projects.
- 88.4.** HFCs shall desist from offering loan products involving servicing of the loan dues by builders/ developers etc. on behalf of the borrowers.
- 88.5.** HFCs shall have in place a well-defined mechanism for effective monitoring of the progress of construction of housing projects and obtaining consent of the borrower(s) prior to release of payments to the builder/developer.
- 88.6.** HFCs while extending finance shall take into account the stipulations laid down under RERA, as applicable.
- 89. Need for ensuring due diligence in the matter of deployment of funds by HFCs**
- 89.1.** HFCs shall take proper and adequate security for the loans. In case a loan is to be sanctioned on unsecured basis, the same shall be in accordance with the Board approved policy of the HFC.
- 89.2.** HFCs shall review and strengthen their credit appraisal systems. Wherever documents of title are submitted as security for loans, there should be a system of verification of their genuineness, especially in large value loans. Wherever a chartered accountant certificate, property valuation certificate, legal certificate, guarantee/ line of credit or any other third-party certification is submitted by the borrower, the HFC shall independently verify the authenticity of such certification by directly communicating with the concerned authority issuing the certificate. Indirect confirmation may also be resorted to, i.e. indicating to the issuer that in case there is no response by certain deadline, it would be assumed that the certificate is genuine.
- 89.3.** HFCs shall ensure that the documents are not given directly to the customers for verification, etc. to obviate any frauds.
- 89.4.** HFCs shall ensure that the borrowers have obtained all required permissions/ clearances from Government/ Local Government/ Statutory Authorities for the project. In case of construction loans, there should be system in place for

physical verification/ project progress monitoring with proof (snap shots) and technical reports ought to be put up to the competent authorities/ committee/ board at regular intervals.

89.5. While appraising loan proposals involving real estate, HFCs shall ensure that the borrowers have obtained prior permission from Government/ Local Government/ other Statutory Authorities for the project, wherever required. To ensure that the loan approval process is not hampered on account of this, while the proposals may be sanctioned in the normal course, the disbursements shall be made only after the borrower has obtained the requisite clearances from the Government/ other Statutory authorities.

89.6. Any relaxation in terms and conditions either at the time of sanction or anytime thereafter should also be in accordance with Board approved policy of the HFC, as also in conformity with the regulatory directions/ guidelines. The cases and reasons for such relaxation should be clearly recorded. Any rescheduling of the loan shall be done with the prior approval of the Board/ Competent Authority and in accordance with applicable directions/ guidelines in this regard.

90. Ratings of financial product issued by HFCs

All HFCs having assets of ₹100 crore and above shall furnish information about downgrading/ upgrading of assigned rating of any financial product issued by them, within fifteen days of such a change in rating, to NHB.

91. HFCs not to be partners in partnership firms

91.1. No HFC shall contribute to the capital of a partnership firm or become a partner of such firm.

91.2. In this connection;

a. Partnership firms shall also include Limited Liability Partnerships (LLPs).

b. The aforesaid prohibition shall also be applicable in respect of Association of persons, these being similar in nature to partnership firms.

91.3. HFCs which had already contributed to the capital of a partnership firm/ LLP/ Association of persons or are a partner of a partnership firm/ LLP or member of an Association of persons shall seek early retirement from the partnership firm/ LLP / Association of persons.

92. Submission of data to Credit Information Companies (CICs) - Format of data to be submitted by Credit Institutions

- 92.1.** All HFCs shall become member of all CICs and submit data (including historical data) to them.
- 92.2.** In terms of sub-sections (1) and (2) of section 17 of the Credit Information Companies (Regulation) Act, 2005, a credit information company may require its members to furnish credit information as it may deem necessary in accordance with the provisions of the Credit Information Companies (Regulation) Act, 2005 and every such credit institution has to provide the required information to that credit information company. In terms of Regulation 10(a) (ii) of the Credit Information Companies Regulations, 2006, every credit institution shall:
- a. keep the credit information maintained by it, updated regularly on a monthly basis or at such shorter intervals as mutually agreed upon between the credit institution and the credit information company; and
 - b. take all such steps which may be necessary to ensure that the credit information furnished by it, is update, accurate and complete.
- 92.3.** All HFCs shall comply with the instructions contained in the Bank's [circular DBOD.No.CID.BC.127/20.16.056/2013-14 dated June 27, 2014](#) and as amended from time to time; laying down instructions regarding the following:
- a. Creating Awareness about Credit Information Report (CIR);
 - b. Usage of CIR in all Lending Decisions and Account Opening;
 - c. Populating Commercial Data Records in Databases of all CICs;
 - d. Standardisation of Data Format;
 - e. Constitution of a Technical Working Group;
 - f. Process of Rectification of Rejected Data;
 - g. Determining Data Quality Index;
 - h. Calibration of Credit Score and Standardising Format of CIR;
 - i. Best practices for Banks/FIs.
- 92.4.** HFCs shall comply with the directive issued under Section 11 (1) of Credit Information Companies (Regulation) Act, 2005 (CIRCA) by the Bank vide [DBR.No.CID.BC.59/20.16.056/2014-15 dated January 15, 2015](#).

- 92.5.** HFCs shall comply with the directions on compensation to customers for delayed updation/ rectification of credit information issued under section 11(1) of CICRA, issued vide [circular DoR.FIN.REC.48/20.16.003/2023-24 dated October 26, 2023](#), as amended from time to time.
- 92.6.** HFCs shall comply with the directions on strengthening of customer service rendered by Credit Information Companies and Credit Institutions issued under section 11(1) of CICRA, issued vide [circular DoR.FIN.REC.49/20.16.003/2023-24 dated October 26, 2023](#), as amended from time to time.
- 93. Need for public notice before closure of the Branch/ Office**
- All HFCs shall give at least three months public notice prior to the date of closure of any of its branches/ offices in, at least, one leading national newspaper and one leading local vernacular (covering the place of branch/ office) newspaper indicating therein the purpose etc.
- 94. Non - Reckoning of Fixed Deposits with banks as Financial Assets**
- Investments in fixed deposits shall not be treated as financial assets and receipt of interest income on fixed deposits with banks shall not be treated as income from financial assets. Besides, bank deposits constitute near money and can be used only for temporary parking of idle funds, and/or in cases where the funds are parked in fixed deposits initially to fulfil the requirement of registration as HFC, till commencement of housing finance business.
- 95. Reporting Platform for Corporate Bond Transactions**
- All HFCs should report their secondary market OTC trades in corporate bonds within 15 minutes of the trade on any of the stock exchanges (NSE, BSE and MCX-SX). The provisions of the [circular dated IDMD.PCD.10/14.03.06/2013-14 dated February 24, 2014](#), as amended from time to time, shall be adhered to in this regard.
- 96. Transactions in Government Securities**
- Every HFC shall undertake transactions in Government securities through its gilt account or its demat account or any other account, as permitted by the Bank.

97. Implementation of Green Initiative of the Government

- 97.1.** All HFCs shall take proactive steps for increasing the use of electronic payment systems, elimination of post-dated cheques and gradual phase-out of cheques in their day to day business transactions which would result in more cost-effective transactions and faster and accurate settlements.
- 97.2.** HFCs should invariably use e-banking facilities while transacting with builders/ tripartite arrangements in builders' projects/ corporates. Further, HFC's should ensure that borrowers/ users of this facility are not charged any additional fee for the same.

98. Attempt to defraud using fake bank guarantee-modus operandi

- 98.1.** Instances of fraud have been brought to the notice of the Bank wherein Bank Guarantees (BGs) purportedly issued by a couple of bank branches in favour of different entities were presented for confirmation by other commercial banks/ individuals representing some beneficiary firms. The BGs were submitted along with Confirmation Advice/ Advice of Acceptance. One of the beneficiaries was the reporting banks customer. The remaining beneficiaries and applicants were neither the customers of the bank nor were they known to the bank branch officials.
- 98.2.** A scrutiny of the said BG revealed that these bank guarantees were fake and the signatures of the bank officials appearing on the BG were forged. The bank branches purported to have issued the BGs also confirmed that they had not issued the same. Even the format of the BGs and their serial numbers did not match with that of the bank.
- 98.3.** HFCs shall take notice of the above facts in order to exercise due caution while handling such cases.

99. Rounding off transactions

All transactions of HFCs, including payment of interest on deposits/ charging of interest on advances, shall be rounded off to the nearest rupee, i.e. fractions of 50 paise and above shall be rounded off to the next higher rupee and fractions of less than 50 paise shall be ignored. It shall be ensured that cheques/ drafts issued by clients containing fractions of a rupee shall not be rejected by them.

100. Disbursal of loan amount in cash

Every HFC shall ensure compliance with the requirements under sections 269SS and 269T of the Income Tax Act, 1961, as amended from time to time.

101. Treatment of Deferred Tax Assets (DTA) for computation of capital and creation of Deferred Tax Liability (DTL) on Special Reserve

101.1. DTA shall be treated as an intangible asset and shall be deducted from Tier 1 Capital.

101.2. Deferred Tax Liability (DTL) should be created on Special Reserve created and maintained under Section 36(1)(viii) of the Income Tax Act, 1961. DTL for amounts transferred to Special Reserve shall be charged to the statement of Profit and Loss of that year. In view of the requirement to create DTL on Special Reserve, HFCs may reckon the entire Special Reserve for the purpose of computing Tier 1 Capital.

102. Loan facilities to the physically/ visually challenged

102.1. HFCs shall not discriminate in extending products, services, facilities etc. including loan facilities to physically/ visually challenged applicants on grounds of disability.

102.2. All branches/ offices of HFCs shall render all possible assistance to such persons for availing of the various business facilities. HFCs shall include a suitable module containing the rights of persons with disabilities guaranteed to them by the law and international conventions, in all the training programmes conducted for their employees at all levels. Further, HFCs shall ensure redressal of grievances of persons with disabilities under the Grievance Redressal Mechanism already set up by them. Illustrative guidelines for loan facilities to visually challenged applicant are enclosed in [Annex XIII](#).

103. Filing of Security Interest in CERSAI

HFCs shall file and register the records of security interest created in their favour with the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI). Further, HFCs shall ensure meticulous compliance in the

matter of registration of the applicable records with the CERSAI on an ongoing basis as per the instructions issued from time to time.

103A. Legal Entity Identifier for Borrowers³⁸

103A.1. The Legal Entity Identifier (LEI) code is conceived as a key measure to improve the quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. LEI is a 20-digit unique code to identify parties to financial transactions worldwide. Accordingly, it is advised that non-individual borrowers enjoying aggregate exposure of ₹5 crore and above from banks³⁹ and financial institutions (FIs)⁴⁰ shall be required to obtain LEI codes as per the timeline given below

Total Exposure	LEI to be obtained on or before
Above ₹25 crore	April 30, 2023
Above ₹10 crore, and up to ₹25 crore	April 30, 2024
₹5 crore and above, and up to ₹10 crore	April 30, 2025

Note: “Exposure” for this purpose shall include all fund based and non-fund based (credit as well as investment) exposure of banks/FIs to the borrower. Aggregate sanctioned limit or outstanding balance, whichever is higher, shall be reckoned for the purpose. Lenders may ascertain the position of aggregate exposure based on information available either with them, or CRILC database or declaration obtained from the borrower.

103A.2. Borrowers can obtain LEI from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF) – the entity tasked to support the implementation and use of LEI. In India, LEI code may be obtained from Legal Entity Identifier India Ltd (LEIIL), a subsidiary of the Clearing Corporation of India Limited (CCIL), which has been recognised by the Bank as issuer of LEI under the Payment and Settlement Systems Act, 2007 and is

³⁸ Vide [circular DOR.CRE.REC.28/21.04.048/2022-23 dated April 21, 2022](#)

³⁹ “Banks” shall mean Scheduled Commercial Banks (excluding Regional Rural Banks), Local Area Banks, Small Finance Banks and Primary (Urban) Co-operative Banks

⁴⁰ “Financial Institutions” (FIs) shall mean All India Financial Institutions (Exim Bank, SIDBI, NHB, NABARD and NaBFID) and NBFCs (including HFCs).

accredited by the GLEIF as the LOU in India for issuance and management of LEI. The rules, procedure and documentation requirements may be ascertained from [LEIIL](#). After obtaining LEI code, HFCs shall also ensure that borrowers renew the codes as per GLEIF guidelines.

103A.3. Borrowers who fail to obtain LEI codes from an authorised LOU shall not be sanctioned any new exposure nor shall they be granted renewal/enhancement of any existing exposure. However, Departments/Agencies⁴¹ of Central and State Governments (not Public Sector Undertakings registered under Companies Act or established as Corporation under the relevant statute) shall be exempted from this provision.

103A.4. HFCs shall encourage borrowers to obtain LEI for their parent entity as well as all subsidiaries and associates.

104. Valuation of Properties – Empanelment of Valuers

HFCs are required to put in place a Board approved valuation policy for putting in place a system/ procedure for realistic valuation of properties/ fixed assets and also for empanelment of valuers in accordance with the details contained in [Annex XIV](#).

105. (Deleted)⁴²

105A. Display of information - Secured assets possessed under the SARFAESI Act, 2002⁴³

HFCs which are secured creditors as per the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, shall display information in respect of the borrowers whose secured assets have been taken into possession by them under the Act. The HFCs shall upload this information on their website in the format as prescribed in [Annex XVA](#). The first such list shall be displayed on their website within six months from the date of the circular i.e., September 25, 2023, and the list shall be updated on monthly basis.

⁴¹ A government agency is an administrative set up of the government, responsible for certain area/s of activity, e.g., ISRO, BIS, DGCA, etc.

⁴² Vide [circular DOR.FIN.REC.No.41/03.10.136/2021-22 dated August 25, 2021](#)

⁴³ Inserted vide [circular DoR.FIN.REC.41/20.16.003/2023-24 dated September 25, 2023](#).

106. Submission of Financial Information to Information Utilities

All HFCs are advised to adhere to the relevant provisions of Insolvency and Bankruptcy Code (IBC), 2016 and Insolvency and Bankruptcy Board of India (IBBI) Information Utilities (IUs) Regulations, 2017 and put in place appropriate systems and procedures to ensure compliance to the provisions of the Code and Regulations.

107. National Disaster Management Guidelines on ensuring Disaster Resilient construction of Building and Infrastructure

HFCs shall adopt the guidelines issued by the National Disaster Management Authority (NDMA) and suitably incorporate them as a part of their loan policies, procedures and documentations.

108. Detection and Impounding of Counterfeit Notes- Reporting of data to NHB

108.1. HFCs are required to furnish to the FIU-IND information relating to all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions.

108.2. As an additional measure, HFCs are advised to furnish a quarterly report to the NHB along the lines of Annexure-VI of the [Reserve Bank of India \(RBI\) Master Circular-Detection and Impounding of Counterfeit Notes dated July 01, 2020](#), as amended from time to time, and similar instructions issued by the Bank. The above report should be furnished to the NHB within 7 days of the end of the quarter. A "nil" report should be sent in case no counterfeit has been detected during the quarter.

109. Guidelines for Entry of Housing Finance Companies into Insurance Business

Guidelines for entry of housing finance companies into insurance business are enclosed in [Annex XVI](#).

110. Participation of HFCs in Ready Forward Contracts and accounting thereof

HFCs not accepting/ holding public deposits and having an asset size of ₹100 crore and above are allowed to participate in repo transactions in corporate debt securities. Further, all HFCs are allowed to enter into repo transactions in Government Securities. For these transactions, HFCs shall follow [Repurchase](#)

[Transactions \(Repo\) \(Reserve Bank\) Directions, 2018](#), as amended from time to time.

111. Guidelines on Wilful Defaulters

HFCs shall put in place the mechanism of reporting the information on wilful defaults of 25 lakh and above to all CICs on a monthly basis or more frequent basis, latest by 15th of the subsequent month. Detailed guidelines in this regard are enclosed in [Annex XVII](#).

Any instance of non-compliance by a HFC shall render the company liable to regulatory action, including penal action, as per the provisions of the National Housing Bank Act, 1987.

112. Every housing finance company shall, within one month from the commencement of business, deliver to the NHB, a written statement containing a list of -

- a. The names and the 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 residential addresses of the directors of the company.
- d. The names and office address of the auditors of the company and
- e. The specimen signature of the officers authorised to sign on behalf of the HFC on the returns specified by NHB.

any change in the list referred to in Paragraph 112 above shall be intimated to the NHB within one month from the occurrence of such change.

113. Appropriation of Reserve Fund created as per Section 29C of the National Housing Bank Act, 1987

113.1. HFCs may withdraw from the said reserve fund, the excess amount credited (in excess of the statutory minimum of 20 per cent) in the previous years for any business purposes subject to suitable disclosure in the balance sheet.

113.2. HFCs which have transferred only the statutory minimum in the previous years may withdraw from the reserve fund, with prior permission of the Bank, only for

the purpose of provisioning for non-performing assets subject to the conditions that:

- a. there is no debit balance in the profit and loss account, and
- b. the reasons for such withdrawal are stated explicitly in the balance sheet.

113.3. If any such appropriation made is not informed to the Bank and 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.

114. Supervision of HFCs

The responsibility of supervision of HFCs will rest with the NHB.

114.1. Contravention of regulatory requirement by HFCs – Guidelines for levying penalty

In accordance with Section 52A of the National Housing Bank Act, 1987, RBI/ NHB is empowered to impose penalty on a housing finance company for any contravention of the Act or the directions made thereunder.

114.2. Inspection of HFCs

The inspection of HFCs shall be carried out by NHB in accordance with the section 34 of the National Housing Bank Act, 1987.

Section IVA

Regulations applicable for HFCs in Upper Layer

114A. Regulatory instructions specified in chapters XIII, XIV, XV and XVI of [Master Direction – Reserve Bank of India \(Non-Banking Financial Company – Scale Based Regulation\) Directions, 2023](#) shall be mutatis mutandis applicable to HFCs in Upper Layer. In addition, regulatory instructions applicable to HFCs in middle layer as specified in Section I, II, III and IV of these Directions shall also be applicable to HFCs in Upper Layer, unless stated otherwise.

Section IVB

Regulations applicable for HFCs in Top Layer

HFCs falling in the Top Layer of the regulatory structure shall, inter alia, be subject to higher capital charge. Such higher requirements shall be specifically communicated to the HFC at the time of its classification in the Top Layer. There will be enhanced and intensive supervisory engagement with these HFCs.

Section IVC

Ancillary

Chapter XV

Reporting Requirements

115. Copies of balance sheet and accounts together with the Directors' report to be furnished to the NHB

A copy of the financial statements, including consolidated financial statement, if any, along with the auditor's report and report of the Board of the Directors and all the documents which are required to be attached to such financial statements under the Companies Act 2013, duly adopted at the annual general meeting of the company, shall be submitted to NHB within fifteen days of the date of the annual general meeting.

116. Auditor's Certificate

Every housing finance company holding/ accepting public deposits shall furnish to the NHB, along with the copy of the audited balance sheet as provided under Paragraph 115, 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.

117. Returns to be submitted to the NHB

Without prejudice to the provisions of Paragraph 115 above, HFCs shall comply with any reporting requirements prescribed by the NHB from time to time.

Chapter XVI

Interpretations

118. Exemptions

The 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, or auditor of any housing finance company as pertaining in the Chapter XII of these directions, from all or any of the provisions of these directions either generally or for any specified period subject to such conditions as the Bank may impose.

119. Interpretations

For the purpose of giving effect to the provisions of these directions, the 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 Bank shall be final and binding on all the parties concerned. Violation of these directions shall invite penal action under the provisions of RBI Act or NHB Act. Further, these provisions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations or directions, for the time being in force.

120. Saving of action taken or that may be taken for contravention of the regulations issued previously by NHB

The supersession of the regulation issued vide circulars listed in Paragraph 121 of these directions, shall not in any way affect:

- a. any right, obligation or liability acquired, accrued or incurred thereunder;
- b. any penalty, forfeiture, or punishment incurred in respect of any contravention committed thereunder;
- c. 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 superseded.

Chapter XVII

Repeal

121. Repeal

With the issue of these directions, the instructions/ guidelines contained in the following circulars issued by NHB, stand repealed (list as provided below). Notwithstanding such repeal, any action taken/purported to have been taken or initiated under the instructions/ guidelines having repealed shall continue to be guided by the provisions of said instructions/ guidelines.

