

GUIDELINES FOR EXTENDING EQUITY SUPPORT TO HOUSING FINANCE COMPANIES

The National Housing Bank (NHB) issues the following guidelines to Housing Finance Companies (HFCs) which are housing finance institutions within the meaning of clause (d) of Section 2 of the National Housing Bank Act, 1987 for their growth on sound lines and to be healthy, viable and cost effective.

These guidelines are applicable to such of those HFCs who desire to avail of equity participation from NHB.

These guidelines shall come into force with effect from March 1, 2003.

ORGANISATION AND MAIN ACTIVITY

1. A HFC who desires to avail of equity participation from NHB under the scheme of NHB, shall, among others :
 - (a) be a public limited company;
 - (b) provide long term finance for construction or purchase of houses in India for residential purposes;
 - (c) invest 75% of "capital employed" by way of long term finance for housing.

Explanation: For the purpose of these guidelines, "capital employed" means and includes:

- (i) paid up capital of the company and its free reserves less intangibles;*
- (ii) long term borrowings;*
- (iii) deposits with maturity period of five years and above collected from the public and others, excluding the amount required to be kept or maintained in specified asset as stipulated in Section 29B of the National Housing Bank Act 1987.*

MINIMUM PAID-UP CAPITAL AND LISTING REQUIREMENTS

2.1 HFCs should have a minimum paid up capital of not less than Rupees ten crores inclusive of equity support of NHB or such other amount as may be stipulated from time to time by NHB and/or the Securities and Exchange Board of India (SEBI) for listing shares on recognized stock exchanges, whichever is higher. Minimum

promoters' contribution in the share capital will always be the same as applicable to a company making an issue to the public.

2.2 With a view to enlarge equity base as well as public participation in housing finance activity, it is preferable that HFCs get their shares listed on recognised stock exchange(s) in India at an early date. If NHB at any time feels that the time is appropriate for the concerned HFC to go public, it would through its representative on the Board advise the HFC to go public. In case the HFC does not act on such suggestion, NHB may not extend further capital support in future. On the other hand, NHB may insist that the promoters should buy the shareholding of NHB within a definite time frame.

2.3 HFCs should conform and/or comply with all other rules, regulations, instructions, guidelines or orders issued by NHB or any other authority empowered in that behalf.

2.4 NHB's participation in equity in any case will not exceed 10% of paid up capital of the HFC.

SUBMISSION OF APPLICATION

3. HFCs desirous of financial support from NHB by way of equity participation shall submit their applications in such form and furnish such information/statements etc., as may be required by NHB for its consideration.

INVESTMENT IN LAND AND BUILDING

4. HFC's investment in land and building shall not exceed the ceiling as prescribed in the Housing Finance Companies (NHB) Directions, 2001 as amended from time to time.

BOARD OF DIRECTORS

5. NHB shall have the right to appoint two Directors on the Board of Directors of all HFCs having equity participation from NHB. However, in case of a HFC having equity participation from a bank/financial institution/Government and having on its Board of Directors two persons as of such bank/financial institution/Government nominee directors, NHB shall appoint only one Director as its nominee on the Board of such HFC. Articles of Association of HFCs should contain necessary provision for

appointment of nominee directors. Appointment of Chief Executive of HFCs should be made in consultation with the NHB.

CREDIT RATING

6. NHB may stipulate minimum equity grading of a HFC where deemed appropriate.

SHAREHOLDER'S AGREEMENT

7. HFCs shall enter into a shareholder's agreement with the NHB laying down covenants regarding substantive issues like undertaking of new business, amalgamation, mergers, takeovers, floatation of subsidiaries, investment in subsidiaries, appointment of nominee directors etc. The covenants will also provide that if at any time in future, the promoters want to buy the shareholding of NHB, they should offer a price which is not less than the book value of the share as per the last audited balance sheet.

PRICING OF SHARES/COST OF INVESTMENT

8. In the case of new HFCs without track record of profitability and dividend making first public issue of equity shares shall be subscribed by NHB at par and in the case of existing companies price will be determined and approved by the Board of Directors of NHB.

OTHERS

9. The participation in equity by NHB shall be at its sole discretion and shall not be claimed as a matter of right.

10. i) The above guidelines are in supercession of the Guidelines issued by NHB on July 4, 1997.

ii) Notwithstanding the supercession of the Guidelines issued by NHB on July 4, 1997 any act or deed done, action taken, refinance or other facilities extended thereunder shall continue to be governed by said guidelines as if those guidelines had not been superceded.

