

All Registered Housing Finance Companies

Madam / Sir,

### Instructions to all Housing Finance Companies

The Housing Finance Sector has evolved considerably in terms of offering variety of home loan products and floating varied market instruments for raising resources. Further, it is observed that certain Housing Finance Companies (HFCs) have high exposure to their subsidiaries and associate companies. Accordingly, greater diligence is required on matters such as reporting, disclosures, ALM, controls and inter-company transactions.

Therefore, the HFCs are advised to inter-alia:

- Ensure requisite compliance with the regulatory directives (National Housing Bank Act, 1987, Directions, Circulars, and Guidelines etc.) issued from time to time regarding ;
  - Capital Adequacy of 12% or more
  - Public deposits not in excess of 5 times of Net Owned Fund (NOF) where NOF is as prescribed by NHB from time to time
  - Maintenance of liquid assets of at least 12.5% against public deposits
  - Creation of Reserve Fund & transfer of at least 20% of the net profit every year
  - Corporate Governance Directions applicability for public deposit holding HFCs and other HFCs with asset size of more than ₹50 crore
  - Requirement to obtain prior approval for acquisition or transfer of control of HFCs (change in shareholding of 26% or more of the paid up equity capital of the HFC, acquisition of 10% equity shareholding by foreign investor in case of public deposit holding HFC)
- Put in place adequate systems and controls commensurate with the scale of operations with particular reference to exposure on high value Builder Loans, construction finance, loan against property and other non-housing loans;
  - Prudential Norms on concentration of credit or investment [15% of Owned Fund (OF) to single party, 25% of OF for group exposure; combined exposure of 25% of OF and 40% of OF respectively]
  - Investment in shares of another HFC (other than subsidiary) not in excess of 15% equity capital of Investee Company
  - Exposure to Capital market not in excess of 40% of Net Worth (investment in shares, convertible bonds/debentures, units of equity-oriented MFs and VC Funds not in excess of 20% of net worth)
  - Investment in land or building, except for own use, not in excess of 20% of capital fund (provided investment above 10% of OF to be made only in residential units)

... (2)

- Review their ALM practices as part of the overall system for effective risk management in various portfolios. This should be mandatorily reported to NHB on quarterly/half-yearly basis as prescribed in ALM System for HFCs - Guidelines issued vide Circular No. NHB/ND/DRS/Pol-No. 35/2010-11 dated October 11, 2010;
  - Prudential negative gap limit of 15% each in the time buckets of 1-14 days and over 14 days to one month
  - Cumulative gap up to one year period not in excess of 15% of the cumulative cash outflows
  - Submission of ALM Returns by HFCs having asset size of ₹100 crore or holding public deposits of ₹20 crore or more.
- Ensure effective management of operational risk including technology risk as outlined in Information Technology Framework for HFCs issued vide NHB/ND/DRS/Policy Circular No.90/2017-18 dated June 15, 2018;
- Ensure that Fair Practice Code (Circular dated October 11, 2010 and other instructions issued) is adopted in letter and spirit;
- Grievance redressal is an important indicator of the efficacy of the operations of any company, timely resolution of grievances should therefore be given primacy;
- To make all applicable disclosures on exposure to subsidiaries & associates as per the accounting standards and regulatory requirements;
- Ensure meticulous compliance in the matter of registration of the applicable records with the CERSAI on an ongoing basis as advised in NHB (ND)/DRS/Policy Circular No.91/2018-19 January 21, 2019;
- Put in place a reporting system for recording frauds as stipulated in the guidelines dated February 5, 2019
  - Reporting of frauds involving ₹1lakh and above to NHB
  - Frauds involving ₹50 lakh and above (₹25 lakh and above in case of attempted frauds) to be monitored and reviewed by the Audit Committee of the Board of the HFC.

Yours faithfully,



(V. Vaideswaran)  
General Manager  
Department of Regulation and Supervision