Sr. No.	Circular No.	Date	Subject
1	NHB(ND)/DRS/REG/MC-01/2019	July 1, 2019	MC01-Master Circular-The Housing Finance Companies-NHB Directions-2010
2	NHB(ND)/DRS/REG/MC-02/2019	July 1, 2019	MC02-Master Circular- Housing Finance Companies-issuance of Non-Convertible Debentures on private placement basis-NHB Directions-2014
3	NHB(ND)/DRS/REG/MC-03/2019	July 1, 2019	MC03-Master Circular- Fair Practices Code
4	NHB(ND)/DRS/REG/MC-04/2019	July 1, 2019	MC04-Master Circular- Miscellaneous Instructions to all Housing Finance Companies
5	NHB(ND)/DRS/REG/MC-05/2019	July 1, 2019	MC05-Master Circular- Housing Finance Companies - Auditor's Report- NHB Directions-2016
6	NHB(ND)/DRS/REG/MC-06/2019	July 1, 2019	MC06-Master Circular- Housing Finance Companies – Approval of Acquisition or Transfer of Control – NHB Directions-2016
7	NHB(ND)/DRS/REG/MC-07/2019	July 1, 2019	MC07-Master Circular- Housing Finance Companies – Corporate Governance-NHB Directions-2016
8	NHB(ND)/DRS/Policy Circular No.96/2019-20	July 19, 2019	Disbursement of housing loan to individuals linked to the stages of construction
9	DOR.NBFC(HFC).CC.No. 111/03.10.136/2019-20	May 19, 2020	Extending MD– Know Your Customer (KYC) Direction, 2016 to HFCs
10	DOR.NBFC(HFC).CC.No. 118/03.10.136/2020-21	October 22, 2020	Review of regulatory framework for Housing Finance Companies

Section V Illustrations

Illustration I

Examples - Risk Weights (RW) applicable on credit facilities guaranteed under specific existing schemes

(Guarantee coverage, first loss percentage and payout cap ratio may be factored in as given below and as amended from time to time in the respective schemes)

Scheme name	Guarantee Cover	Risk weight
1. Credit Guarantee Fund Scheme for Factoring (CGFSF)	<p>The first loss of 10% of the amount in default to be borne by Factors.</p> <p>The remaining 90% (i.e. second loss) of the amount in default will be borne by NCGTC and Factors in the ratio of 2:1 respectively</p>	<ul style="list-style-type: none"> • First loss of 10% amount in default – Full capital deduction • 60% amount in default borne by NCGTC- <u>0% RW.</u> • Balance 30% amount in default - <u>Counterparty/Regulatory Retail Portfolio (RRP) RW as applicable.</u> <p>Note: The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.</p>
2. Credit Guarantee Fund Scheme for Skill Development (CGFSD)	<p>75% of the amount in default.</p> <p>100% of the guaranteed claims shall be paid by the Trust after all avenues for recovery have been exhausted and there is no scope for recovering the default amount.</p>	<ul style="list-style-type: none"> • Entire amount in default - <u>Counterparty/ Regulatory Retail Portfolio (RRP) RW as applicable.</u>
3. Credit Guarantee Fund for Micro Units (CGFMU)	<p><u>Micro Loans</u></p> <p>The first loss to the extent of 3% of amount in default.</p> <p>Out of the balance, guarantee will be to a maximum extent of 75% of the amount in default in the crystallized portfolio</p>	<ul style="list-style-type: none"> • First loss of 3% amount in default – Full capital deduction • 72.75% of the amount in default - <u>0% RW, subject to maximum of</u> $\{(15\% * CP\} - C) * \left[\frac{SLA}{CP} \right]$ <p>Where-</p> <ul style="list-style-type: none"> ○ CP = Crystallized Portfolio (sanctioned amount)

		<ul style="list-style-type: none"> ○ C = Claims received in previous years, if any, in the crystallized portfolio ○ SLA = Sanctioned limit of each account in the crystallized portfolio ○ 15 per cent represents the payout cap ● Balance amount in default - <u>Counterparty/ RRP RW as applicable.</u> <p>Note: The maximum capital charge shall be capped at a notional level arrived by treating the entire exposure as unguaranteed.</p>
4. CGTMSE guarantee coverage for Micro-Enterprises	<p><u>Upto ₹5 lakh</u> 85% of the amount in default subject to a maximum of ₹4.25 lakh</p> <p><u>Above ₹5 lakh & upto ₹50 lakh</u> 75% of the amount in default subject to a maximum of ₹37.50 lakh</p> <p><u>Above ₹50 lakh & upto ₹200 lakh</u> 75% of the amount in default subject to a maximum of ₹150 lakh</p>	<ul style="list-style-type: none"> ● Guaranteed amount in default – <u>0% RW*</u> ● Balance amount in default - <u>Counterparty/ RRP RW as applicable.</u>
<p>*In terms of the payout cap stipulations of CGTMSE, claims of the member lending institutions will be settled to the extent of 2 times of the fee including recovery remitted during the previous financial year. However, since the balance claims will be settled in subsequent year/s as the position is remedied, the entire extent of guaranteed portion may be assigned zero percent risk weight.</p>		

Annexures

Annex I

List of regulations prescribed for NBFCs (as updated from time to time) that are applicable mutatis mutandis to HFCs

Paragraph No. of this Direction	Particulars	Reference to regulations issued by the Reserve Bank
3.1.1	Guidelines on Liquidity Risk Management Framework	Paragraph 26 of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023
3.1.2	Guidelines on Liquidity Coverage Ratio	Paragraph 89 of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023
3.1.3	Loans against security of shares	Paragraph 36 of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023
3.1.4	Loans against security of single product – gold jewellery	Paragraph 37 and Paragraph 45 of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023
3.1.5	(Deleted)	
3.1.6	Managing Risks and Code of Conduct in Outsourcing of Financial Services	Paragraph 48 of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023
3.1.7	Implementation of Indian Accounting Standards	Paragraph 10 of Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023

Annex II
Terms and Conditions applicable to Hybrid Debt Capital Instruments
to qualify for inclusion as Tier 2 Capital

1. Currency of Issue

- 1.1. HFCs shall issue Tier 2 instruments in Indian Rupees.
- 1.2. HFCs shall obtain prior approval of the Bank, on a case-by-case basis, for issue of a Tier 2 Instruments in foreign currency.

2. Amount

The amount to be raised by issue of such instruments may be decided by the Board of Directors of HFCs.

3. Limits

The aggregate amount of such instruments along with other components of Tier 2 capital shall not exceed 100% of Tier 1 capital. This eligible amount will be computed with reference to the amount of Tier 1 capital as on March 31st of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments.

4. Maturity period

The instruments should have a minimum maturity of 15 years.

5. Rate of Interest

The interest payable to the investors may be either at a fixed rate or at a floating rate referenced to a market determined rupee interest benchmark rate.

6. Options

- 6.1. The debt instruments shall not be issued with 'put option'.
- 6.2. HFCs may issue the instruments with 'call option' subject to strict compliance with each of the following conditions:
 - a. Call option may be exercised only if the instrument has run for at least 10 years;
 - b. Call option shall be exercised only with the prior approval of NHB. While considering the proposals received from HFCs for exercising the call option, HFC's capital to risk assets ratio (CRAR) position both at the time of exercise of the call option and after exercise of call option shall be considered.

7. Step Up

The issuing housing finance company may have a step-up option which may be exercised only once during the whole life of the instrument, in conjunction with the call option after the lapse of ten years from date of issue. The step up shall not be more than 100 bps. The limits on step up apply to the all-in cost of the debt to the issuing HFCs.

8. Lock-in clause

- 8.1.** The instruments shall be subjected to lock-in clause in terms of which the issuing HFC shall not be liable to pay either interest or principal, even at maturity, if
 - a. the HFC's CRAR is below the minimum regulatory requirement prescribed by the Bank; OR
 - b. the impact of such payments results in HFC's CRAR falling below or remaining below the minimum regulatory requirement prescribed by the Bank.
- 8.2.** However, HFCs may pay interest with prior approval of NHB, when impact of such payment may result in net loss or increase the net loss, provided CRAR remains above the regulatory norm.
- 8.3.** The interest amount due and remaining unpaid may be allowed to be paid in the later years in cash/ cheque subject to the housing finance company complying with the above regulatory requirement.
- 8.4.** All instances of invocation of the lock-in clause should be notified by the issuing HFCs to the NHB.

9. Seniority of claim

The claims of the investors in such Tier 2 instruments shall be

- a. Superior to the claims of the investors in instruments eligible for inclusion in Tier 1 capital; and
- b. Subordinate to the claims of all other creditors.

10. Discounting

These instruments shall be subjected to a progressive discount for capital adequacy purposes as in the case of long-term subordinated debt over the last five years of their tenor. As they approach maturity these instruments should be subjected to

progressive discount as indicated in the table below for being eligible for inclusion in Tier 2 capital.

Remaining maturity of instruments	Rate of Discount (%)
Less than one year	100
One year and more but less than two years	80
Two years and more but less than three years	60
Three years and more but less than four years	40
Four years and more but less than five years	20

11. Redemption

11.1. These instruments shall not be redeemable at the initiative of the holder.

11.2. All redemptions shall be made only with prior approval of NHB.

12. Reserve Requirements

Not required

13. Investments by FIIs & NRIs

Investments in these instruments by FIIs shall be within the limits as laid down in the ECB Policy for investments in debt instruments. In addition, NRIs shall also be eligible to invest in these instruments as per existing policy.

14. Issue of Tier 2 instruments in foreign currency

HFCs may augment their capital funds through the issue of such Tier 2 instruments in foreign currency after seeking prior approval of the Bank and subject to compliance with the undermentioned requirements:

14.1. The total amount of such Tier 2 instruments in foreign currency shall not exceed 25% of the unimpaired Tier 1 capital. This eligible amount will be computed with reference to the amount of Tier 1 capital as on March 31st of the previous financial year, after deduction of goodwill and other intangible assets but before the deduction of investments.

14.2. Investment by FIIs in such instruments raised in Indian Rupees shall be outside the limit for investments in capital debt instruments. However, investment by FIIs in these instruments will be subjected to separate ceiling of USD 500 million.

14.3. HFCs should not enter into swap transactions in respect of these Tier 2 Instruments.

15. Other Conditions

15.1. These instruments should be fully paid-up, unsecured and free of any restrictive clauses.

15.2. HFCs should comply with the terms and conditions, if any, by SEBI / other regulatory authorities in regard to issue of the instruments.

16. Reporting Requirements

HFCs issuing these instruments shall submit a report to the NHB, giving details of the debt raised, including the terms of issue together with the copy of the offer document soon after the issue is completed.

17. Grant of advances against such Tier 2 Instruments

HFCs should not grant advances against the security of such Tier 2 instruments issued by them.

Annex III
Schedule to the Balance Sheet of an HFC

(₹ in crore)		
Particulars		
Liabilities side		Amount outstanding
		Amount overdue
(1)	Loans and advances availed by the HFC inclusive of interest accrued thereon but not paid:	
	(a)	Debtures : Secured
		: Unsecured
		(other than falling within the meaning of public deposits*)
	(b)	Deferred Credits
	(c)	Term Loans
	(d)	Inter-corporate loans and borrowing
	(e)	Commercial Paper
	(f)	Public Deposits*
	(g)	Other Loans (specify nature)
	* Please see Note 1 below	
(2)	Break-up of (1)(f) above (Outstanding public deposits inclusive of interest accrued thereon but not paid):	
	(a)	In the form of Unsecured debtures
	(b)	In the form of partly secured debtures i.e. debtures where there is a shortfall in the value of security
	(c)	Other public deposits
	* Please see Note 1 below	
Assets side		Amount outstanding
(3)	Break-up of Loans and Advances including bills receivables [other than those included in (4) below]:	
	(a)	Secured
	(b)	Unsecured
(4)	Break up of Leased Assets and stock on hire and other assets counting towards asset financing activities	
	(i)	Lease assets including lease rentals under sundry debtors
	(a)	Financial lease
	(b)	Operating lease
	(ii)	Stock on hire including hire charges under sundry debtors
	(a)	Assets on hire

	(b)	Repossessed Assets	
(iii)		Other loans counting towards asset financing activities	
	(a)	Loans where assets have been repossessed	
	(b)	Loans other than (a) above	
(5)	Break-up of Investments		
	<u>Current Investments</u>		
1.	<u>Quoted</u>		
	(i)	Shares	
		(a) Equity	
		(b) Preference	
	(ii)	Debentures and Bonds	
	(iii)	Units of mutual funds	
	(iv)	Government Securities	
	(v)	Others (please specify)	
2.	<u>Unquoted</u>		
	(i)	Shares	
		(a) Equity	
		(b) Preference	
	(ii)	Debentures and Bonds	
	(iii)	Units of mutual funds	
	(iv)	Government Securities	
	(v)	Others (please specify)	
	<u>Long Term investments</u>		
1.	<u>Quoted</u>		
	(i)	Share	
		(a) Equity	
		(b) Preference	
	(ii)	Debentures and Bonds	
	(iii)	Units of mutual funds	
	(iv)	Government Securities	
	(v)	Others (please specify)	
2.	<u>Unquoted</u>		
	(i)	Shares	
		(a) Equity	
		(b) Preference	
	(ii)	Debentures and Bonds	
	(iii)	Units of mutual funds	
	(iv)	Government Securities	

	(v)	Others (please specify)	
(6) Borrower group-wise classification of assets financed as in (3) and (4) above:			
(Please see Note 2 below)			
Category		Amount net of provisions	
		Secured	Unsecured
1.	Related Parties **		
	(a)	Subsidiaries	
	(b)	Companies in the same group	
	(c)	Other related parties	
2.	Other than related parties		
Total			
(7) Investor group-wise classification of all investments (current and long term) in shares and securities (both quoted and unquoted) :			
(Please see Note 3 below)			
Category		Market Value / Break up or fair value or NAV	Book Value (Net of Provisions)
1.	Related Parties **		
	(a)	Subsidiaries	
	(b)	Companies in the same group	
	(c)	Other related parties	
2.	Other than related parties		
Total			
** As per applicable Accounting Standard (Please see Note 3)			
(8) Other information			
Particulars		Amount	
(i)	Gross Non-Performing Assets		
	(a)	Related parties	
	(b)	Other than related parties	
(ii)	Net Non-Performing Assets		
	(a)	Related parties	
	(b)	Other than related parties	
(iii)	Assets acquired in satisfaction of debt		
Notes:			
1.	As defined in Paragraph 4.1.30 of these Directions.		
2.	Provisioning norms shall be applicable as prescribed in these Directions.		
3.	As per applicable Accounting Standards including for valuation of investments and other assets as also assets acquired in satisfaction of debt. However, market value in respect of quoted investments and break up / fair value / NAV in respect of unquoted investments shall be disclosed irrespective of whether they are classified as long term or current in (5) above.		

Annex IV
Indicative list of Balance Sheet Disclosure for HFCs

1. General

1.1. Minimum Disclosures

At a minimum, the items listed in this Annex should be disclosed in the Notes to Accounts (NTA) by all HFCs. The disclosures listed are intended only to supplement, and not to replace, other disclosure requirements as applicable. HFCs may omit those line items/ disclosures which are not applicable/ not permitted or with no exposure/ no transaction both in the current and previous year.

1.2. It may be noted that mere mention of an activity, transaction or item in the disclosure template does not imply that it is permitted, and HFCs shall refer to the extant statutory and regulatory requirements while determining the permissibility or otherwise of an activity or transaction.

1.3. HFCs shall disclose comparative information in respect of the previous period for all amounts reported in the current period's financial statements. Further, HFCs shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.

2. Summary of Significant Accounting Policies

HFCs should disclose the accounting policies regarding key areas of operations at one place along with NTA in their financial statements. A suggestive list includes – Basis of Accounting, Transactions involving Foreign Exchange, Investments - Classification, Valuation, etc. Advances and Provisions thereon, Fixed Assets and Depreciation, Revenue Recognition, Employee Benefits, Provision for Taxation, Net Profit, etc.

3. Disclosures:

3.1. Capital

[₹ in crore]

Particulars	Current Year	Previous Year
(i) CRAR (%)		
(ii) CRAR – Tier 2 Capital (%)		
(iii) CRAR – Tier 2 Capital (%)		
(iv) Amount of subordinated debt raised as Tier 2 Capital		
(v) Amount raised by issue of Perpetual Debt Instruments		

3.2. Reserve Fund u/s 29C of NHB Act, 1987

[₹ in crore]

Particulars	Current Year	Previous Year
Balance at the beginning of the year		
a) Statutory Reserve u/s 29C of the National Housing Bank Act, 1987		
b) Amount of special reserve u/s 36(1)(viii) of Income Tax Act, 1961 taken into account for the purposes of Statutory Reserve under Section 29C of the NHB Act, 1987		
c) Total		
Addition/ Appropriation/ Withdrawal during the year		
Add:		
a) Amount transferred u/s 29C of the NHB Act, 1987		
b) Amount of special reserve u/s 36(1)(viii) of Income Tax Act, 1961 taken into account for the purposes of Statutory Reserve under Section 29C of the NHB Act, 1987		
Less:		
a) Amount appropriated from the Statutory Reserve u/s 29C of the NHB Act, 1987		
b) Amount withdrawn from the special reserve u/s 36(1)(viii) of Income Tax Act, 1961 taken into account which has been taken into account for the purpose of provision u/s 29C of the NHB Act, 1987		
Balance at the end of the year		
a) Statutory Reserve u/s 29C of the National Housing Bank Act, 1987		
b) Amount of special reserve u/s 36(1)(viii) of Income Tax Act, 1961 taken into account for the purposes of Statutory Reserve under Section 29C of the NHB Act, 1987		
c) Total		

3.3. Investment

[₹ in crore]

Particulars	Current Year	Previous Year
3.3.1. Value of Investments		
(i) Gross value of investments		
(a) In India		
(b) Outside India		
(ii) Provisions for Depreciation		
(a) In India		
(b) Outside India		
(iii) Net value of investments		
(a) In India		
(b) Outside India		
3.3.2. Movement of provisions held towards depreciation on investments		
(i) Opening balance		
(ii) Add: Provisions made during the year		
(iii) Less: Write-off / Written-bank of excess provisions during the year		
(iv) Closing balance		

3.4. Derivatives

3.4.1. Forward Rate Agreement (FRA)/ Interest Rate Swap

[₹ in crore]

Particulars	Current Year	Previous Year
(i) The notional principal of swap agreements		
(ii) Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements		
(iii) Collateral required by the HFC upon entering into swaps		
(iv) Concentration of credit risk arising from the swaps [§]		
(v) The fair value of the swap book [@]		
Note: Nature and terms of the swaps including information on credit and market risk and the accounting policies adopted for recording the swaps should also be disclosed.		
[§] Examples of concentration could be exposures to particular industries or swaps with highly geared companies.		
[@] If the swaps are linked to specific assets, liabilities, or commitments, the fair value would be the estimated amount that the HFC would receive or pay to terminate the swap agreements as on the balance sheet date		

3.4.2. Exchange Traded Interest Rate (IR) Derivative

[₹ in crore]

Particulars	Amount
(i) Notional principal amount of exchange traded IR derivatives undertaken during the year (instrument wise)	
(a)	
(b)	
(c)	
(ii) Notional principal amount of exchange traded IR derivatives outstanding as on 31 st March (instrument wise)	
(a)	
(b)	
(c)	
(iii) Notional principal amount of exchange traded IR derivatives outstanding and not "highly effective" (instrument wise)	
(a)	
(b)	
(c)	
(i) Mark-to-market value of exchange traded IR derivatives outstanding and not "highly effective" (instrument wise)	
(a)	
(b)	
(c)	

3.4.3. Disclosures on Risk Exposure in Derivatives

A. Qualitative Disclosure

HFCs shall describe their risk management policies pertaining to derivatives with particular reference to the extent to which derivatives are used, the associated risks and business purposes served. The discussion shall also include:

- a) the structure and organization for management of risk in derivatives trading,
- b) the scope and nature of risk measurement, risk reporting and risk monitoring systems,
- c) policies for hedging and / or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants, and
- d) accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation.

