



New Delhi, the 3rd February, 2017

Notification No. NHB.HFC.AR-DIR.1/MD&CEO/2016

The National Housing Bank having considered it necessary in the public interest and being satisfied that for the purpose of enabling it to regulate the housing finance system of the country to its advantage, it is necessary to give the directions as set out below, in exercise of the powers conferred, by sub-section (1A) of sections 33 of the National Housing Bank Act, 1987 (53 of 1987) and of all the powers enabling it in this behalf, gives Directions hereinafter specified.

1. Short title, commencement and applicability of the Directions

- (i) These Directions shall be known as the “**Housing Finance Companies – Auditor’s Report (National Housing Bank) Directions, 2016**”.
- (ii) Unless otherwise directed by the National Housing Bank (NHB), these Directions shall be applicable to every auditor of a Housing Finance Company (HFC) as defined in paragraph 2(1)(m) of the Housing Finance Companies (NHB) Directions, 2010.
- (iii) These Directions shall come into force with immediate effect.

2. 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 3 and 4 below.

3. Material to be included in the Auditor’s Report to the Board of Directors

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

(A) In case of all Housing Finance Companies

- I. Conducting Housing Finance Activity without a valid Certificate of Registration (CoR) granted by the NHB is an offence under chapter VII of the NHB Act, 1987. Therefore, if the company, which primarily transacts or has one of its principal objects, the transacting of the business of providing finance for housing, whether directly or indirectly, auditor shall examine whether the company has obtained a Certificate of Registration (CoR) from the NHB.

- II. Whether the company is meeting the required 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.

(B) In case of a Housing Finance Companies accepting/holding public deposits

Apart from the matters enumerated in (A) above, the auditor shall include a statement on the following matters, namely:-

- (i) Whether the housing finance company has complied with Section 29C of the National Housing Bank Act, 1987;
- (ii) 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' in the Housing Finance Companies (NHB) Directions, 2010 are within the limits admissible to the company as per the provisions of the Housing Finance Companies (NHB) Directions, 2010;
- (iii) 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 the Housing Finance Companies (NHB) Directions, 2010 are regularised in the manner provided in the said Directions;

- (iv) Whether the housing finance company is accepting/holding "public deposits" without minimum investment grade credit rating from an approved credit rating agency;
- (v) In respect of housing finance company referred to in clause (iv) above,
 - (a) whether the credit rating, for each of the fixed deposits schemes that has been assigned by one of the Credit Rating Agencies mentioned in the Housing Finance Companies (NHB) Directions, 2010 is in force; and
 - (b) 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;
- (vi) 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;
- (vii) Whether the total borrowings of the housing finance company are within the limits prescribed under paragraph 3(2) of the Housing Finance Companies (NHB) Directions, 2010;
- (viii) 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 the Housing Finance Companies (NHB) Directions, 2010;
- (ix) Whether the capital adequacy ratio as disclosed in the Schedule-II return submitted to the National Housing Bank in terms of the Housing Finance Companies (NHB) Directions, 2010 has been correctly determined and whether such ratio is in compliance with the minimum capital to risk weighted asset ratio (CRAR) prescribed therein;
- (x) Whether the housing finance company has furnished to the Bank within the stipulated period the Schedule-II return as specified in the Housing Finance Companies (NHB) Directions, 2010;

- (xi) Whether the housing finance company has complied with the liquid assets requirement as prescribed by the National Housing Bank in exercise of powers under section 29B of the National Housing Bank Act, 1987 and the requirements as specified in paragraphs 14 and 15 of the Housing Finance Companies (NHB) Directions, 2010;
- (xii) Whether the housing finance company has furnished to the National Housing Bank within the stipulated period the Schedule-III return on Statutory Liquid Assets as specified in the Housing Finance Companies (NHB) Directions, 2010;
- (xiii) 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 the Housing Finance Companies (NHB) Directions, 2010.
- (xiv) Whether the housing finance company has complied with the provisions contained in paragraph 38 and 38A of the Housing Finance Companies (NHB) Directions, 2010;
- (xv) 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 Housing Finance Companies (NHB) Directions, 2010.

(C) In case of a Housing Finance Companies not accepting/holding public deposits

Apart from the matters enumerated in (A) above, the auditor shall include a statement on the following matters, namely:-

- (i) Whether the housing finance company has complied with Section 29C of the National Housing Bank Act, 1987;
- (ii) Whether the Board of Directors of the housing finance company has passed a resolution for non-acceptance of any public deposits;

- (iii) Whether the housing finance company has accepted any public deposits during the relevant period/year;
- (iv) Whether the total borrowings of the housing finance company are within the limits prescribed under paragraph 3(2) of the Housing Finance Companies (NHB) Directions, 2010;
- (v) 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 the Housing Finance Companies (NHB) Directions, 2010;
- (vi) Whether the capital adequacy ratio as disclosed in the Schedule-II return submitted to the National Housing Bank in terms of the Housing Finance Companies (NHB) Directions, 2010 has been correctly determined and whether such ratio is in compliance with the minimum capital to risk weighted asset ratio (CRAR) prescribed therein;
- (vii) Whether the housing finance company has furnished to the Bank within the stipulated period the Schedule-II return as specified in the Housing Finance Companies (NHB) Directions, 2010;
- (viii) Whether the housing finance company has furnished to the National Housing Bank within the stipulated period the Schedule-III return on Statutory Liquid Assets as specified in the Housing Finance Companies (NHB) Directions, 2010;
- (ix) 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 the Housing Finance Companies (NHB) Directions, 2010;
- (x) Whether the housing finance company has complied with the provisions contained in paragraph 38 and 38A of the Housing Finance Companies (NHB) Directions, 2010.

4. Reasons to be stated for unfavourable or qualified statements

Where, in the auditor's report, the statement regarding any of the items referred to in paragraph 3 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 3 above, his report shall indicate such fact together with reasons therefor.

5. Obligation of auditor to report to the National Housing Bank

(I) Where, in the case of a housing finance company, the statement regarding any of the items referred to in paragraph 3 above, is unfavorable 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 (53 of 1987); or
- b. Housing Finance Companies (NHB) Directions, 2010; or
- c. Housing Finance Companies issuance of Non-Convertible Debentures on private placement basis (NHB) Directions, 2014

it shall be the obligation of the auditor to make a report containing the details of such unfavourable or qualified statements and/or about the non-compliance, as the case may be, in respect of the housing finance company to the Department of Regulation & Supervision, National Housing Bank, New Delhi.

(II) The duty of the Auditor under sub-paragraph (I) shall be to report only the contraventions of the provisions of NHB Act, 1987, and Directions, Guidelines, instructions referred to in sub-paragraph (1) and such report shall not contain any statement with respect to compliance of any of those provisions.

6. Application of other laws not barred

The provisions of these Directions 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.

7. Exemptions

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

8. Interpretations

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

9. Repeal and saving

The provisions of Chapter IV of the Housing Finance Companies (NHB) Directions, 2010 shall stand repealed by these Directions.

Notwithstanding such repeal,

- a) any action taken, purported to have been taken or initiated under the Directions hereby repealed shall, continue to be governed by the provisions of said Directions
- b) any reference in other Notifications issued by the Bank containing reference to the said repealed Directions, shall mean reference to these Directions, namely, Housing Finance Companies - Auditor's Report (National Housing Bank) Directions, 2016, after the date of repeal.

Sriram Kalyanaraman
Managing Director & Chief Executive Officer