B. Quantitative Disclosure

[₹ in crore]

Particulars	Currency Derivatives	Interest Rate Derivatives
(i) Derivatives (Notional Principal Amount)		
(ii) Marked to Market Positions		
(a) Assets (+)		
(b) Liability (-)		
(iii) Credit Exposure		
(iv) Unhedged Exposures		

3.5. (Deleted)

3.6. Assets Liability Management (Maturity pattern of certain items of Assets and Liabilities)

[₹ in crore]

Particulars	1 day to 7 days	8 to 14 days	15 days to 30/31 days	Over one month upto 2 months	Over 2 months upto 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year to 3 years	Over 3 to 5 years	Over 5 years	Total
Liabilities											
Deposits											
Borrowings from banks											
Market Borrowings											
Foreign Currency Liabilities											
Assets											
Advances											
Investments											
Foreign Currency Assets											

3.7. Exposure

3.7.1. Exposure to Real Estate Sector

[₹ in crore]

Category		Current Year	Previous Year
a)	Direct Exposure		
(i)	Residential Mortgages - Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented. Exposure would also include non-fund based (NFB) limits.		
(ii)	Commercial Real Estate - Lending secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure shall also include non-fund based (NFB) limits		
(iii)	Investments in Mortgage Backed Securities (MBS) and other securitised exposures -		
	a. Residential		
	b. Commercial Real Estate		
b)	Indirect Exposure Fund based and non-fund based exposure on NHB and HFCs		
Total Exposure to Real Estate Sector			

3.7.2. Exposure to Capital Market

[₹ in crore]

Particulars ⁴⁴		Current Year	Previous Year
(i)	Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt		
(ii)	Advances against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds		
(iii)	Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security		
(iv)	Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible		

⁴⁴ HFCs may omit those line items which are not applicable/ not permitted or have nil exposure both in current and previous year. Further, exposures against pledge of shares by promoters of a company shall be shown separately under the respective line items.

	debentures / units of equity oriented mutual funds 'does not fully cover the advances		
(v)	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers		
(vi)	Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources		
(vii)	Bridge loans to companies against expected equity flows / issues		
(viii)	Underwriting commitments taken up by the HFCs in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds		
(ix)	Financing to stockbrokers for margin trading		
(x)	All exposures to Alternate Investment Funds (a) Category I (b) Category II (c) Category III		
Total Exposure to Capital Market			

Note: It is clarified that the computation of exposure to the capital markets should be done by HFCs in accordance with the provisions of Paragraph 23.2.2 of these directions.

3.7.2A. Sectoral exposure

Sectors	Current Year			Previous Year		
	Total Exposure (includes on balance sheet and off-balance sheet exposure) (₹ crore)	Gross NPAs (₹ crore)	Percentage of Gross NPAs to total exposure in that sector	Total Exposure (includes on balance sheet and off-balance sheet exposure) (₹ crore)	Gross NPAs (₹ crore)	Percentage of Gross NPAs to total exposure in that sector
1. Agriculture and Allied Activities						
2. Industry						
i....						
ii....						
Others						
Total of Industry (i+ii+...+Others)						

3. Services						
i...						
ii...						
Others						
Total of Services (i+ii+...+Others)						
4. Personal Loans						
i...						
ii...						
Others						
Total of Personal Loans (i+ii+...+Others)						
5. Others, if any (please specify)						

Notes:

(i) The disclosures as above shall be based on the sector-wise and industry-wise bank credit (SIBC) return submitted by scheduled commercial banks to the Reserve Bank and published by the Reserve Bank as 'Sectoral Deployment of Bank Credit'.

(ii) In the disclosures as above, if within a sector, exposure to a specific sub-sector/industry is more than 10 percent of Tier 1 capital of a HFC, the same shall be disclosed separately within that sector. Further, within a sector, if exposure to specific sub-sector/industry is less than 10 percent of Tier 1 capital, such exposures shall be clubbed and disclosed as "Others" within that sector.

3.7.3. Details of financing of parent company products

3.7.4. Details of Single Borrower Limit (SGL)/ Group Borrower Limit (GBL) exceeded by the HFC

The HFC should make appropriate disclosure in the notes to account to the annual financial statements in respect of the exposures where the HFC had exceeded the prudential exposure limits during the year. The sanctioned limit or entire outstanding, whichever is high, shall be reckoned for exposure limit.

3.7.5. Unsecured Advances

- a. For determining the amount of unsecured advances, the rights, licenses, authorisations, etc., charged to the HFCs as collateral in respect of projects (including infrastructure projects) financed by them, should not be reckoned as tangible security. Hence such advances shall be reckoned as unsecured.
- b. HFCs should also disclose the total amount of advances for which intangible securities such as charge over the rights, licenses, authority, etc. has been taken as also the estimated value of such intangible collateral. The disclosure may be made under a separate head in NTA. This would differentiate such loans from other entirely unsecured loans.

3.7.6. Exposure to group companies engaged in real estate business (refer to Paragraph 21 of these directions)

[₹ in crore]

S.No.	Description	Amount (₹ in crore)	% of owned fund
(i)	Exposure to any single entity in a group engaged in real estate business		
(ii)	Exposure to all entities in a group engaged in real estate business		

3.7.7. Intra-group exposures

HFCs shall make the following disclosures for the current year with comparatives for the previous year:

- a. Total amount of intra-group exposures
- b. Total amount of top 20 intra-group exposures
- c. Percentage of intra-group exposures to total exposure of the HFC on borrowers/customers

3.7.8. Unhedged foreign currency exposure

HFCs shall disclose details of its unhedged foreign currency exposures. Further, it shall also disclose their policies to manage currency induced risk.

3A. Related Party Disclosure

The HFC shall disclose the policy on dealing with Related Party Transactions on its website and also in the Annual Report. The details of material transactions with

related parties shall be disclosed in the annual report. Further, the HFC shall additionally disclose the related party transactions in the following format:

Related Party Items	Parent (as per ownership or control)		Subsidiaries		Associates/ Joint ventures		Key Management [@]		Relatives of Key Management Personnel [@]		Others [*]		Total	
	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous year	Current year	Previous Year	Current year	Previous year
Borrowings [#]														
Deposits [#]														
Placement of deposits [#]														
Advances [#]														
Investments [#]														
Purchase of fixed/other assets														
Sale of fixed/other assets														
Interest paid														
Interest received														
Others [*]														

[@]Disclosures for directors and relatives of directors should be made separately in separate columns from other KMPs and relatives of other KMPs.

[#] The outstanding at the year end and the maximum during the year are to be disclosed.

^{*} Specify item if total for the item is more than 5 percent of total related party transactions. Related parties would include trusts and other bodies in which the HFC can directly or indirectly (through its related parties) exert control or significant influence.

Notes:

1. Related party, in the context of the aforementioned disclosure, shall include all related parties as per the applicable accounting standards. Further, related party shall also include following related parties defined under Section 2(76) of the Companies Act, 2013.

- (i) a director or his relative;
- (ii) a key managerial personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is a partner;
- (iv) a private company in which a director or manager or his relative is a member or director;

- (v) a public company in which a director or manager is a director or holds along with his relatives, more than two percent of its paid-up share capital;
- (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act.

Provided that nothing in clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

2. At a minimum, Key Management Personal (KMPs) shall include following key managerial personnel as per Section 2(51) of the Companies Act, 2013.
 - (i) the Chief Executive Officer or the managing director or the manager;
 - (ii) the company secretary;
 - (iii) the whole-time director;
 - (iv) the Chief Financial Officer;
 - (v) such other officer, not more than one level below the Directors who is in whole-time employment, designated as key managerial personnel by the Board; and
 - (vi) such other officer as may be prescribed.

3. Relatives of KMPs at the minimum, shall include following relatives as defined under Section 2(77) of the Companies Act, 2013 and Rule 4 of the Companies (Specification of definitions details) Rules, 2014.

- (i) They are members of a Hindu Undivided Family;
- (ii) They are husband and wife; or
- (iii) One person is related to the other in such manner as may be prescribed;

A person shall be deemed to be the relative of another, if he or she is related to another in the following manner, namely:-

- (i) Father; Provided that the term "Father" includes step-father.
- (ii) Mother: Provided that the term "Mother" includes the step-mother.
- (iii) Son: Provided that the term "Son" includes the step-son.
- (iv) Son's wife.

(v) Daughter.

(vi) Daughter's husband.

(vii) Brother: Provided that the term "Brother" includes the step-brother;

(viii) Sister: Provided that the term "Sister" includes the step-sister.

4. Miscellaneous

4.1. Registration obtained from other financial sector regulators

4.2. (Deleted)

4.3. (Deleted)

4.4. Group Structure

Diagrammatic representation of group structure shall be disclosed.

4.5. Rating assigned by Credit Rating Agencies and migration of rating during the year

4.6. (Deleted)

4.7. Management

As part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the Annual Report to the shareholders. This Management Discussion & Analysis should include discussion on the following matters within the limits set by the company's competitive position:

- a. Industry structure and developments.
- b. Opportunities and Threats.
- c. Segment-wise or product-wise performance.
- d. Outlook.
- e. Risks and concerns.
- f. Internal control systems and their adequacy.
- g. Discussion on financial performance with respect to operations.
- h. Material developments in Human Resources / Industrial Relations front, including number of people employed.

4.8. Net Profit or Loss for the period, prior period items and changes in accounting policies

Since the format of the profit and loss account of HFCs does not specifically provide for disclosure of the impact of prior period items on the current year's profit and loss, such disclosures, wherever warranted, may be made in the NTA.

4.9. Revenue Recognition

An enterprise should also disclose the circumstances in which revenue recognition has been postponed pending the resolution of significant uncertainties.

4.10. Consolidated Financial Statements (CFS)

HFCs may be guided by applicable Accounting Standards in this regard. A parent company, presenting the CFS, should consolidate the financial statements of all subsidiaries - domestic as well as foreign. The reasons for not consolidating a subsidiary should be disclosed in the CFS. The responsibility of determining whether a particular entity should be included or not for consolidation would be that of the Management of the parent entity. In case, its Statutory Auditors are of the opinion that an entity, which ought to have been consolidated, has been omitted, they should incorporate their comments in this regard in the "Auditors Report".

5. Additional Disclosures

5.1. Provisions and Contingencies

To facilitate easy reading of the financial statements and to make the information on all Provisions and Contingencies available at one place, HFCs are required to disclose in the NTA the following information:

[₹ in crore]		
Break up of 'Provisions and Contingencies' shown under the head Expenditure in Profit and Loss Account	Current Year	Previous Year
Provisions for depreciation on Investment		
Provision towards NPA		
Provision made towards Income tax		
Other Provision and Contingencies (with details)		
Provision for Standard Assets (with details like teaser loan, CRE, CRE-RH etc.)		

[₹ in crore]				
Break up of Loans & Advances & Provisions thereon	Housing		Non-Housing	
	Current year	Previous year	Current year	Previous year
Standard Assets				
a) Total Outstanding Amount				
b) Provisions made				
Sub- Standard Assets				
a) Total Outstanding Amount				
b) Provisions made				
Doubtful Assets – Category I				
a) Total Outstanding Amount				

b) Provisions made				
Doubtful Assets – Category II				
a) Total Outstanding Amount				
b) Provisions made				
Doubtful Assets – Category III				
a) Total Outstanding Amount				
b) Provisions made				
Loss Assets				
a) Total Outstanding Amount				
b) Provisions made				
Total				
a) Total Outstanding Amount				
b) Provisions made				

Note:

- a. The Total Outstanding Amount mean Principal + accrued interest + other charges pertaining to loans without netting off.
- b. The category of Doubtful Assets will be as under:

Period for which the assets has been considered Doubtful	Category
Upto one year:	Category - I
One to three years:	Category - II
More than three years :	Category - III

5.1A. Divergence in Asset Classification and Provisioning

HFCs shall disclose details of divergence as per the table given below, if either or both of the following conditions are satisfied:

- (i) The additional provisioning requirements assessed by the National Housing Bank exceeds 5 percent of the reported profits before tax and impairment loss on financial instruments for the reference period,
- (ii) The additional Gross NPAs identified by the National Housing Bank exceeds 5 per cent of the reported Gross NPAs for the reference period.

Sr.	Particulars	Amount
1.	Gross NPAs as on March 31, 20XX* as reported by the HFC	
2.	Gross NPAs as on March 31, 20XX as assessed by the NHB	
3.	Divergence in Gross NPAs (2-1)	
4.	Net NPAs as on March 31, 20XX as reported by the HFC	
5.	Net NPAs as on March 31, 20XX as assessed by the NHB	
6.	Divergence in Net NPAs (5-4)	
7.	Provisions for NPAs as on March 31, 20XX as reported by the HFC	

8.	Provisions for NPAs as on March 31, 20XX as assessed by the NHB	
9.	Divergence in provisioning (8-7)	
10.	Reported Profit before tax and impairment loss on financial instruments for the year ended March 31, 20XX	
11.	Reported Net Profit after Tax (PAT) for the year ended March 31, 20XX	
12.	Adjusted (notional) Net Profit after Tax (PAT) for the year ended March 31, 20XX after considering the divergence in provisioning	

* March 31, 20XX is the close of the reference period in respect of which divergences were assessed.

5.2. Draw Down from Reserves

Suitable disclosures are to be made regarding any draw down of reserves in the NTA.

5.3. Concentration of Public Deposits, Advances, Exposures and NPAs

5.3.1. Concentration of Public Deposits (for Public Deposit taking/ holding HFCs)

[₹ in crore]

Particulars	Current Year	Previous Year
Total deposits of twenty largest depositors		
Percentage of deposits of twenty largest depositors to total deposits of the deposit taking HFC		

5.3.2. Concentration of Loans & Advances

[₹ in crore]

Particulars	Current Year	Previous Year
Total loans & advances to twenty largest borrowers		
Percentage of loans & advances to twenty largest borrowers to total advances of the HFC		

5.3.3. Concentration of all Exposure (including off-balance sheet exposure)

[₹ in crore]

Particulars	Current Year	Previous Year
Total exposure to twenty largest borrowers/ customers		
Percentage of exposures to twenty largest borrowers/ customers to total exposure of the HFC on borrowers/ customers		

5.3.4. Concentration of NPAs

[₹ in crore]

Particulars	Current Year	Previous Year
Total exposure to top ten NPA accounts		

5.3.5. Sector-wise NPAs

Sr. No.	Sector	Percentage of NPAs to Total Advances in that sector
A.	Housing Loans	
1.	Individuals	
2.	Builders/Project loans	
3.	Corporates	
4.	Others (specify)	
B.	Non- Housing Loans	
1.	Individuals	
2.	Builders/Project loans	
3.	Corporates	
4.	Others (specify)	

5.4. Movement of NPAs

[₹ in crore]

Particulars		Current Year	Previous Year
(i)	Net NPAs to Net Advances (%)		
(ii)	Movement of NPAs (Gross)		
	(a) Opening balance		
	(b) Additions during the year		
	(c) Reductions during the year		
	(d) Closing balance		
(iii)	Movement of Net NPAs		
	(a) Opening balance		
	(b) Additions during the year		
	(c) Reductions during the year		
	(d) Closing balance		
(iv)	Movement of provisions for NPAs (excluding provisions on standard assets)		
	(a) Opening balance		
	(b) Provisions made during the year		
	(c) Write-off / write-back of excess provisions		
	(d) Closing balance		

5.5. Overseas Assets

[₹ in crore]

Particulars	Current Year	Previous Year

5.6. Off-balance Sheet SPVs sponsored

(which are required to be consolidated as per accounting norms)

Name of the SPV sponsored	
Domestic	Overseas

6. Disclosure of Complaints

6.1. Summary information on complaints received by the HFCs from customers and from the Offices of Ombudsman (applicable in case included under The Reserve Bank – Integrated Ombudsman Scheme, 2021)

Sr. No	Particulars	Current Year	Previous Year
Complaints received by the HFC from its customers			
(a)	No. of complaints pending at the beginning of the year		
(b)	No. of complaints received during the year		
(c)	No. of complaints disposed during the year		
	(i) Of which, number of complaints rejected by the HFC		
(d)	No. of complaints pending at the end of the year		
Maintainable complaints received by the HFC from the Office of Ombudsman (applicable in case included under The Reserve Bank – Integrated Ombudsman Scheme, 2021)			
(e)	Number of maintainable complaints received by the HFC from the Office of Ombudsman		
	(i) Of (e), number of complaints resolved in favour of the HFC by Office of Ombudsman		
	(ii) Of (e), number of complaints resolved through conciliation/ mediation/ advisories issued by the Office of Ombudsman		
	(iii) Of (e), number of complaints resolved after passing of Awards by the Office of Ombudsman against the HFC		
(f)	Number of Awards unimplemented with the stipulated time (other than those appealed)		
Note: Maintainable complaints refer to complaints on the grounds specifically mentioned in the Integrated Ombudsman Scheme, 2021 and covered in the ambit of the Scheme.			

Note: It is clarified that the HFCs may be guided by the definition of ‘customer’ as given in the Guidelines on “Know Your Customer & Anti Money Laundering Measures” issued by Department of Regulation.

6.2. Top five grounds⁴⁵ of complaints received by the HFCs from customers

⁴⁵ The list of grounds of complaints given below are indicative only.

1. Credit Cards	2. Difficulty in operation of accounts	3. Mis-selling	4. Recovery Agents/ Direct Sales Agents
5. Loans and advances	6. Levy of charges without prior notice/ excessive charges/ foreclosure charges	7. Non-observance of fair practices code	8. Staff behaviour
9. Facilities for customers visiting the office/ adherence to prescribed working hours, etc.	10. Others		

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ decrease in the number of complaints received over the previous year	Number of complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
1	2	3	4	5	6
Current Year					
Ground - 1					
Ground - 2					
Ground - 3					
Ground - 4					
Ground - 5					
Others					
Total					
Previous Year					
Ground - 1					
Ground - 2					
Ground - 3					
Ground - 4					
Ground - 5					
Others					
Total					

7. Corporate governance

Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (paragraph C of Schedule V - Annual Report) as amended from time to time, specifies disclosures to be made in the section on the corporate governance of the Annual Report. With respect to the corporate governance report, non-listed HFCs should also endeavor to make full disclosure in accordance with the requirement of SEBI (LODR) Regulations, 2015. Non-listed HFCs at the minimum should disclose following under the corporate governance section of the annual report.

7.1. Composition of the Board

Sr. No.	Name of Director	Director since	Capacity (i.e. Executive/ Non-Executive/ Chairman/ Promoter nominee/ Independent)	DIN	Number of Board Meetings		No. of other Directorships	Remuneration			No. of shares held in and convertible instruments held in the HFC
					Held	Attended		Salary and other compensation	Sitting Fee	Commission	

Details of change in composition of the Board during the current and previous financial year.

Sr. No.	Name of Director	Capacity (i.e., Executive/ Non-Executive/ Chairman/ Promoter nominee/ Independent)	Nature of change (resignation, appointment)	Effective date

- Where an independent director resigns before expiry of her/his term, the reasons for resignation as given by her/him shall be disclosed.
- Details of any relationship amongst the directors inter-se shall be disclosed

7.2. Committees of the Board and their composition

- Mention the names of the committees of the Board.
- For each committee, mention the summarized terms of reference and provide the following details.

Sr. No.	Name of Director	Member of Committee since	Capacity (i.e., Executive/ Non-Executive/ Chairman/ Promoter nominee/ Independent)	Number of Meetings of the Committee		No. of shares held in the HFC
				Held	Attended	
1.			Chairperson			
2.						

7.3. General Body Meetings

Give details of the date, place and special resolutions passed at the General Body Meetings.

Sr. No.	Type of Meeting (Annual/ Extra-Ordinary)	Date and Place	Special resolutions passed

7.4. Details of non-compliance with requirements of Companies Act, 2013

Give details and reasons of any default in compliance with the requirements of Companies Act, 2013, including with respect to compliance with accounting and secretarial standards.

7.5. Details of penalties and strictures

HFCs should disclose details of penalties or strictures imposed on it by the Reserve Bank or any other statutory authority or regulator. Further, strictures or directions on the basis of inspection reports or other adverse findings should also be placed in the public domain, along with penalties. Furthermore, consistent with the international best practices in disclosure of penalties imposed by the regulators, placing of the details of the levy of penalty on the HFC in public domain will be in the interests of the investors and depositors.

7.6. Remuneration of Directors

In addition to the related party disclosures and disclosure of remuneration/ fees paid to directors as stated above, HFCs should also disclose details of all pecuniary relationships or transactions of the non-executive directors vis-à-vis the company, in the Annual Report.

8. Breach of covenant

HFCs shall disclose all instances of breach of covenant of loan availed or debt securities issued.

9. Additional Disclosure for HFCs in Upper Layer

As per the SBR framework issued by the Reserve Bank, HFCs in Upper Layer shall be mandatorily listed within three years of identification as HFC in Upper Layer. Accordingly, upon being identified as HFC in Upper Layer, the unlisted HFC in Upper Layer shall draw up a Board approved roadmap for compliance with the disclosure requirements of a listed company under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Annex IVA
Reporting format for HFCs declaring dividend

Details of dividend declared during the financial year

Name of the HFC – _____

Accounting period *	Net profit for the accounting period (₹ crore)	Rate of dividend (per cent)	Amount of dividend (₹ crore)	Dividend Pay out ratio (per cent)

* quarter or half year or year ended ----- as the case may be

Annex IVB
Loans to Directors, Senior Officers and Relatives of Directors

(₹ crore)		
	Current Year	Previous Year
Directors and their relatives		
Entities associated with directors and their relatives		
Senior Officers and their relatives		

Annex V
A copy of the 'Trust Deed' proforma containing the details and the 'Trustee Guidelines'

Annex V (A)

A copy of the 'Trust Deed' proforma

This Trust Deed is made at this day 20.... betweenCompany Ltd. incorporated under the Companies Act, 1956 or Companies Act, 2013 having its registered office at (hereinafter referred to as "The Company") of the One Part, and Company Ltd. incorporated under the Companies Act, 1956/ Companies Act, 2013/Bank constituted/ incorporated under the..... Act, and having its registered/ Head office at the trustees (hereinafter referred to as "The Trustees") of the Other Part.

Whereas by its Articles of Association, the Company is authorized to borrow, or raise money, *inter alia*, by accepting deposits and secure the payment of money.

And whereas the Board of Directors of the Company being duly empowered by the Articles of Association of the Company have decided by a resolution passed in the meeting of the Board held on the day of 20.... to raise deposits from the public under various schemes;

And whereas per the instructions of the Reserve Bank of India, the Company has to create a charge of the Depositors on (a) the securities purchased by it by investing the amount specified by the Reserve Bank of India in terms of and in accordance with sub-section (1) of Section 29B of the National Housing Bank Act, 1987 or by notifications issued by the Reserve Bank of India thereunder from time to time and on (b) the deposits made or bonds subscribed as specified by the in terms of and in accordance with sub-section (2) of Section 29B of the National Housing Bank Act, 1987 or by notifications issued by the Reserve Bank of India thereunder from time to time (hereinafter referred to as "the Securities");

And whereas the Company proposes to create charge of the Depositors on the securities;
And whereas the said Trustees mentioned above have consented to act as Trustee of the Depositors by its resolution dated passed by its Board of Directors.

NOW THIS DEED WITNESSETH AND IT IS HEREBY MUTUALLY AGREED TO AND DECLARED BY AND BETWEEN THE PARTIES HERETO AS FOLLOWS:

1. Unless there be something in the subject or context inconsistent therewith, the following expressions shall have the meaning hereinafter mentioned that is to say:

- a) "The Company" means M/s..... Company Ltd.
- b) "The Trustees" means Company Ltd., incorporated under the Companies Act, 1956/ Companies Act, 2013/ Bank constituted/ incorporated under theAct, and having its registered/ head Office at
- c) "Deposits" means a deposit accepted by the Company for the time being outstanding and entitled to the benefits of these presents.
- d) "Depositors" means any person who made a deposit with the housing finance company or an heir legal representative, administrator or assignee of the depositor as defined in these directions.
- e) "Charged Securities" means (i) the securities purchased by the Company by investing the amount specified by the Reserve Bank of India (in approved securities and/ or in account in demat securities deposited with M/s, the Depository and in physical form) in terms of and in accordance with sub-section (1) of Section 29B of the National Housing Bank, Act 1987 or by notifications issued by the Reserve Bank of India thereunder from time to time and on (ii) the deposits made and the bonds issued by the National Housing Bank subscribed by the Company in terms of and in accordance with sub-sections (1) and (2) of Section 29B of the National Housing Bank Act, 1987 or by notifications issued by the Reserve Bank of India thereunder from time to time.
- f) "Act" means the Companies Act, 1956 or the Companies Act, 2013 and any modification or re-enactment thereof.

- g) "Specified bankers" means the banks in which the Company keeps the charged Securities and any part thereof, an intimation to which will be given to the Trustees and the National Housing Bank.

The words denoting the singular include the plural and vice-versa, unless the contrary appears from the context.

2. The deposits entitled to the benefit of these presents shall consist of total amount already deposited by the Depositors outstanding with the Company and to be deposited in future to rank *pari passu* without preference or priority by reason of the date of deposits or otherwise and secured by the charge hereby created on securities.

3. The Company hereby covenants with the Trustees that the Company on the maturity of the deposits (the maturity of these deposits will take place after the completion of the maturity period of the respective deposits) or such earlier days as amounts shall become payable, will pay the depositors the amount of deposits including interest thereon as and when it becomes due and payable.

4. All payments due by the Company in respect of the deposits whether of interest or principal shall be made by cheque/ warrant/ DD/ pay order by the Company and the Company shall make at its own expenses all arrangements for the smooth payment of the principal as well as the interest amount on the said deposits.

5. In consideration of the deposits outstanding on the date of this Trust Deed and the deposits to be collected in future, the Company hereby create charge in favour of the Trustees on all (a) the securities purchased by it by investing the amount specified by the Reserve Bank of India in terms of and in accordance with sub-section (1) of Section 29B of the National Housing Bank, Act 1987 or by notifications issued by the Reserve Bank of India thereunder from time to time and on (b) the deposits made or bonds subscribed by it by depositing the amount or subscribing to the bonds by a sum specified by the Reserve Bank of India in terms of and in accordance with sub-sections (2) of Section 29B of the National Housing Bank Act, 1987 or by notifications issued by the Reserve Bank of India thereunder from time to time amounting to ₹..... (Rupees only) existing as well as the securities to be purchased by the Company in future under the provisions of section 29B of the National Housing Bank Act, 1987 for the benefit of depositors for the amounts

due and all other charges, expenses and other dues, the payment of which has been secured by a charge on the Securities under these presents and the charge as created has been as the floating charge. The Trustees may at any time, by notice in writing to the Company, convert the said floating charge into a fixed charge and get it registered as legal charge in case the Trustees are of the opinion that the said Securities are in danger of being seized or sold under any sort of distress or execution levelled or threatened or in any other case.

6. The Company hereby undertakes that after the execution of these presents, it shall register the charge hereby created, with the Registrar of Companies under section 125 of the Companies Act, 1956 or the corresponding provision of Companies Act, 2013 and furnish the information of the registration of the charge to the Trustees and the National Housing Bank. The Company shall also register the Trustee's lien on the Securities with the concerned bank/ depository or any other authority and will advise the Trustees and National Housing Bank about the same.

7. The Company shall hold all the charged Securities until the security hereby constituted shall become enforceable under the terms of these presents in which case the Trustees may in their discretion as next hereinafter mentioned or shall upon the request in writing of the 90% depositors by value take possession of the charged securities or any of them and may in the like discretion and shall sell, call in, collect and convert into money the same or any part thereof with full power to sell any of the said securities either together or in parcels, and either for a lump sum or for a sum payable by instalments or for a sum on account and a mortgage or charge for the balance and with full power sale to make any special or other stipulations as to title or evidence or commencement of the title, or otherwise, which the Trustees shall deem proper and with full powers to modify or rescind or vary any contract for sale of the said securities or any part thereof and to re-sell the same without being responsible for any loss which may be occasioned thereby and with full power to compromise and effect compositions and for the purposes aforesaid or any of them to execute and do all such assurances and things as they think fit. If however, any of the charged securities has matured and become due and payable during the continuance of these presents, the Company shall be entitled to receive and appropriate the payments of such charged security subject to the Company making investment of

and/ or depositing the amount of the shortfall in liquid assets arising out of redemption of such a charged security, if any, forthwith and shall always maintain liquid assets as prescribed under Section 29(B) of the National Housing Bank Act, 1987 or notifications that may be issued by the Reserve Bank of India from time to time.

8. The amounts due to the depositors under this indenture shall become immediately payable and the security hereby constituted shall become enforceable within the meaning of these presents in each and any of the following events:

- a) If the Company makes default in ensuring the full cover for public deposits as stipulated in Chapter VII of these directions.
- b) If the Company without the consent of the depositors ceases to carry on its business or indicates its intentions to do so.
- c) If an order has been passed by the Court of competent jurisdiction or a special resolution has been passed by the members of the Company for winding up of the Company.
- d) If the Company makes defaults in complying with the orders passed by Company Law Board or any other authority constituted under the Companies Act, 1956 or the Companies Act, 2013 directing the Company to pay the amount to the depositors.
- e) If in the opinion of the Trustees, the security of the depositors is in jeopardy.

9. As soon as the amount shall become payable and the security enforceable under the preceding clause 8 (and unless the time for payment and the security to be enforced has been expressly extended by the depositors by a resolution passed with simple majority), the Trustees shall forthwith take steps to realize the charged securities and distribute the amount to the depositors on pro rata basis.

10. Until the happening of any of the events mentioned in clauses No. 8 & 9 of this Indenture, the Trustees shall not in any manner interfere with the management of affairs of the said business except to the extent he may consider necessary for the preservation of the charged securities or any part thereof or ensuring the full cover for deposits as indicated in Clause 8 (a) of these presents.

11. The Trustees shall apply the proceeds of such sale or other mode of realization in the following manner, that is to say, that the Trustees shall pay:

- a) In the first place all costs, charges and expenses in or about such sale or the performance or execution of trust or otherwise in relation to these presents or otherwise in respect of the security, including the remuneration of the trustee, if any.
- b) Secondly, the amount then due and owing to the depositors.
- c) And lastly, the surplus, if any, to the Company or its assignee.

Provided that if the said money shall be insufficient to pay all such amounts in full, then the said amounts shall be paid rateably and without preference or priority among all depositors according to the amount due in respect of the deposits held by them.

12. When all the amount secured by these presents been paid and satisfied, the Trustees shall forthwith upon the request and at the cost of the Company and on being paid all the costs, charges and expenses properly incurred by the said Trustees in relation to the security, re-convey, reassign, release and surrender the charged securities or so much of the same as shall not have been sold or disposed of to the Company or its assigns.

13. The Company hereby covenants with the Trustees:

- a) That the moneys secured by this deed shall be free of encumbrances at all time.
- b) That the Company shall keep the said charged securities and any part thereof with the specified bankers.
- c) That the Trustees will have a right to verify the charged securities at any time and the Company will give its full co-operation to the Trustees in this regard.
- d) The Company shall furnish the details of Statutory Liquid Assets to the Trustees.

14. The Company shall pay to the Trustees all legal, travelling and other costs, charges and expenses incurred by them in connection with execution of trust of these presents including costs, charges and expenses of and incidental to the approval and execution of these presents and all other documents affecting the security herein and will indemnify them against all actions, proceedings, costs, charges, expenses, claims and demands whatsoever which may arise or be brought or made against or incurred by him in respect of any matter or thing done or permitted to be done without their wilful default in respect of or in relation to the charged securities.

15. The Trustees of the depositors will execute and exercise all or any of the trusts power, authorities and discretion so vested in them by these presents in a judicious and fair

manner and will not be held responsible except for the breach of trust knowingly and intentionally committed by them.

16. In the event of winding up of the Trustees, another Trustee will be appointed having all the powers, authorities as stated under these presents and such appointment will be made by the Board of Directors of the Company.

17. The Trustees may by agreement with the directors of the Company modify the terms of this deed in any manner that may be necessary to meet any requirement or contingency, provided that the Trustees are satisfied that such modifications are in the interest of the depositors.

18. The Company hereby covenants with the Trustees that Company will at all times during the continuance of the security carry on and conduct its business in proper and efficient manner with due diligence and efficiency and will take all possible steps to keep the charged securities intact and will keep proper books of account as required under the Act and give all information to the said Trustees in relation to discharge of his duties under these presents.

19. The Company hereby further covenants with the Trustees that the Company shall duly perform and observe the obligations, hereby imposed upon it by this Trust.

IN WITNESS WHEREOF THE COMPANY has caused its common seal to be affixed to these presents and the Trustees have hereto set their hands the day and year above written.

Witnesses

Common Seal of the Company affixed in the presence of

(Director)

(Director)

(Trustee)

(Trustee)

[Note: Till the time Reserve Bank of India issues fresh directions on Liquid Assets, directions/ instructions issued via Gazette Notification [No.NHB.HFC.LA-2/MD&CEO/2019](#) No. 183 dated June 03, 2019 by the National Housing Bank will continue to apply]

Liquid Assets (Housing Finance Companies) Trustees Guidelines

1. These Guidelines shall be called the Reserve Bank of India Guidelines for Trustees of depositors of the deposit taking housing finance companies (HFC).
2. No company/ bank shall be entitled to act as a Trustee of depositors unless it is a scheduled commercial bank or limited company engaged in trust business with minimum capital of ₹50 lakh and who are independent and have no relationship with the company, its principal shareholders or directors of the company.
3. The duties of every trustee of depositors will be
 - 3.1. To execute the Trust Deed with the company for the protection of interest of the depositors.
 - 3.2. To do the duties of the trustees as enshrined in the Trust Deed executed with the company.
 - 3.3. To take possession of the property charged in accordance with the provisions of the Trust Deed.
 - 3.4. Enforce security in the interest of depositors.
 - 3.5. To do such acts or as are necessary in the event the security becomes enforceable.
 - 3.6. To carry out such acts as are necessary for the protection of interest of the depositors.
 - 3.7. Ascertain and satisfy himself that the
 - 3.7.1. The interest due on the deposits had been paid by the company on or before the due dates.
 - 3.7.2. The deposit holders had been paid the monies due to them on the date of maturity of the deposit.
 - 3.7.3. Exercise due diligence to ensure compliance by the Company of the provisions of the Trust Deed.
 - 3.7.4. To take appropriate measures for protecting the interest of the depositors, as soon as any breach of the Trust Deed comes to the notice.

- 3.7.5.** To inform the NHB as soon as any breach of the Trust Deed comes to his notice.
- 3.7.6.** To communicate with the NHB, on half yearly basis the compliance of Trust Deed by the company, defaults if any in payment of interest to the depositors and action taken.
- 4.** The trustees for the depositors shall call or cause to be called by the company a meeting of all depositors.
- 4.1.** On a requisition in writing signed by at least 51% of the depositors in value for the time being outstanding.
- 4.2.** The happening of any event which constitute a default for which in the opinion of the trustees the security of the depositors is in jeopardy.
- A report of such meeting may be forwarded to the NHB.
- 5.** The trustee may inspect books of account, records, register of the company and the trust property to the extent necessary for discharging his obligations with prior intimation to the NHB.
- 6.** The trustees for depositors shall not make untrue statement or suppress any material in any documents, reports, papers or information furnished to the Reserve Bank of India/ National Housing Bank.
- 7.** The trustee for depositors shall ensure that the NHB is promptly informed about any action, legal proceedings etc. initiated against him in respect of any material breach or non-compliance by it, of any law, rules directions of the Reserve Bank of India/ National Housing Bank or of any other regulatory authority.
- 8.** The trustee for depositors shall not delegate any of his functions to any employee or agent. However, the trustee may employ employees, agents, Advocates or any other professional for any routine or clerical functions. In case the trustee employs any employee, he will be responsible for his/ their acts or omissions in respect of the conduct of his/ their business.

Annex VI
Information about the Proposed Promoters/ Directors/ Shareholders of the Company

Annex-VI (a)		
INFORMATION ABOUT THE PROPOSED PROMOTERS/ DIRECTORS/ SHAREHOLDERS OF THE COMPANY		
Sr. no.	Particulars Required	Response
1.	Name	
2.	Designation	Chairman/ Managing Director/ Director/ Chief Executive Officer
3.	Nationality	
4.	Age (to be substantiated with date of birth)	
5.	Business Address	
6.	Residential Address	
7.	E-mail address/ Telephone number	
8.	PAN under Income Tax Act	
9.	Director Identification Number (DIN)	
10.	Social security number/ Passport No.*	
11.	Educational/ professional qualifications	
12.	Professional Achievement relevant to the job	
13.	Line of business or vocation	
14.	Any other information relevant to the company	
15.	Name/s of other companies in which the person has held the post of Chairman/ Managing Director/ Director/ Chief Executive Officer	
16.	Name/s of the regulators (RBI, SEBI, IRDA, PFRDA, NHB or any other foreign regulator) of the entities mentioned in which the persons hold directorships	
17.	Name/s of the HFCs, if any, with which the person is associated as Promoter, Managing Director, Chairman or Director, which has been prohibited from accepting deposits/ prosecuted by NHB/RBI	
18.	Detail of prosecution, if any, pending or commenced or resulting in conviction in the past against the person and/or against any of the entities he is associated with for violation of economic laws and regulations	
19.	Cases, if any, where the person or relatives of the person or the companies in which the person is associated with, are in default or have been in default in the last 5 years in respect of credit facilities obtained from any entity or bank	
20.	If the person is a member of a professional association/ body, details of disciplinary action, if any, pending or commenced or resulting in conviction in the past against him/ her or whether he/ she has been banned from entry of any professional occupation at any time	

21.	Whether the person attracts any of the disqualification envisaged under Section 164 of the Companies Act, 2013?	
22.	Has the person or any of the companies, he/ she is associated with, been subject to any investigation at the instance of the Government Department or Agency?	
23.	Has the person at any time been found guilty of violations of rules/ regulations/ legislative requirements by Customs/ Excise/ Income Tax/ Foreign Exchange/ Other Revenue Authorities? If so, give particulars	
24.	Experience in the business of HFC (number of years)	
25.	Equity shareholding in the company	
(i)	No. of shares	
(ii)	Face value	
(iii)	Percentage to total paid-up equity share capital of the company	
26.	Name/s of the companies, firms and proprietary concerns in which the person holds substantial interest	
27.	Names of the principal bankers to the concerns at 26 above	
28.	Names of the overseas bankers *	
29.	Whether number of directorships held by the person exceeds the limits prescribed under Section 165 of the Companies Act, 2013	
		Signature:
		Name:
		Designation:
		Company Seal:
<p>* For foreign promoters/ directors/ shareholders Note: Separate form shall be submitted in respect of each of the proposed promoters/ directors/ shareholders</p>		

INFORMATION ABOUT CORPORATE PROMOTER

Sr. no.	Particulars Required	Response
1.	Name	
2.	Business Address	
3.	E-mail address/ Telephone number	
4.	PAN under Income Tax Act	
5.	Name and contact details of compliance officer	
6.	Line of business	
7.	The details of their major shareholders (more than 10%) and line of activity, if corporates	
8.	Names of the principal bankers/ overseas bankers*	
9.	Name/s of the regulators (RBI, SEBI, IRDA, PFRDA, NHB or any other foreign regulator)	
10.	Name/s of company/ies in the Group as defined in the Prudential Norms Directions	
11.	Name/s of the company/ies in the Group that are HFCs	
12.	Specify the names of companies in the Group which have been prohibited from accepting deposits/ prosecuted by NHB/RBI?	
13.	Detail of prosecution, if any, pending or commenced or resulting in conviction in the past against the corporate for violation of economic laws and regulations	
14.	Cases, if any, where the corporate is in default or have been in default in the last 5 years in respect of credit facilities obtained from any entity or bank	
15.	Whether the corporate has been subject to any investigation at the instance of the Government Department or Agency?	
16.	Has the Corporate at any time been found guilty of violations of rules/ regulations/ legislative requirements by Customs/ Excise/ Income Tax/ Foreign Exchange/ Other Revenue Authorities? If so, give particulars	
17.	Has the promoter corporate/ majority shareholder of the promoter corporate, ever applied to NHB/RBI for CoR which has been rejected?	
		Signature:
	Date:	Name:
	Place:	Designation
		Company Seal:

* For foreign corporate

Annex VII

'Fit and Proper' Criteria for Directors of HFCs

The importance of due diligence of Directors to ascertain suitability for the post by way of qualifications, technical expertise, track record, integrity, etc. needs no emphasis for any financial institution. While the Bank carries out due diligence on Directors before issuing Certificate of Registration to HFC, it is necessary that HFCs put in place an internal supervisory process on a continuing basis. Further, in order to streamline and bring in uniformity in the process of due diligence, while appointing Directors, HFCs are advised to ensure that the procedures mentioned below are followed and minimum criteria is fulfilled by the persons before they are appointed on the Boards:

1. HFCs should undertake a process of due diligence to determine the suitability of the person for appointment/ continuing to hold appointment as a Director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. HFCs should obtain necessary information and declaration from the proposed/ existing Directors for the purpose in the format given at [Annex VIII](#).
2. The process of due diligence should be undertaken by the HFCs at the time of appointment/ renewal of appointment.
3. The Board of the HFCs should constitute Nomination and Remuneration Committee to scrutinize the declarations.
4. Based on the information provided in the signed declaration, Nomination and Remuneration Committee should decide on the acceptance or otherwise of the Directors, where considered necessary.
5. HFCs should obtain annually as on 31st March a simple declaration from the Directors that the information already provided has not undergone change and where there is any change, requisite details are furnished by them forthwith.
6. The Board of HFC must ensure in public interest that the nominated/ elected Directors execute the Deeds of Covenants in the format given in [Annex IX](#).

Annex VIII
Declaration and Undertaking by Director

Name of HFC: _____

Declaration and Undertaking by Director (with enclosures as appropriate as on _____)

I. Personal details of Director	
a. Full Name	
b. Date of Birth	
c. Education Qualifications	
d. Relevant Background and Experience	
e. Permanent Address	
f. Present Address	
g. E-mail Address/ Telephone Number	
h. Director Identification Number	
i. Permanent Account Number under the Income Tax Act and name and address of Income Tax Circle	
j. Relevant knowledge and experience	
k. Any other information relevant to Directorship of the HFC	
II. Relevant Relationship of Director	
a. List of relatives, if any, who are connected with the HFC (Refer Section 6 and Schedule 1A of the Companies Act, 1956 and corresponding provisions of Companies Act, 2013).	
b. List of entities, if any, in which he/she is considered as being interested (Refer Section 299(3)(a) and Section 300 of the Companies Act, 1956 and corresponding provisions of Companies Act, 2013).	
c. List of entities in which he/she is considered as holding substantial interest as defined in Master Direction Non-Banking Financial Company – Housing Finance Company (Reserve Bank of India) Directions, 2021.	
d. Name of HFC in which he/she is or has been a member of the Board (giving details of period during which such office was held).	
e. Fund and non-fund facilities, if any, presently availed of by him/her and/or by entities listed in II (b) and (c) above from the HFC.	

f. Cases, if any, where the director or entities listed in II (b) and (c) above are in default or have been in default in the past in respect of credit facilities obtained from the HFC or any other HFC/ bank.	
III. Records of professional achievements	
a. Relevant professional achievements	
IV. Proceedings, if any, against the Director	
a. If the director is a member of a professional association/body, details of disciplinary action, if any, pending or commenced or resulting in conviction in the past against him/her or whether he/she has been banned from entry into any profession/ occupation at any time.	
b. Details of prosecution, if any, pending or commenced or resulting in conviction in the past against the director and/or against any of the entities listed in II (b) and (c) above for violation of economic laws and regulations.	
c. Details of criminal prosecution, if any, pending or commenced or resulting in conviction in the last five years against the director.	
d. Whether the director attracts any of the disqualifications envisaged under Section 274 of the Companies Act 1956 and corresponding provisions of Companies Act, 2013?	
e. Has the director or any of the entities at II (b) and (c) above been subject to any investigation at the instance of Government department or agency?	
f. Has the director at any time been found guilty of violation of rules/ regulations/ legislative requirements by customs/ excise/ income tax/ foreign exchange / other revenue authorities? If so, give particulars.	
g. Whether the director has at any time come to the adverse notice of a regulator such as SEBI, IRDA, MCA, RBI, etc.	
(Though it shall not be necessary for a candidate to mention in the column about orders and findings made by the regulators which have been later on reversed/set aside in toto, it would be necessary to make a mention of the same, in case the reversal/ setting aside is on technical	

<p>reasons like limitation or lack of jurisdiction, etc. and not on merit. If the order of the regulator is temporarily stayed and the appellate/ court proceedings are pending, the same also should be mentioned.)</p>	
<p>V. Any other explanation/ information in regard to items I to III and other information considered relevant for judging fit and proper</p>	

Undertaking

I confirm that the above information is to the best of my knowledge and belief true and complete. I undertake to keep the HFC fully informed, as soon as possible, of all events which take place subsequent to my appointment which are relevant to the information provided above.

I also undertake to execute the Deed of Covenant required to be executed by all the directors of the HFC.

Place:

Signature

Date:

VI. Remarks of Chairman of Nomination and Remuneration Committee/ Board of Directors of HFC

Place:

Signature

Date:

Annex IX
Form of Deed of Covenants with a Director

THIS DEED OF COVENANTS is made on this day of Two Thousand.....**BETWEEN** having its registered office at (hereinafter called the “HFC”) of the one part and Mr./Ms. of (hereinafter called the “Director”) of the other part.

WHEREAS

A. The Director has been appointed as a director on the Board of Directors of the HFC (hereinafter called "the Board") and is required as a term of his/ her appointment to enter into a Deed of Covenants with the HFC.

B. The Director has agreed to enter into this Deed of Covenants, which has been approved by the Board, pursuant to his said terms of appointment.

NOW IT IS HEREBY AGREED AND THIS DEED OF COVENANTS WITNESSETH AS FOLLOWS:

1. The Director acknowledges that his / her appointment as director on the Board of the HFC is subject to applicable laws and regulations including the Memorandum and Articles of Association of the HFC and the provisions of this Deed of Covenants.

2. The Director covenants with the HFC that:

i) The Director shall disclose to the Board the nature of his/ her interest, direct or indirect, if he/ she has any interest in or is concerned with a contract or arrangement or any proposed contract or arrangement entered into or to be entered into between the HFC and any other person, immediately upon becoming aware of the same or at meeting of the Board at which the question of entering into such contract or arrangement is taken into consideration or if the Director was not at the date of that meeting concerned or interested in such proposed contract or arrangement, then at the first meeting of the Board held after he/ she becomes so concerned or interested and in case of any other contract or arrangement, the required disclosure shall be made at the first meeting of the Board held after the Director becomes concerned or interested in the contract or arrangement.

- ii) The Director shall disclose by general notice to the Board his/ her other directorships, his/ her memberships of bodies corporate, his/ her interest in other entities and his/ her interest as a partner or proprietor of firms and shall keep the Board apprised of all changes therein.
- iii) The Director shall provide to the HFC a list of his/ her relatives as defined in the Companies Act, 1956 or or the Companies Act, 2013 and to the extent the Director is aware of directorships and interests of such relatives in other bodies' corporate, firms and other entities.
- iv) The Director shall in carrying on his/ her duties as director of the HFC:
 - a) use such degree of skill as may be reasonable to expect from a person with his/ her knowledge or experience;
 - b) in the performance of his/ her duties take such care as he/ she might be reasonably expected to take on his/ her own behalf and exercise any power vested in him / her in good faith and in the interests of the HFC;
 - c) shall keep himself/ herself informed about the business, activities and financial status of the HFC to the extent disclosed to him/ her;
 - d) attend meetings of the Board and Committees thereof (collectively for the sake of brevity hereinafter referred to as "Board") with fair regularity and conscientiously fulfil his/ her obligations as director of the HFC;
 - e) shall not seek to influence any decision of the Board for any consideration other than in the interests of the HFC;
 - f) shall bring independent judgment to bear on all matters affecting the HFC brought before the Board including but not limited to statutory compliances, performance reviews, compliances with internal control systems and procedures, key executive appointments and standards of conduct;
 - g) shall in exercise of his/ her judgement in matters brought before the Board or entrusted to him/ her by the Board be free from any business or other relationship which could materially interfere with the exercise of his/ her independent judgement; and
 - h) shall express his/ her views and opinions at Board meetings without any fear or favour and without any influence on exercise of his/ her independent judgement;

v) The director shall have:

- a) fiduciary duty to act in good faith and in the interests of the HFC and not for any collateral purpose;
- b) duty to act only within the powers as laid down by the HFC's Memorandum and Articles of Association and by applicable laws and regulations; and
- c) duty to acquire proper understanding of the business of the HFC.

vi) The Director shall:

- a) not evade responsibility in regard to matters entrusted to him/ her by the Board;
- b) not interfere in the performance of their duties by the whole-time Directors and other officers of the HFC and wherever the Director has reasons to believe otherwise, he / she shall forthwith disclose his/ her concerns to the Board; and
- c) not make improper use of information disclosed to him/ her as a member of the Board for his/ her or someone else's advantage or benefit and shall use the information disclosed to him/ her by the HFC in his/ her capacity as director of the HFC only for the purposes of performance of his/ her duties as a director and not for any other purpose.
- d) make declaration to the effect that:
 - i. he/ she has not been associated with any unincorporated body that is accepting deposits;
 - ii. he/ she has not been associated with any company, the application for Certificate of Registration (CoR) of which has been rejected by the National Housing Bank/ Reserve Bank of India;
 - iii. there is no criminal case, including for offence under section 138 of the Negotiable Instruments Act, against him/ her.

3. The HFC covenants with the Director that:

- i) the HFC shall apprise the Director about:
 - a) Board procedures including identification of legal and other duties of the Director and required compliances with statutory obligations;
 - b) control systems and procedures;
 - c) voting rights at Board meetings including matters in which the Director should not participate because of his/ her interest, direct or indirect therein;

- d) qualification requirements and provide copies of Memorandum and Articles of Association;
 - e) corporate policies and procedures;
 - f) insider dealing restrictions;
 - g) constitution of, delegation of authority to and terms of reference of various committees constituted by the Board;
 - h) appointments of Senior Executives and their authority;
 - i) remuneration policy;
 - j) deliberations of committees of the Board, and
 - k) communicate any changes in policies, procedures, control systems, applicable regulations including Memorandum and Articles of Association of the HFC, delegation of authority, Senior Executives, etc. and appoint the compliance officer who shall be responsible for all statutory and legal compliance.
- ii) the HFC shall disclose and provide to the Board including the Director all information which is reasonably required for them to carry out their functions and duties as a director of the HFC and to take informed decisions in respect of matters brought before the Board for its consideration or entrusted to the Director by the Board or any committee thereof;
- iii) the disclosures to be made by the HFC to the Directors shall include but not be limited to the following:
- a) all relevant information for taking informed decisions in respect of matters brought before the Board;
 - b) HFC's strategic and business plans and forecasts;
 - c) organisational structure of the HFC and delegation of authority;
 - d) corporate and management controls and systems including procedures;
 - e) economic features and marketing environment;
 - f) information and updates as appropriate on HFC's products;
 - g) information and updates on major expenditure;
 - h) periodic reviews of performance of the HFC; and
 - i) report periodically about implementation of strategic initiatives and plans.

iv) the HFC shall communicate outcome of Board deliberations to Directors and concerned personnel and prepare and circulate minutes of the meeting of Board to Directors in a timely manner and to the extent possible within two business days of the date of conclusion of the Board meeting; and

Note: It is clarified that circulation of minutes within two business days is not mandatory and provisions in the Companies Act, 2013 in this regard shall apply.

v) advise the Director about the levels of authority delegated in matters placed before the Board.

4. The HFC shall provide to the Director periodic reports on the functioning of internal control system including effectiveness thereof.

5. The HFC shall appoint a compliance officer who shall be a senior executive reporting to the Board and be responsible for setting forth policies and procedures and shall monitor adherence to the applicable laws and regulations and policies and procedures including but not limited to directions of the Reserve Bank and National Housing Bank and other concerned statutory and governmental authorities.

6. The Director shall not assign, transfer, sublet or encumber his/ her office and his/ her rights and obligations as director of the HFC to any third party provided that nothing herein contained shall be construed to prohibit delegation of any authority, power, function or delegation by the Board or any committee thereof subject to applicable laws and regulations including Memorandum and Articles of Association of the HFC.

7. The failure on the part of either party hereto to perform, discharge, observe or comply with any obligation or duty shall not be deemed to be a waiver thereof nor shall it operate as a bar to the performance, observance, discharge or compliance thereof at any time or times thereafter.

8. Any and all amendments and/or supplements and/or alterations to this Deed of Covenants shall be valid and effectual only if in writing and signed by the Director and the duly authorised representative of the HFC.

9. This Deed of Covenants has been executed in duplicate and both the copies shall be deemed to be originals.

**IN WITNESS WHEREOF THE PARTIES HAVE DULY EXECUTED THIS AGREEMENT
ON THE DAY, MONTH AND YEAR FIRST ABOVE WRITTEN.**

For the HFC

Director

By

Name:

Name:

Title:

In the presence of:

1.....

2.

Annex X

Model Code of Conduct for Direct Selling Agents (DSAs)/ Direct Marketing Agents (DMAs) of Housing Finance Companies⁴⁶

1. Preamble

Model Code of Conduct for the Direct Selling Agents (DSAs)/ Direct Marketing Agents (DMAs) is a code of conduct for adoption by housing finance companies (HFCs) in respect of DSAs/ DMAs operating as their Agents. The Code is a set of guidelines designed to ensure that DSAs/ DMAs of HFCs act and conduct in conformity with the laid down policies and procedures as set in the Code.

2. Applicability

Upon adoption and inclusion as part of agreement between HFCs and the DSA/ DMA, this Code will apply to person/ legal entity involved in marketing and distribution of any loan or other financial products or services of HFCs. The DSA/ DMA or/and its employees/ representatives must agree to abide by this Code prior to undertaking any direct marketing operation and distribution on behalf of the HFC. Any employee/ representative of DSA/ DMA found to be violating this Code may be blacklisted and such action taken be reported to the HFC from time to time by the DSA/ DMA. Failure to comply with this requirement may result in permanent termination of business of DSA/ DMA with HFCs and may even lead to permanent blacklisting. A declaration-cum-undertaking to be given by DSA/ DMA to HFC and be obtained from its employees/ representatives by the DSAs/ DMAs before assigning them duties is annexed to this Code as [Appendix X \(a\)](#).

3. Tele-calling a Prospect (a prospective customer)

3.1. Unsolicited Commercial Communications - National Do Not Call Registry (NCND)-
HFC shall –

3.1.1. not engage Telemarketers (DSAs/ DMAs) who do not have any valid registration certificate from Department of Telecommunication (DoT), Government of India, as telemarketers; HFCs shall engage only those

⁴⁶ This Code of Conduct shall be adopted by HFCs for the compliance of Paragraph 5.7.2 of the Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services.

telemarketers who are registered in terms of the guidelines issued by TRAI, from time to time, for any kind of engagement with customers;

3.1.2. furnish the list of Telemarketers (DSAs/ DMAs) engaged by them along with the registered telephone numbers being used by them for making telemarketing calls to TRAI;

3.1.3. ensure that all agents presently engaged by them register themselves with DoT as telemarketers.

3.2. A prospect is to be contacted for sourcing an HFC's product/ service or HFC related product/ service only under the following circumstances:

a. When a prospect has expressed desire to acquire any loan or other financial product or services through the HFCs' internet site/ digital platforms including mobile applications/ call centre/ branch or through the Relationship Manager at the HFC or has been referred to by another prospect/ customer or is an existing customer of the HFC who has given explicit consent in writing/ digitally for accepting calls on other products/ services of the HFC.

b. When the prospect's name/ telephone number/ address is available and obtained after taking his/ her explicit consent in writing/ digitally on a separate document.

3.3. DSA/ DMA or/and its employees/ representatives should not call a person whose name/ number is flagged in any "Do Not Disturb" list.

4. When you may contact a prospect on telephone

4.1. DSA/ DMAs must introduce themselves and before calling must share their contact details through message or any other written mode including his/ her name, contact number, DMA/ DSA they are employed with and the HFC they are representing.

4.2. Telephonic contact must normally be between 09:30 hours and 19:00 hours. However, it may be ensured that a prospect is contacted only when the call is not expected to inconvenience him/ her;

4.3. Calls earlier or later than the prescribed time period may be placed only when the prospect has expressly authorized the DSA/ DMA or/and its employees/ representatives to do so either in writing or orally;

4.4. Residence/ Business/ Office address visit must normally be limited between 09:30 hours and 19:00 hours. Visit earlier or later than the prescribed time period may be made only when prospect has expressly authorized DSA or/and its employees/ representatives to do so either in writing or orally.

5. Respect prospect's privacy

DSA/ DMA or/and its employees/ representatives should respect a prospect's privacy and his/ her interest may normally be discussed only with the prospect and with any other individual/ family member such as prospect's accountant/ secretary/ spouse only when authorized to do so by the prospect.

6. Leaving messages and contacting persons other than the prospect

Calls must first be placed to the prospect. If the prospect is not available, a message may be left for him/ her. The aim of the message should be to get the prospect to return the call or to check for a convenient time to call again. Ordinarily, such messages may be restricted to:

"Please leave a message that XXXXXX (name of officer) representing YYYYYY (name of the HFC) called and requested to call back at ZZZZZZ (phone number)". As a general rule, the message must indicate that the purpose of the call is regarding selling or distributing a product of an HFC.

7. No misleading statements / misrepresentations permitted

DSA/ DMA or/and its employees/ representatives should not:

- a. Mislead the prospect on any product/ service offered by an HFC;
- b. Mislead the prospect about their business or organization's name or falsely represent themselves as HFC's employee;
- c. Make any false/ unauthorized commitment on behalf of an HFC for any facility/ loan/ service.

8. Telemarketing Etiquettes

8.1. Pre Call

- a. No calls prior to 09:30 hours or post 19:00 hours unless specifically requested;
- b. No serial calling;
- c. No calling on lists unless list is cleared by the DSA/DMA leader.

8.2. During Call

- a. Identify yourself, your company and your principal;
- b. Request permission to proceed;
- c. If denied permission, apologize and politely disconnect;
- d. State reason for your call;
- e. Always offer to call back on landline, if call is made to a cell number;
- f. Never interrupt or argue;
- g. To the extent possible, talk in the language which is most comfortable to the prospect/ customer;
- h. Keep the conversation limited to business matters;
- i. Check for understanding of “Most Important Terms and Conditions” by the prospect/ customer if he plans to buy the product;
- j. Reconfirm next call or next visit details;
- k. Provide your telephone no, your supervisor’s name or the HFC’s officer contact details if asked for by the prospect/ customer;
- l. Thank the prospect/customer for his/ her time.

8.3. Post Call

- a. Prospects/ Customers who have expressed their lack of interest for the offering should not be called for the next 3 months with the same offer;
- b. Provide feedback to the HFC on prospects/ customers who have expressed their desire to be flagged “Do Not Disturb”;
- c. Never call or entertain calls from customers regarding products already sold;
- d. Advise them to contact the Customer Service Staff of HFC.

9. Gifts or Bribes

DSA/ DMA or/and its employees/ representatives will

- a. not accept gifts or bribes of any kind from prospects/ customers. Further, if he/ she is offered a bribe or payment of any kind by the prospect/ customer, it must be reported to his/ her management.
- b. not offer any gifts/ gratitude in cash or in kind to the prospect/ customer to solicit business.

10. Precautions to be taken on visits/ contacts

DSA/ DMA or/and its employees/ representatives should:

- a. respect personal space, maintain adequate distance from the prospect/ customer;
- b. ensure that prospect/ customer is not visited within a period of 3 months of expression of lack of interest for the offering by him/ her.
- c. not enter the prospect's/ customer's residence/ office against his/ her wishes;
- d. prospect's/ customer's residence/ business is visited by not more than one employee/ representative of DSA/ DMA and one supervisor, if required;
- e. respect the prospect's privacy;
- f. end the visit with a request for the prospect to call back, if the prospect/ customer is not present and only family members/ office persons are present at the time of the visit;
- g. provide his/ her telephone number, name of the supervisor or the concerned HFC officer's contact details, if asked for, by the prospect/ customer; and
- h. limit discussions to prospects of the business and maintain a professional distance.

11. Appearance and Dress Code

DSA/ DMA or/and its employees/ representatives must be in proper formal attire while meeting up with prospect/ customer.

12. Handling of letters and other communication

Any communication sent to the prospect shall only be in the mode and format approved by the HFC.

13. Qualifications for DSA/ DMA

While there is no specific qualification requirement for individuals, corporate entities depending upon the nature of the entity, shall ensure that the Partnership Deed, Memorandum of Association or any other document evidencing the constitution of the entity shall contain as one of its main objects soliciting or procuring DSA business.

14. Empanelment of DSA/ DMA

DSA/ DMA seeking of engagement/ empanelment with the HFC shall submit the application for empanelment in the illustrative format given at [Appendix X \(b\)](#).

15. Outsourcing Agreement

The terms and conditions governing the contract between the HFC and the service provider should be carefully defined in written agreements and vetted by HFC's legal counsel on their legal effect and enforceability. Every such agreement should address the risks and risk mitigation strategies. The agreement should be sufficiently flexible to allow the HFC to retain an appropriate level of control over the outsourcing and the right to intervene with appropriate measures to meet legal and regulatory obligations. The agreement should also bring out the nature of legal relationship between the parties – i.e. whether the agent, principal or otherwise. Some of the key provisions of the contract should be the following:

- 15.1.** The contract should clearly define what activities are going to be outsourced including appropriate service and performance standards;
- 15.2.** The HFC must ensure it has the ability to access all books, records and information relevant to the outsourced activity available with the service provider;
- 15.3.** The contract should provide for continuous monitoring and assessment by the HFC of the service provider so that any necessary corrective measure can be taken immediately;
- 15.4.** A termination clause and minimum period to execute a termination provision, if deemed necessary, should be included;
- 15.5.** Controls to ensure customer data confidentiality and service providers' liability in case of breach of security and leakage of confidential customer related information should be incorporated;
- 15.6.** There must be contingency plans to ensure business continuity;
- 15.7.** The contract should provide for the prohibition of further outsourcing by the service provider for all or part of an outsourced activity;
- 15.8.** It should provide the HFC with the right to conduct audits on the service provider whether by its internal or external auditors, or by agents appointed to act on its behalf and to obtain copies of any audit or review reports and findings made on the service provider in conjunction with the services performed for the HFC;
- 15.9.** Outsourcing agreements should include clauses to allow the National Housing Bank or persons authorised by it, to access the HFC's documents, records of

transactions, and other necessary information given to, stored or processed by the service provider, within a reasonable time.

15.10. Outsourcing agreement should also include a clause to recognise the right of the National Housing Bank, to cause an inspection to be made of a service provider of an HFC and its books and account by one or more of its officers or employees or other persons.

15.11. The outsourcing agreement should also provide that confidentiality of customer's information should be maintained even after the contract expires or gets terminated.

15.12. The outsourcing agreement should provide for the preservation of documents and data by the service provider in accordance with the legal/ regulatory obligation of the HFC in this regard.

16. Termination of Agreement

A termination clause and minimum period to execute a termination provision, should be included. The agreement shall automatically be terminated unless renewed by a fresh contract by the HFC immediately after the expiry of the period of agreement. No DSA/ DMA shall be allowed to do any fresh business on behalf of the HFC after termination of agreement until and unless renewed by a fresh agreement.

17. Training to DSA/ DMA or/and its employees/ representatives

Where DSA/ DMA is seeking of engagement/ empanelment with the HFC, it or/and its employees/ representative will have to go through two-day preliminary training and a day training every year which shall be organized by the HFC. HFC shall also maintain record of training provided by them

18. Maintenance of Database of DSAs/ DMAs

HFCs availing the services of DSA/ DMA shall maintain up-to-date database of DSAs/ DMAs engaged/ empaneled with them. HFC shall keep the inspection report of the inspection conducted in terms of the provisions of the agreement entered into with the DSA/ DMA, and action taken report (ATR) thereon.

19. General

- 19.1.** HFCs should, at least on an annual basis review the financial and operational conditions of the service provider to assess their ability to continue to meet their outsourcing obligations. Such due diligence reviews, which can be based on all available information about service provider, should highlight any deterioration or breach in performance standard confidentiality and security, and in business continuity preparedness.
- 19.2.** HFCs should have in place a management structure to monitor and control the outsourcing activities. It should ensure that outsourcing agreements with the service providers contain provisions to address their monitoring and control of outsource activities.
- 19.3.** Regular audits by either the internal auditors or external auditors of the HFC should assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the HFC's compliance with its risk management framework and the requirements of these guidelines.
- 19.4.** In the event of termination of the agreement for any reason, this should be publicized so as to ensure that the customers do not continue to deal with that service provider.
- 19.5.** HFCs should constitute a Grievance Redressal Machinery within the company and give wide publicity about it through electronic and print media. The name and contact number of the designated Grievance Redressal Officer of the HFC should be made known and widely publicized. The designated officer should ensure that genuine grievances of customers are redressed promptly without involving delay. It should be clearly indicated that HFC's Grievance Redressal Machinery will also deal with the issue relating to services provided by the outsourced agency.
- 19.6.** Generally, a time limit of one month may be given to the customers for preferring the complaints/grievances. The grievance redressal procedure of the HFC and the time frame fixed for responding to the complaints should be placed on the HFC's website.
- 19.7.** No payment to DSAs/ DMAs shall be made in cash. The fee, incentive etc. shall be made only by way of direct credit to their bank account.

- 19.8.** HFC may prescribe the operational area for DSA/ DMA within which they can work.
- 19.9.** The lead shall be shared by the DSA/ DMA in the illustrative format given at [Appendix X \(c\)](#).
- 19.10.** By virtue of contract/ agreement, the DSA/ DMA or/and its employees/ representatives may have access to personal and business information of HFCs and/or HFC's customer. DSA/ DMA shall ensure the preservation and protection of the security and confidentiality of the customer information or data which are in the custody or possession.
- 19.11.** DSA/ DMA should acknowledge that he/ she/ it has read the said Model Code of Conduct and has fully understood all the terms and conditions mentioned there in and declare that the DSA/ DMA shall agree to abide by the said Code of conduct in letter and spirit.
- 19.12.** The DSA/ DMA shall report the fraud committed by erring employees/ representatives periodically to HFCs and consolidated data/ information on the same shall be submitted by HFCs to NHB. The information shall include name of the person, address, name of the DSA associated with and nature of fraud. Such employees/ representatives shall be barred permanently for doing the business of DSA/ DMA in future with HFCs.

Declaration-Cum-Undertaking

Re: Code of Conduct

Dear Sir,

I am working in your company as a _____. My job profile, inter-alia, includes offering, explaining, sourcing, and assisting documentation of products and linked services to prospects of _____ (name of the HFC).

In the discharge of my duties, I am obligated to follow the Code of Conduct attached to this document.

I confirm that I have read and understood and agree to abide by the Code of Conduct. I further confirm that the trainer mentioned below has explained the contents of the Code of Conduct in full to me.

In case of any violation, non-adherence to the said Code, you shall be entitled to take such action against me as you may deem appropriate.

Signed on this _____ day of _____ 20 _____

Signature _____ Name _____ Agency _____

Signature of Trainer _____ Name _____ Company _____

APPLICATION FORM FOR EMPANELMENT OF DSA / DMA

To,

The Manager

[Name and address of the HFC],

Sir/Madam,

Sub: APPLICATION FOR EMPANELEMENT AS DIRECT SELLING AGENT (DSA)/
DIRECT MARKETING AGENT (DMA) WITH _____ (Name of the HFC)

I submit herewith my application for the empanelment as Direct Selling Agent (DSA)/
Direct Marketing Agent (DMA) for (Name of HFC). I have read the
terms and conditions relating to the service and I undertake that those are acceptable to
me.

1	Full name (in block letters)				
2	Father's/Husband's name				
3	Constitution (tick appropriate option)	Individual	Proprietorship	Partnership	Company
4	Date of birth/ incorporation (DD/MM/YYYY)				
5	Age		Years		Months
6	Address				
7	Mobile number				
8	Alternate contact number				
9	PAN card no				
10	Present occupation				
11	No. of years in employment				
12	Qualification				

13	Languages known	
14	Reference (name and contact number)	1.
		2.

I declare that the statements in this application and the documents submitted (as per list given below) are true, complete and correct to the best of my knowledge and belief.

I declare, that no criminal proceedings are pending against me. I further declare that I am not related to any existing employee of _____. I understand that in the event of any information/document being found untrue / incorrect at any stage, my application is liable to be rejected and if already empanelled, the empanelment is liable to be terminated.

Place:

Signature:

Date:

Name:

Documents to be submitted along with application:

- 1) Copy of PAN card;
- 2) Address proof (latest telephone/ mobile bill, electricity bill, gas bill, passport or ration card);
- 3) Two recent passport size photographs (in addition to one affixed on application form);
- 4) Latest IT return/ Form 16;
- 5) Bank statement for last 6 months;
- 6) Enrolment letter, if enrolled with other bank/FI for similar services;
- 7) In case of firm/ company: Registration certificate of firm & Partnership deed/ Articles of Association of the company and incorporation certificate.

(Name of Loan Product) – CUSTOMER INFORMATION

Name of the Applicant/s:

Mobile Number:

Email ID:

Address:

Select which is applicable: Looking for property
Property identified

Details of property, if identified:

Loan Amount:

Income Bracket (per annum):

Up to ₹5 lakh

Above ₹5 lakh to ₹10 lakh

Above ₹10 lakh

Income Based on: Income Tax Return

Other (specify the same)

DSA Code

Signature of DSA

Annex XI

Guidelines for engaging Recovery Agents by Housing Finance Companies⁴⁷

1. HFCs, as principal, are responsible for the action of their agents. Hence, they should ensure that their agents, engaged for recovery of their dues should strictly adhere to these guidelines and instruction including the fair practice code for HFCs, while engaging in the process of recovery of dues.

'Agents' for the purpose of these guidelines would include agencies engaged by the HFCs and the agents/ employees of the concerned agencies.

It is expected that the HFCs would, in the normal course, ensure that their own employees also adhere to these guidelines during the loan recovery process.

2. Engagement of Recovery Agents

HFCs should have a due diligence process in place for engagement of recovery agents, which should be structured to cover, among others, individuals involved in the recovery process. HFCs should also ensure that the agents engaged by them in the recovery process, carry out verification of the antecedents of their employees, which may include pre-employment police verification, as a matter of abundant caution and HFCs may decide the periodicity at which re-verification of antecedents should be resorted to.

3. Training of Recovery Agents

- 3.1. HFCs should ensure that, among others, the recovery agents are properly trained to handle with care and sensitivity, their responsibilities, in particular aspects like hours of calling, privacy of customer information etc.
- 3.2. HFCs should ensure that over a period of one year, all their recovery agents undergo the training as prescribed by Indian Institute of Banking and Finance (IIBF) and obtain the certificate from the institute. Further, the service providers engaged by HFCs, should also employ only such personnel who have undergone the above training and obtained the certificate from the IIBF.

⁴⁷ These guidelines shall be adopted by HFCs for the compliance of Paragraph 5.7.2 of the Directions on Managing Risks and Code of Conduct in Outsourcing of Financial Services.

4. Intimating borrowers about Recovery Agents

- 4.1. HFC shall prominently display the list of recovery agency firms/ companies/ individual as the case may be, empanelled with it including name and period of empanelment on its website, branches/ offices, mobile applications or any other platform which is being used for engagement with customer.
- 4.2. To ensure due notice and appropriate authorization, HFCs should inform the borrower, the details of recovery agency firms/ companies while forwarding default cases to the recovery agency.
- 4.3. Further, in some of the cases, the borrower might not have received the details about the recovery agency due to refusal/ non-availability/ avoidance. To ensure identification, it would be appropriate if the agent also carries a copy of the notice and the authorization letter from the HFC along with the identity card issued to him by the HFC or the agency firm/ company. Where the recovery agency is changed by the HFC during the recovery process, in addition to the HFC notifying the borrower of the change, the new agent should carry the notice and the authorization letter with his identity card.
- 4.4. The notice and the authorization letter should, among other details, also include the telephone numbers of the relevant recovery agency. HFCs should ensure that there is a tape recording of the content/ text of the calls made by the recovery agents to the customers and vice-versa, with the knowledge of the customer. HFCs may take reasonable precautions such as intimating the customer that the conversation is being recorded, etc.

5. Incentives to Recovery Agents

Stiff targets or high incentives may induce agents to use intimidatory and questionable methods for recovery of dues. HFCs are, therefore, advised to ensure that the contracts with the recovery agent do not induce adoption of uncivilised, unlawful and questionable behaviour or recovery process.

6. Methods followed by Recovery Agents

All the members of the staff or any person authorised to represent the HFC in collection or/and security repossession should follow the guidelines set out, such as:

- a. Customer would be contacted ordinarily at the place of his/ her choice and in the absence of any specified place at the place of his/ her residence and if unavailable at his/ her residence, at the place of business/ occupation.
- b. Identity and authority to represent the HFC should be made known to the customer at the first instance.
- c. Customer's privacy should be respected.
- d. Interaction with the customer shall be in a civil manner.
- e. HFCs' representatives shall contact customers between 8.00 a.m. to 7.00 p.m. for recovery of overdue loans.
- f. Customer's request to avoid call at a particular time or at a particular place shall be honoured as far as possible.
- g. The time and number of calls and contents of conversation should be documented.
- h. All assistance should be given to resolve disputes or differences regarding dues in a mutually acceptable and in an orderly manner.
- i. During visits to customer's place for dues collection, decency and decorum should be maintained.
- j. Only employees of the Recovery Agency shall visit the borrower's premises for the recovery/ collection activity and no other person shall accompany such Recovery Agent.
- k. Inappropriate occasions such as bereavement in the family or such other calamitous occasion, or marriage functions, festivals etc. should be avoided for making calls/ visits to collect dues.
- l. The written communication sent by the collection agent to the borrower should have the approval of the HFC.
- m. HFCs shall interact only with the customer/ borrower or the guarantor (only if so required) and shall not approach any other relatives/ contacts of the borrower.

7. Taking possession of property mortgaged to HFCs

- 7.1.** It has been observed by the Hon'ble Supreme Court that we are governed by rule of law in the country and the recovery of loans or seizure of asset could be done only through legal means. It is emphasised in this context that HFCs may rely on legal remedies available under the relevant statutes while enforcing security

interest without intervention of the courts. In this context, it may be mentioned that the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) and the Security Interest (Enforcement) Rules, 2002, framed thereunder have laid down well-defined procedures not only for enforcing security interest but also for auctioning the movable and immovable property after enforcing the security interest.

- 7.2.** Where HFCs have incorporated a pre-possession clause in the contract with the borrower and rely on such pre-possession clause for enforcing their rights, they should ensure that the pre-possession clause is legally valid, complies with the provisions of the Indian Contract Act in letter and spirit, and ensure that such prepossession clause is clearly brought to the notice of the borrower at the time of execution of the contract. The terms and condition of the contract should be strictly in terms of the disclosed recovery policy and should contain provisions regarding:
- a. Notice period before taking possession;
 - b. circumstances under which the notice period can be waived;
 - c. the procedure for taking possession of the security;
 - d. a provision regarding final chance to be given to the borrower for repayment of loan before the sale/ auction of the property;
 - e. the procedure for giving repossession to the borrower; and
 - f. the procedure for sale/ auction of the property.

8. Use of forum of Lok Adalats

The Honourable Supreme Court has also observed, inter alia, that loans, personal loans, credit card loans and housing loans with less than ₹10 lakh can be referred to Lok Adalats. HFCs are encouraged to use the forum of Lok Adalats for recovery of housing loans with less than ₹10 lakh as suggested by Honourable Supreme Court.

9. Utilisation of Credit Counsellors

HFCs should have in place an appropriate mechanism to utilize the service of credit counsellors for providing suitable counselling to the borrowers where they become aware that the case of a particular borrower deserves sympathetic consideration.

10. Complaints against the HFC/ its Recovery Agents

10.1. Complaints received by NHB regarding violation of the above guidelines and adoption of above practices followed by recovery agents of HFCs would be viewed seriously. Supervisory actions could be attracted when the High Courts or the Supreme Court pass strictures or impose penalties against any HFC or its Directors/ Officers/ agents with regard to policy, practice and procedures related to the recovery process.

10.2. Where a grievance/ complaint has been lodged, HFCs should not forward cases to recovery agencies till they have finally disposed of any grievance/ complaint lodged by the concerned borrower. However, where the HFC is convinced, with appropriate proof, that the borrower is continuously making frivolous/ vexatious complaints, it may continue with the recovery proceedings through the Recovery Agents even if a grievance/ complaint is pending with them. In case where the subject matter of the borrower's dues might be *sub judice*, HFCs should exercise utmost caution, as appropriate, in referring the matter to the recovery agencies, depending on the circumstances.

10.3. Each HFC should have a mechanism whereby the borrower grievances with regards to the recovery process can be addressed. The details of the mechanism should also be furnished to the borrower while advising the details of the recovery agency as at Paragraph 4 above.

11. Periodical review, monitoring and control

HFCs engaging recovery agents are advised to undertake a periodical review of the mechanism to learn from experience, to effect improvement and to bring to the notice of the Bank suggestion for improvement in the guidelines.

12. General

12.1. HFCs should, at least on an annual basis, review the financial and operation condition of the service providers to assess their ability to continue to meet their outsourcing conditions. Such due diligence reviews, which can be based on all available information about the service provider should highlight any deterioration or breach in performance standards, confidentiality and security, and in business continuity preparedness.

- 12.2.** The outsourcing agreement should provide for the prohibition of further outsourcing by the service provider for all or part of an outsourced activity;
- 12.3.** HFCs should have in place a management structure to monitor and control its outsourcing activities. It should ensure that outsourcing agreement with the service providers contain provisions to address their monitoring and control of outsourced activities.
- 12.4.** Regular audits by either the internal auditors or external auditors of the HFC should assess the adequacy of the risk management practices adopted in overseeing and managing the outsourcing arrangement, the HFC's compliance with its risk management framework and the requirements of these guidelines.
- 12.5.** In the event of termination of the agreement for any reason, this should be publicized so as to ensure that the customers do not continue to deal with that service providers.
- 12.6.** HFCs should constitute a Grievance Redressal Machinery within the company and give wide publicity about it through electronic and print media. The name and contact number of designated grievance redressal officer of the HFC should be made known and widely publicised. The designated officer should ensure that genuine grievances of customers are redressed promptly without any delay. It should be clearly indicated that HFCs Grievance Redressal Machinery will also deal with the issue relating to services provided by the outsourced agency.
- 12.7.** Generally, a time limit of one month may be given to the customer for preferring their complaints/ grievances. The grievance redressal procedure of the HFC and the time frame fixed for responding to the complaints should be placed on the HFCs website.

Annex XII

Display of Information by HFCs & Most Important Terms and Conditions

In order to promote transparency in the operations of HFCs, the following instructions are issued to HFCs.

1. Notice Boards

- 1.1.** The minimum size of the board may be 2 feet by 2 feet as the board of such a size would facilitate comfortable viewing from a distance of 3 to 5 meters. HFCs are advised to display the information in the notice boards of their branches/ offices as per the format given in the [Appendix XII \(a\)](#) for the comprehensive notice board.
- 1.2.** While displaying the information in the notice board, HFCs may also adhere to the following principles:
 - 1.2.1.** The notice board may be updated on a periodical basis and the board should indicate the date up to which the board was updated (incorporated in the display board);
 - 1.2.2.** Though the pattern, colour and design of the board is left to the discretion of the HFCs, yet the display must be simple and readable;
 - 1.2.3.** The language requirements (i.e., bilingual in Hindi speaking states and trilingual in other states) may be taken into account;
 - 1.2.4.** The notice board shall specifically indicate wherever recent changes have been done. For instance, if there is a recent change in the home loan products offered by the HFC, the information on the home loan products may be displayed as 'We offer home loans/ products (changed on.....)'; and
 - 1.2.5.** The notice board may also indicate a list of items on which detailed information is available in booklet form.
- 1.3.** Further, in addition to the above board, the HFCs should also display details such as 'Name of the HFC/ branch/ office, Working Days, Working Hours and Weekly Off-days' outside the branch/ office premises.

2. Booklets/ Brochures

- 2.1.** The detailed information as indicated in Paragraph 1.2.5 above may be made available in various booklets/ brochures as decided by the HFC. These booklets/ brochures may be kept in a separate file/ folder in the form of 'replaceable pages'

so as to facilitate copying and updation. In this connection, HFCs may also adhere to the following broad guidelines:

- 2.1.1.** The file/ folder may be kept at the customer lobby in the branch or at the 'May I Help You' counter or at a place that is frequented by most of the customers;
- 2.1.2.** The language requirements (i.e. bilingual in Hindi speaking states and trilingual in other states) may be taken into account;
- 2.1.3.** While printing the booklets it may be ensured that the font size is minimum Arial 10 so that the customers are able to easily read the same; and
- 2.1.4.** Copies of booklets may be made available to the customers on request.

3. Website

- 3.1.** The detailed information as indicated in Paragraph 1.2.5 above may also be made available on the HFC's web-site. HFCs should adhere to the broad guidelines relating to dating of material, legibility etc., while placing the same on their websites.
- 3.2.** HFCs should display on their website the interest rate range of contracted loans for the past quarter for different categories of advances granted to individual borrowers along with mean interest rates for such loans.
- 3.3.** The total fees and charges applicable on various types of loans to individual borrower should be disclosed at the time of processing of loan as well as displayed on the websites of HFCs for transparency and comparability and to facilitate informed decision making by customers.
- 3.4.** HFCs should publish Annual Percentage Rate (APR) or such similar other arrangement of representing the total cost of credit on a loan to an individual borrower on their websites so as to allow customers to compare the costs associated with borrowing across products and/or lenders.
- 3.5.** In this context, HFCs are also advised to ensure that the customers are able to easily access the relevant information from the Home Page of the HFC's websites. Further, there are certain information relating to service charges, fees and grievance redressal, for which latest updated information are to be posted compulsorily on the websites of the HFCs.

3.6. A format has been devised for display of information relating to interest rates and service charges which would enable the customer to obtain the desired information at a quick glance. The format is given in the [Appendix XII \(b\)](#). HFCs are advised to display the information as per the format given in the Appendix on their web-sites. HFCs are however free to modify the format to suit their requirements, without impairing the basic structure or curtailing the scope of disclosures.

4. Other Modes of Display

HFCs may also consider displaying all the information that have to be given in the booklet form in the touch screen by placing them in the Information Kiosks, Scroll Bars, Tag Boards and/or other options available. The above broad guidelines may be adhered to, while displaying information using these modes.

5. Other Issues

5.1. HFCs are free to decide on their promotional and product information displays. However, the mandatory displays may not be obstructed in anyway. As customer interest and financial education are sought to be achieved by the mandatory display requirements, they should also be given priority over the other display boards. Information relating to Government sponsored schemes as applicable location-wise may be displayed according to their applicability.

5.2. HFCs should provide a clear, concise, MITC, as per prescribed format in [Appendix XII \(b\)](#), to all borrowers at every stage of the loan processing as well as in case of any change in any terms and conditions. The same may also be included as a summary box to be displayed in the credit agreement.

Format of Comprehensive Notice Board

(Updated up to _____)

A. Customer Service Information:

- i) We have separately displayed the key interest rates on loans, deposits (*if applicable*) & in the branches/ offices.
- ii) We have also displayed all types of charges/ fees.
- iii) Nomination facility is available on all deposit accounts

B. Service Charges:

C. Grievance Redressal:

- i) If you have any grievances/ complaints, please approach:
- ii) If your complaint is unresolved at the branch level, you may approach our Branch Manager/ Manager etc. (authorized officer's designation) at: (Address)
- iii) If you are not satisfied with our grievance redressal, you may approach the National Housing Bank at: Complaint Redressal Cell, National Housing Bank, New Delhi.

D. Other Services Provided:

E. Information available in Booklet Form

(Please approach 'MAY I HELP YOU' Counter)

- i) All the items mentioned in (A) to (D) above.
- ii) Time norms for common transactions.
- iii) KYC/ Fair Practice Code/ The Code of HFC's Commitment to Customers.

F. Display of Certificate of Registration (CoR) issued under Section 29 A of the NHB Act, 1987.

Information to be provided outside the premises:

- i) Name of the HFC/ Branch:
- ii) Weekly Holiday on:
- iii) Branch Working Hour

MOST IMPORTANT TERMS AND CONDITIONS (MITC)

Loan..... (Name of the specific Loan Product)

Major terms and conditions of the housing loan agreed to between..... (the borrower) and the (Name of the housing finance company) are as under:

1. Loan

Sanctioned Amount:

2. Interest

- i) Type (Fixed or Floating or Dual/ Special Rate) :
- ii) Interest chargeable (..... i.e. % (reference rate +/-) for floating rate loans; and% for fixed rate loans)
- iii) Moratorium or subsidy:
- iv) Date of reset of interest:
- v) Modes of communication of changes in interest rate:

3. Installment Types

4. Loan Tenure

5. Purpose of Loan (mention the purpose for which the loan is sanctioned)

6. Fee and Other Charges

- i) On application (all type of fee/ charges, to be specified individually)
- ii) During the term of loan (all type of fee/ charges, to be specified individually)
- iii) On foreclosure (all type of fee/ charges, to be specified individually)
- iv) Fee refundable if loan not sanctioned/disbursed (all type of fee, to be specified individually)
- v) Conversion charges for switching from floating to fixed interest and vice-versa (type of charges, to be specified individually)
- vi) Penalty for delayed payments (all type of penalty, to be specified individually)

7. Security/ Collateral for the Loan

- i) Mortgage (mention details of the property to be mortgaged as security for the loan)
- ii) Guarantee (mention the name of the Guarantors)
- iii) Other Security (mention the details of other securities, if any)

8. Insurance of the Property/ Borrowers

Detail of the requirements and features of the insurance policy to be obtained for the property/ borrowers to be mentioned.

9. Conditions for Disbursement of the Loan

Conditions for disbursements of the loan or any installment thereof viz., creation of security, submission of approved plans, stages of construction, statutory approvals etc. to be indicated.

10. Repayment of the Loan & Interest

The amount of EMI and the total number of installments where the loan is repayable in equated monthly installments or other details for payment of principal amount of loan and interest including due date/s to be indicated. Also mention the procedure for advance intimation of the changes in the rate of interest/ EMI.

11. Brief procedure to be followed for Recovery of overdues

The notice etc. to be given to the borrower for recovery of overdues before proceeding under the applicable law to be mentioned.

12. Date on which annual outstanding balance statement will be issued

13. Customer Services

Mention in brief about the followings:

- i) Visiting hours at the office.
- ii) Details of the person to be contacted for customer service.
- iii) Procedure to obtain the following including time line therefore:
 - a. loan account statement.
 - b. photocopy of the title documents.
 - c. return of original documents on closure/ transfer of the loan.

14. Grievance Redressal

Mention the procedure (e-mail id and other contact details at which the complaints can be lodged, turnaround time for resolving the issue, matrix for escalation, etc.) for lodging the complaints by the aggrieved borrower. Further, HFC should also mention that in case the complainant is dissatisfied with the response received or where no response is received, the complainant may approach the Complaint Redressal Cell of National

Housing Bank by lodging its complaints online on the website of NHB or through post to NHB, New Delhi.

It is hereby agreed that for detail terms and conditions of the loan, the parties hereto shall refer to and rely upon the loan and other security documents executed/ to be executed by them.

The above terms and conditions have been read by the borrower/s / read over to the borrower by Shri/Smt./Kum. _____of the company and have been understood by the borrower/s.

(Signature or thumb impression
of the Borrower/s)

(Signature of the authorized
person of Lender)

Note: Duplicate copy of the MITC should be handed-over to the borrower/s.

Annex XIII

Illustrative Guidelines for loan facilities to Visually Impaired Persons

1. All products, services, facilities, etc. offered by housing finance companies (HFCs) should be made available to visually impaired persons and should be offered at all branches/ offices of the HFC.
2. All products, services, facilities, etc. must be made available to visually impaired customers as are offered to other customers and their impairment of vision should not be a criterion for sanctioning/ denying a loan.
3. HFCs must provide the same facilities to a visually impaired customer as it would to any other customer.
4. HFCs must follow the same procedure for extending products, services, facilities, etc. offered by them to a visually impaired customer as it does for its other customers.
5. No additional burden of interest payment, collateral and other terms should be imposed on the visually impaired customer.
6. If the credit policy of an HFC does not insist for a co-borrower or a guarantor for other customers for any type of loan facilities extended by it, the same should not be insisted upon for a visually impaired customer.
7. HFCs should not equate visually impaired customers with illiterate customers.
8. HFCs should not deny any services to visually impaired customers including visually impaired customers who use their thumb impression. If necessary, HFCs may take a Declaration of Thumb Impression as an additional document from visually impaired customer.
9. Additional facilities like reading and filling up of forms, slips, etc. should be provided to a visually impaired customer. The Officer/ Manager of the branch/ office should read out the rules of business and other terms and conditions in the presence of a witness, if required by the customer.
10. HFC must allow the visually impaired customer to take a loan or avail any other facilities offered by them jointly with anybody that he/ she chooses including person(s) who is/are visually impaired.

- 11.** Visually impaired customers may be allowed to appoint a person/ persons as their Power of Attorney or Mandate Holder to operate their account, if the visually impaired customer so desires.
- 12.** The Officer/ Manager of the branch/ office must inform a visually impaired customer/ prospective customer of his rights and liabilities before offering the product.
- 13.** The documentation requirements of a visually impaired customer must be the same as any other customer. The account has to be clearly marked as "the account holder is visually impaired".
- 14.** HFCs should provide a copy of all documents to visually impaired customer in digital form also, if required.
- 15.** HFCs should provide a copy of the Most Important Terms and Conditions (MITC) to visually impaired customer in braille form or text readable PDF, if so desired by them.
- 16.** HFCs should preferably provide Electronic Clearing Service (ECS) facility to the visually impaired customer.

It may be kept in mind that these guidelines are only illustrative and by no means exhaustive.

Annex XIV

Valuation of Properties – Empanelment of Valuers

The issue of correct and realistic valuation of properties or fixed assets owned by HFCs and that accepted by them as security (primary or collateral) for a sizable portion of their advances' portfolio assumes significance in view of its implications for correct measurement of capital adequacy position of HFCs. In this context, there is a need for putting in place a system/ procedure for realistic valuation of properties/ fixed assets and also for empanelment of valuers for the purpose. HFCs shall be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:

1. Policy for valuation of immovable properties

- 1.1.** HFCs shall have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.
- 1.2.** The valuation shall be done by professionally qualified independent valuers i.e. the valuer should not have a direct or indirect interest. However, valuation of properties by the internal technical valuers of housing finance companies is permissible subject to the internal technical valuer having qualifications similar to those prescribed under the Companies (Registered Valuers and Valuation) Rules, 2017.
- 1.3.** The frequency of valuation shall be decided by the Board of an HFC, based on the observed volatility in the prices of the assets in the past except annually in the case of Non-Performing Asset (NPA). The frequency of valuation in case of Non-Performing Asset (NPA) shall be annual in case of assets classified as sub-standard for more than six months or the classification of assets as doubtful assets. The frequency decided by the HFC shall be reviewed by its Board annually. Further, where the value of the properties has been substantially impaired by any event, these are to be immediately revalued and appropriately factored in to capital adequacy computation.
- 1.4.** Valuation procedure to be followed to ensure that the realisable value of properties is reasonably estimated.
- 1.5.** HFCs shall obtain minimum two valuation reports, at least one of them being from an independent valuer, in case the loan amount is ₹50 lakh or above (or such any other lower value as may be decided by the Board of the company) and below ₹75

lakh. The lower of the two valuations shall be considered by the HFC for deciding upon the loan amount.

- 1.6. In case the loan amount is ₹75 lakh or above, HFCs shall necessarily obtain minimum two independent valuation reports and the lower of the two shall be considered by the HFC for deciding upon the loan amount.
- 1.7. (Deleted)
- 1.8. The requirement of valuation in respect of financing of the initial purchase of a residential dwelling unit from a State Housing Board/Municipal Corporation/ Developmental Authority or other public agencies by an HFC shall be decided by the company with the approval of its Board.
- 1.9. In respect of financing of any initial transaction of the purchase of a property, the value of the property for the purposes of arriving at the Loan to Value ratio (LTV) should not exceed the documented transaction value as per the agreement to sale, sale deed etc. Valuation in such cases, if required, may be done as per the policy approved by the Board of the company.

2. Policy of revaluation of HFC's own properties

In addition to the above, the HFCs may keep the following aspects in view while formulating policy for revaluation of their own properties:

- 2.1. HFCs have been permitted to include revaluation reserves at a discount of 55% as a part of Tier 2 Capital. In view of this, it is necessary that revaluation reserves represent true appreciation in the market value of the properties and HFCs have in place a comprehensive policy for revaluation of fixed assets owned by them. HFCs shall have a Board approved comprehensive policy in place for valuation of its own properties and such a policy should inter-alia cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets etc. The policy should also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets subject to revaluation and accounting treatment for appreciation/ depreciation etc.

2.2. As the revaluation should reflect the change in the fair value of the fixed asset, the frequency of revaluation should be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation should reflect the change in the expected pattern of consumption of the future economic benefits of the assets. The HFCs should adhere to these principles meticulously while changing the frequency of revaluation/method of depreciation for a particular class of asset and should make proper disclosures in this regard.

3. Policy for Empanelment of Independent Valuers

3.1. HFCs should have a procedure for empanelment of professional valuers and maintain a register of 'approved list of valuers'.

3.2. HFCs shall prescribe a minimum qualification and minimum post qualification experience for empanelment of valuers. Different qualifications and experience may be prescribed for different classes of assets (e.g. land and building, plant and machinery, agricultural land, etc.). While prescribing the qualifications, HFCs may take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

3.3. While framing the above policy, HFCs shall also be guided by the provisions of the Section 247 of the Companies Act, 2013, Rules made or to be made thereunder and amendments therein, from time to time. Further, HFCs shall also be guided by relevant Accounting Standards.

**Annex XV
(Deleted)⁴⁸**

⁴⁸ Vide [circular DOR.FIN.REC.No.41/03.10.136/2021-22 dated August 25, 2021](#)

Annex XVA
Information on secured assets possessed under the SARFAESI Act, 2002

Sl. No	Branch Name	State	Borrower Name	Guarantor Name (wherever applicable)	Registered address of the Borrower	Registered address of the Guarantor (wherever applicable)	Outstanding amount (in ₹)	Asset Classification	Date of Asset classification	Details of security possessed	Name of the Title holder of the security possessed

Annex XVI

Guidelines for entry of Housing Finance Companies into Insurance Business

The guidelines for entry of housing finance companies into insurance business are as follow:

1. Taking up Insurance Agency Business:

HFCs having Net Owned Fund (NOF) of not less the prescribed NOF as per Paragraph 5 of these directions may take up insurance agency business on fee basis and without any risk participation, without the approval of the Bank, subject to the following conditions:

- 1.1.** The HFC should obtain requisite permission from Insurance Regulatory and Development Authority (IRDA) and comply with the IRDA regulations for acting as 'composite corporate agent' with insurance companies;
- 1.2.** The HFC should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by it. The customers should be allowed to exercise their own choice;
- 1.3.** As the participation by a HFC's customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by it in a prominent way. There should be no 'linkage' either direct or indirect between the provision of financial services offered by the HFC to its customers and use of the insurance products;
- 1.4.** The premium should be paid by the insured directly to the insurance company without routing through the HFC; and
- 1.5.** The risks, if any, involved in insurance agency should not get transferred to the business of the HFC.

2. Setting up insurance Joint Venture (JV) with equity contribution on risk participation basis

- 2.1.** HFCs which satisfy the eligibility criteria given below will be permitted to set up an Insurance JV Company for undertaking insurance business with risk participation, subject to safeguards and risk mitigation strategy in place. The maximum equity contribution such an HFC can hold in the JV Company will normally be 50 per cent of the paid-up capital of the insurance company. On a selective basis, the Bank

may permit a higher equity contribution by a promoter HFC initially, pending divestment of equity within the prescribed period. The eligibility criteria for joint venture participant will be as under:

- a. The NOF of the HFC should not be less than ₹500 crore;
- b. The CRAR of the HFC should be not less than 12%;
- c. The level of net non-performing assets should be not more than 3% of the total outstanding assets, including loans and advances taken together;
- d. The HFC should have net profit for the last three continuous years;
- e. The track record of the performance of the subsidiaries, if any, of the concerned HFC should be satisfactory;
- f. Regulatory compliances and servicing public deposits, if held.

2.2. In case where a foreign partner contributes 26 per cent of the equity with the approval of IRDA/ Foreign Investment Promotion Board, more than one HFC may be allowed to participate in the equity of the Insurance JV Company. As such participants will also assume insurance risk, only those HFCs which satisfy the criteria given in Paragraph 2.1 above, would be eligible.

2.3. In case more than one company (irrespective of doing financial activity or not) in the same group of the HFC wishes to take a stake in the insurance company, the contribution by all companies in the same group shall be counted for the limit of 50 per cent prescribed for the HFC in an Insurance JV Company.

2.4. In cases where IRDA issues calls for capital infusion into the Insurance JV Company, the Bank may, on a case to case basis, consider need based relaxation of the 50% group limit specified above. The relaxation, if permitted, will be subject to compliance by the HFC with all regulatory conditions specified under the guidelines and such other conditions as may be necessary in the specific case.

3. Making investments in the insurance company

HFCs which are not eligible as joint venture participants, as above or otherwise can make investments up to 10 per cent of the Owned Fund of the HFC or ₹ 50 crore, whichever is lower, in the insurance company. Such participation shall be treated as an investment and should be without any contingent liability for the HFC. The eligibility criteria for the HFC will be as under –

- 3.1. The NOF of the HFC should not be less than ₹ 100 crore;
 - 3.2. The CRAR of the HFC should be not less than 12%;
 - 3.3. The level of net non-performing assets should be not more than 3% of the total outstanding assets taken together;
 - 3.4. The HFC should have net profit for the last three continuous years;
 - 3.5. The track record of the performance of the subsidiaries, if any, of the concerned HFC should be satisfactory;
 - 3.6. Regulatory compliance and servicing public deposits, if held.
4. No HFC would be allowed to conduct such business departmentally. A subsidiary or a company in the same group of an HFC or of another HFC engaged in the business of housing finance or banking will not normally be allowed to join the insurance company on risk participation basis.
 5. HFCs entering into insurance business as joint venture participant or investor or on risk participation basis will be required to obtain prior approval of the Bank. Application along with supporting documents is to be submitted by the HFC to the Bank. The Bank will give permission to HFC on case to case basis keeping in view all relevant factors. It should be ensured that risks involved in insurance business do not get transferred to the HFC and that the HFC business does not get contaminated by any risks which may arise from insurance business. There should be an 'arms-length' relationship between the HFCs and the insurance outfit.

6. Board Approved Policy

A comprehensive Board approved policy regarding undertaking insurance distribution, whether under the agency or the broking model should be formulated and services should be offered to customers in accordance with this policy. The policy will also encompass issues of customer appropriateness and suitability as well as grievance redressal. It may be noted that as IRDA Guidelines do not permit group entities to take up both corporate agency and broking in the same group even through separate entities, HFCs or their group entities may undertake either insurance broking or corporate agency business.

7. Compliance with IRDA Guidelines

- 7.1. The IRDA (Licensing of Corporate Agents) Regulations, 2002, as amended from time to time, as applicable, should be complied with by HFCs undertaking these activities.
- 7.2. The deposit to be maintained by an insurance broker as per the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013, as amended from time to time, should be maintained with a scheduled commercial bank.

8. Ensuring Customer Appropriateness and Suitability

While undertaking insurance distribution business, either under the corporate agency or broking model under the relevant IRDA Regulations, HFCs must keep the following in view:

- 8.1. All employees dealing with insurance agency/ broking business should possess the requisite qualification prescribed by IRDA.
- 8.2. There should be a system of assessment of the suitability of products for customers. Pure risk term products with no investment or growth components that are simple and easy for the customer to understand will be deemed universally suitable products. More complex products with investment components will require the HFC to necessarily undertake a customer need assessment prior to sale. It should be ensured that there is a standardized system of assessing the needs of the customer and that initiation/ transactional and approval processes are segregated.
- 8.3. HFCs should treat their customers fairly, honestly and transparently, with regard to suitability and appropriateness of the insurance product sold.

9. Prohibition on Payment of Commission/ Incentive directly to HFC Staff

There should be no violation of the guidelines issued by IRDA in payment of commissions/ brokerage/ incentives. This may be factored in while formulating a suitable performance assessment and incentive structure for staff. Further, it must be ensured that no incentive (cash or non-cash) should be paid to the staff engaged in insurance broking/ corporate agency services by the insurance company.

10. Transparency and Disclosures

10.1. The HFCs should not follow any restrictive practices of forcing a customer to either opt for products of a specific insurance company or link sale of such products to any banking product. It should be prominently stated in all publicity material distributed by the HFC that the purchase by an HFC's customer of any insurance products is purely voluntary, and is not linked to availing of any other facility from the HFC.

10.2. Further, the details of fees/ brokerage received in respect of insurance broking/ agency business undertaken by them should be disclosed in the 'Notes to Accounts' to their Balance Sheet.

Notes:

1. Holding of equity by a promoter HFC in an insurance company or participation in any form in insurance business will be subject to compliance with any rules and regulations laid down by the IRDA/Central Government.
2. Eligibility criteria would be reckoned with reference to the latest available audited balance sheet for the previous year;
3. Provisions of the National Housing Bank Act, 1987 would be applicable for such investments while computing the Net Owned Fund of the HFC.

Annex XVII

Guidelines on Wilful Defaulters

Purpose:

To put in place a system to disseminate credit information pertaining to willful defaulters for cautioning housing finance companies so as to ensure that further finance is not made available to them.

1. Introduction

The guidelines are prescribed to put in place the mechanism of reporting the information on wilful defaults of ₹25 lakh and above by HFCs to all Credit Information Companies (CICs).

2. Guidelines on Wilful Defaulters

2.1. Definitions of 'Lender', 'Unit' and 'wilful default'

2.1.1. Lender: The term 'lender' covers all HFCs to which any amount is due, provided it is arising on account of any banking transaction, including off balance sheet transactions such as derivatives, guarantees and letters of credit.

2.1.2. Unit: The term 'unit' includes individuals, juristic persons and all other forms of business enterprises, whether incorporated or not. In case of business enterprises (other than companies), HFCs may also report (in the Director column of [Appendix XVII \(a\)](#)), the names of those persons who are in charge and responsible for the management of the affairs of the business enterprise.

2.1.3. Wilful Default: A 'wilful default' would be deemed to have occurred if any of the following events is noted:

- a. The unit has defaulted in meeting its payment/ repayment obligations to the lender even when it has the capacity to honour the said obligations.
- b. The unit has defaulted in meeting its payment/ repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
- c. The unit has defaulted in meeting its payment/ repayment obligations to the lender and has siphoned off the funds so that the funds have not been

utilized for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.

- d. The unit has defaulted in meeting its payment/ repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the HFC/ lender.

The identification of the wilful default should be made keeping in view the track record of the borrowers and should not be decided on the basis of isolated transactions/ incidents. The default to be categorized as wilful, must be intentional, deliberate and calculated.

2.2. Diversion and siphoning of funds

2.2.1. Diversion of Funds: The term 'diversion of funds' referred to at Paragraph 2.1.3(b) above, should be construed to include any one of the undernoted occurrences:

- a. utilization of short-term working capital funds for long-term purposes not in conformity with the terms of sanction;
- b. deploying borrowed funds for purposes / activities or creation of assets other than those for which the loan was sanctioned;
- c. transferring borrowed funds to the subsidiaries / companies in the same group or other corporates by whatever modalities;
- d. routing of funds through any bank or members of consortium without prior permission of the lender;
- e. investment in other companies by way of acquiring equities / debt instruments without approval of lenders;
- f. shortfall in deployment of funds vis-à-vis the amounts disbursed / drawn and the difference not being accounted for.

2.2.2. Siphoning of Funds: The term 'siphoning of funds', referred to at Paragraph 2.1.3(c) above, should be construed to occur if any funds borrowed from HFCs are utilised for purposes unrelated to the operations of the borrower, to the detriment of the financial health of the entity or of the lender. The decision as to whether a particular instance amounts to siphoning of funds would have to

be a judgment of the lenders based on objective facts and circumstances of the case.

2.3. Cut-off Limits

While the penal measures indicated at Paragraph 2.5 below would normally be attracted by all the borrowers identified as wilful defaulters or the promoters involved in diversion/ siphoning of funds, keeping in view the present limit of ₹25 lakh fixed by the Central Vigilance Commission (CVC) for reporting of cases of wilful default, any wilful defaulter with an outstanding balance of ₹25 lakh or more, would attract the penal measures stipulated at Paragraph 2.5 below. This limit of ₹25 lakh may also be applied for the purpose of taking cognizance of the instances of siphoning/ diversion of funds.

2.4. End-Use of Funds

In cases of project financing, the HFCs seek to ensure end use of funds by, inter alia, obtaining certification from the Chartered Accountants for the purpose. In case of short-term corporate/ clean loans, such an approach ought to be supplemented by 'due diligence' on the part of lenders themselves, and to the extent possible, such loans should be limited to only those borrowers whose integrity and reliability are above board. The HFCs, therefore, should not depend entirely on the certificates issued by the Chartered Accountants but strengthen their internal controls and the credit risk management system to enhance the quality of their loan portfolio.

The requirement and related appropriate measures in ensuring end-use of funds by the HFCs, should form a part of their loan policy document. The following are some of the illustrative measures that could be taken by the lenders for monitoring and ensuring end-use of funds:

- a. Meaningful scrutiny of quarterly progress reports/ operating statements/ balance sheets of the borrowers;
- b. Regular inspection of borrowers' assets charged to the lenders as security;
- c. Periodical scrutiny of borrowers' books of accounts and the 'no-lien' accounts maintained with other banks;
- d. Periodical visits to the assisted units;

- e. System of periodical stock audit, in case of working capital finance;
- f. Periodical comprehensive management audit of the 'credit' function of the lenders, so as to identify the systemic-weaknesses in their credit administration.

(It may be kept in mind that this list of measures is only illustrative and by no means exhaustive.)

2.5. Penal Measures

The following measures should be initiated by the HFCs against the wilful defaulters identified as per the definition indicated at Paragraph 2.1.3 above:

- 2.5.1.** No additional facilities should be granted by any HFC to the listed wilful defaulters. In addition, such companies (including their entrepreneurs/ promoters) where HFCs have identified siphoning/ diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions, should be debarred from institutional finance from the HFCs, SCBs, FIs, NBFCs, for floating new ventures for a period of 5 years from the date of removal of their name from the list of wilful defaulters as published/ disseminated by RBI/ CICs.
- 2.5.2.** The legal process, wherever warranted, against the borrowers/ guarantors and foreclosure for recovery of dues should be initiated expeditiously. The lenders may initiate criminal proceedings against wilful defaulters, wherever necessary.
- 2.5.3.** Wherever possible, the HFCs should adopt a proactive approach for a change of management of the wilfully defaulting borrower unit.
- 2.5.4.** A covenant in the loan agreements, with the companies to which the HFCs have given funded/ non-funded credit facility, should be incorporated by the HFCs to the effect that the borrowing company should not induct on its Board a person whose name appears in the list of wilful defaulters and that in case, such a person is found to be on its Board, it would take expeditious and effective steps for removal of the person from its board.

It would be imperative on the part of the HFCs to put in place a transparent mechanism for the entire process so that the penal provisions are not misused and the scope of such discretionary powers are kept to the barest minimum. It should

also be ensured that a solitary or isolated instance is not made the basis for imposing the penal action.

2.6. Guarantees furnished by individuals, companies in the same group and not in the same group

While dealing with wilful default of a single borrowing company in a Group, the HFCs should consider the track record of the individual company, with reference to its repayment performance to its lenders. However, in cases where guarantees furnished by the companies in the same Group on behalf of the wilfully defaulting units are not honored when invoked by the HFCs, such companies in the same group should also be reckoned as wilful defaulters.

In connection with the guarantors, in terms of Section 128 of the Indian Contract Act, 1872, the liability of the surety is co-extensive with that of the principal debtor unless it is otherwise provided by the contract. Therefore, when a default is made in making repayment by the principal debtor, the lender will be able to proceed against the guarantor/ surety, even without exhausting the remedies against the principal debtor. As such, where a lender has made a claim on the guarantor on account of the default made by the principal debtor, the liability of the guarantor is immediate. In case the said guarantor refuses to comply with the demand made by the creditor/ lender, despite having sufficient means to make payment of the dues, such guarantor would also be treated as a wilful defaulter. HFCs may ensure that this position is made known to all guarantors at the time of accepting guarantees and it should also be a part of Fair Practice Code (FPC) of HFCs.

2.7. Role of auditors

In case any falsification of accounts on the part of the borrowers is observed by the HFCs, and if it is observed that the auditors were negligent or deficient in conducting the audit, they should lodge a formal complaint against the auditors of the borrowers with the Institute of Chartered Accountants of India (ICAI) to enable the ICAI to examine and fix accountability of the auditors. Pending disciplinary action by ICAI, the complaints may also be forwarded to the NHB, RBI (Department of Supervision, Central Office) and IBA for records.

With a view to monitoring the end-use of funds, if the lenders desire a specific certification from the borrowers' auditors regarding diversion/ siphoning of funds by the borrower, the lender should award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditors, the HFCs will also need to ensure that appropriate covenants in the loan agreements are incorporated, so as to enable award of such a mandate by the lenders to the borrowers/ auditors. In addition to the above, HFCs are advised that with a view to ensuring proper end use of funds and preventing diversion/ siphoning of funds by the borrowers, lenders could consider engaging their own auditors for such specific certification purpose without relying on certification given by borrower's auditors. However, this cannot substitute a HFC's basic minimum own diligence in the matter.

2.8. Role of Internal Audit/ Inspection

The aspect of diversion of funds by the borrowers should be adequately looked into while conducting internal audit/ inspection of their offices/ branches and periodical reviews on cases of wilful defaults should be submitted to the Audit Committee of the HFC.

2.9. Reporting to Credit Information Companies

2.9.1. All housing finance companies (HFCs) shall become members of all CICs and submit requisite data to CICs.

2.9.2. HFCs should submit the list of suit-filed accounts and non-suit filed accounts of wilful defaulters of ₹25 lakh and above on a monthly or more frequent basis to all Credit Information Companies. This would enable such information to be available to the HFCs on a near real time basis.

Explanation In this connection, it is clarified that HFCs need not report cases where:

- (a) outstanding amount falls below ₹25 lakh and
- (b) in respect of cases where HFCs have agreed for a compromise settlement and the borrower has fully paid the compromised amount.

2.9.3. Credit Information Companies (CICs) have also been advised to disseminate the information pertaining to suit filed accounts of wilful defaulters on their respective websites.

3. Mechanism for identification of Wilful Defaulters

The mechanism referred to in Paragraph 2.5 above should generally include the following:

- 3.1.** The evidence of wilful default on the part of the borrowing company and its promoter/ whole-time director at the relevant time should be examined by an Identification Committee headed by an Executive Director or equivalent or below the rank of Chairman/ Chairman & Managing Director or the Managing Director & Chief Executive Officer/ CEOs and consisting of two other senior officers of the rank of GM/ DGM.
- 3.2.** If the Identification Committee concludes that an event of wilful default has occurred, it shall issue a Show Cause Notice to the concerned borrower and the promoter/ whole-time director and call for their submissions and after considering their submissions, issue an order recording the fact of wilful default and the reasons for the same. An opportunity should be given to the borrower and the promoter/ whole-time director for a personal hearing if the Committee feels such an opportunity is necessary.
- 3.3.** The Order of the Identification Committee should be reviewed by another Committee called Review Committee, headed by the Chairman/ Chairman & Managing Director or the Managing Director & Chief Executive Officer/ CEOs and consisting, in addition, to two independent directors/ non-executive directors of the HFCs and the Order shall become final only after it is confirmed by the said Review Committee. However, if the Identification Committee does not pass an Order declaring a borrower as a wilful defaulter, then the Review Committee need not be set up to review such decisions.
- 3.4.** As regard a non-promoter/ non-whole time director, it should be kept in mind that Section 2(60) of the Companies Act, 2013 defines an officer who is in default to mean only the following categories of directors:
 - 3.4.1.** Whole-time director;
 - 3.4.2.** where there is no key managerial personnel, such director or directors as specified by the Board in this behalf and who has or have given his or their

consent in writing to the Board to such specification, or all the directors, if no director is so specified;

- 3.4.3.** every director, in respect of a contravention of any of the provisions of Companies Act, who is aware of such contravention by virtue of the receipt by him of any proceedings of the Board or participation in such proceedings and who has not objected to the same, or where such contravention had taken place with his consent or connivance.

Therefore, except in very rare cases, a non-whole time director should not be considered as a wilful defaulter unless it is conclusively established that:

- (a) he/ she was aware of the fact of wilful default by the borrower by virtue of any proceedings recorded in the minutes of meeting of the Board or a Committee of the Board and has not recorded his objection to the same in the Minutes; or,
- (b) the wilful default had taken place with his consent or connivance.

The above exception will however not apply to a promoter director even if not a whole time director.

- 3.5.** A similar process as detailed in Sub-paragraphs 3.1 to 3.3 above should be followed when identifying a non-promoter/ non-whole-time director as a wilful defaulter.

4. Criminal Action against Wilful Defaulters

HFCs are further advised to follow as under:

4.1. Monitoring End-Use of Funds

In reference to Paragraph 2.4 above, it is advised that HFCs should closely monitor the end-use of funds and obtain certificates from borrowers certifying that the funds are utilised for the purpose for which they were obtained. In case of wrong certification by the borrowers, HFCs may consider appropriate legal proceedings, including criminal action wherever necessary, against the borrowers.

4.2. Criminal Action by HFCs

It is essential to recognise that there is scope even under the existing legislations to initiate criminal action against wilful defaulters depending upon the facts and circumstances of the case under the provisions of Sections 403 and 415 of the

Indian Penal Code (IPC), 1860. HFCs are, therefore, advised to seriously and promptly consider initiating criminal action against wilful defaulters or wrong certification by borrowers, wherever considered necessary, based on the facts and circumstances of each case under the above provisions of the IPC to comply with our instructions and the recommendations of JPC.

It should also be ensured that the penal provisions are used effectively and determinedly but after careful consideration and due caution. Towards this end, HFCs are advised to put in place a transparent mechanism, with the approval of their Board, for initiating criminal proceedings based on the facts of individual case.

5. Reporting

5.1. Need for Ensuring Accuracy

Credit Information Companies disseminate information on non-suit filed and suit filed accounts respectively of wilful defaulters, as reported to them by the HFCs and therefore, the responsibility for reporting correct information and also accuracy of facts and figures rests with the concerned HFCs. HFCs may also ensure the facts about directors, wherever possible, by cross-checking with Registrar of Companies.

5.2. Position regarding Guarantors

HFCs may take due care to follow the provisions set out in Paragraph 3 above in identifying and reporting instances of wilful default in respect of guarantors also. While reporting such names to CICs, HFCs may include 'Guar' in brackets i.e. (Guar) against the name of the guarantor and report the same in the Director column.

5.3. Government Undertakings

In the case of Government undertakings, it should be ensured that the names of directors are not reported. Instead, a legend 'Government of ----- undertaking' should be added.

5.4. Inclusion of Director Identification Number (DIN)

Ministry of Corporate Affairs had introduced the concept of a Director Identification Number (DIN) with the insertion of Sections 266A to 266G in the Companies (Amendment) Act, 2006. In order to ensure that directors are correctly identified

and in no case, persons whose names appear to be similar to the names of directors appearing in the list of wilful defaulters, are wrongfully denied credit facilities on such grounds, HFCs have been advised to include the Director Identification Number (DIN) as one of the fields in the data submitted by them to Credit Information Companies.

It is reiterated that while carrying out the credit appraisal, HFCs should verify as to whether the names of any of the directors of the companies appear in the list of defaulters/ wilful defaulters by way of reference to DIN/ PAN etc. Further, in case of any doubt arising on account of identical names, HFCs should use independent sources for confirmation of the identity of directors rather than seeking declaration from the borrowing company.

5.5. Sharing of contact details of Nodal Officers dealing with CICs

For better coordination with CICs, HFCs should forward the complete details of the nodal officers (name, designation, contact no., email id) to all the CICs. Further, the details of the nodal officer with whom the CICs need to coordinate in respect of disputes/ complaints on data reported should also be forwarded.

Appendix XVII (a)
(Refer Paragraph 2.9 of Annex)

Format for submission of data on cases of wilful default of ₹25 lakh & above (Suit filed and Non-Suit filed) to all CICs on monthly or more frequent basis:

The HFCs are required to submit data of wilful defaulters on FTP Platform and/or in Compact Disks (CDs) to all CICs on monthly or more frequent basis, using the following structure (with the same field names):

Field	Field Name	Type	Width	Description	Remark
1.	SCTG	Numeric	1	Category of HFC	Number 7 should be fed 7. Housing Finance Companies
2.	BKNM	Character	40	Name of HFC	Name of HFC
3.	BKBR	Character	30	Branch Name	Name of the Branch
4.	STATE	Character	15	Name of State	Name of state in which branch is situated
5.	SRNO	Numeric	4	Serial No.	Serial No.
6.	PRTY	Character	45	Name of party	The legal name
7.	REGADDR	Character	96	Registered Address	Registered office Address
8.	OSAMT	Numeric	6	Outstanding amount in ₹ Lakhs (Rounded off)	In case of suit-filed accounts, the amount for which suit has been filed should be indicated
9.	SUIT	Character	4	Suit filed or not	Whether the suit is filed against the party. Type 'SUIT' in case suit is filed. For other cases, this field should be kept blank.
10.	OTHER_HFC/ BK/FI	Character	40	Name of other HFCs/ Banks/ FIs	The names of other HFCs/ banks/FIs from whom the party has availed credit facility should be indicated. The names may be fed in abbreviated form e.g. HDFC for Housing Development Finance Corporation Ltd., BOB for Bank of Baroda, SBI for State Bank, etc.
11.	DIR1	Character	40	Name of Director	(a) Full name of Director should be indicated. (b) In case of Govt. companies, the legend 'Govt. of ___ undertaking' alone should be mentioned. (c) Against the names of nominee directors of HFCs/ Banks/ FIs/ Central Govt./ State Govt. abbreviation 'Nom' should be indicated in the brackets. (d) Against the name of independent directors, abbreviation 'Ind' should be indicated in the brackets.

12.	DIN_DIR1	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN1
13.	DIR2	Character	40	Name of Director	As in DIR1
14.	DIN_DIR2	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN2
15.	DIR3	Character	40	Name of Director	As in DIR1
16.	DIN_DIR3	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN3
17.	DIR4	Character	40	Name of Director	As in DIR1
18.	DIN_DIR4	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN4
19.	DIR5	Character	40	Name of Director	As in DIR1
20.	DIN_DIR5	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN5
21.	DIR6	Character	40	Name of Director	As in DIR1
22.	DIN_DIR6	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN6
23.	DIR7	Character	40	Name of Director	As in DIR1
24.	DIN_DIR7	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN7
25.	DIR8	Character	40	Name of Director	As in DIR1
26.	DIN_DIR8	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN8
27.	DIR9	Character	40	Name of Director	As in DIR1
28.	DIN_DIR9	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN9
29.	DIR10	Character	40	Name of Director	As in DIR1
30.	DIN_DIR10	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN10
31.	DIR11	Character	40	Name of Director	As in DIR1
32.	DIN_DIR11	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN11
33.	DIR12	Character	40	Name of Director	As in DIR1
34.	DIN_DIR12	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN12
35.	DIR13	Character	40	Name of Director	As in DIR1
36.	DIN_DIR13	Numeric	8	Director Identification	8 digit Director Identification Number of the Director at DIN13

				Number of DIR1	
37.	DIR14	Character	40	Name of Director	As in DIR1
38.	DIN_DIR14	Numeric	8	Director Identification Number of DIR1	8 digit Director Identification Number of the Director at DIN14
39.	Total Bytes		953		

- a)** If total numbers of directors exceed 14, the name of additional directors may be entered in blank spaces available in the other directors' columns
- b)** The data / information should be submitted in the above format on FTP Platform / CD. While submitting the CD, the HFCs should ensure that:
- the CD is readable and is not corrupted / virus-affected.
 - the CD is labelled properly indicating name of the HFC, name of the list and period to which the list belongs, and the name of list indicated on label and in the letter are same.
 - the name and width of each of the fields and order of the fields is strictly as per the above format.
 - records with outstanding amount of less than ₹25 lakh have not been included.
 - suit-filed and non-suit-filed, both accounts have been included.
 - use of following types of words have been avoided (as the fields can not be properly indexed): 'M/s', 'Mr', 'Shri' etc.
 - the words 'Mrs', 'Smt', 'Dr' etc. have been fed at the end of name of the person, if applicable.
 - Except for field "SUIT" and some of the fields from DIR1 to DIR 14, as applicable, information is completely filled in and columns are not kept blank.
- c)** In case of 'Nil' data, there is no need to send any CD and the position can be conveyed through a letter/email.
- d)** A certificate signed by a sufficiently senior official stating that 'the list of wilful defaulters has been correctly compiled after duly verifying the details thereof and the Bank's instructions in this regard have been strictly followed' is sent along with the CD.