CHAPTER-VI
NATIONAL HOUSING BANK -REGULATORY AND SUPERVISORY FUNCTIONS

NHB is an apex level financial institution catering to the needs of housing sector in the country. It was established on July 9, 1988. It works as a facilitator in promoting housing finance institutions or providing assistance to other institutions of such type. NHB has 9 departments which are NHB Residex Cell, Regulation and Supervision, Refinancing operations, Direct finance Operations, Enabling Processes, Information Technology, Resource Mobilization and Management, Development and Risk Management, Board and CMD Secretariat. Headquartered in Delhi, the organization has its office in all the major cities such as Mumbai, Hyderabad, Bangalore, Chennai, Kolkata, Lucknow, Ahmedabad and Bhopal. With trained professionals and proficient experts working at different levels, NHB is dedicated in quest of excellence through modernism, doer work culture and contemporary work practices assisted by technology intervention

As per the National Housing Bank Act of 1987, the NHB is expected to control the housing finance system of the country, eliminating anything that hampers the interest of depositors or is detrimental to the interest of the housing finance institutions, in general. It also extends finances to different primary lenders with respect to eligible housing loans and project loans. The NHB provides loans and financial assistance to scheduled banks and housing finance institutions or to any authority established by or under any Central, State or Provincial Act. Apart from this, NHB has been playing the promotional role issuing guidelines for participating in the equity of housing finance companies and guaranteeing the bonds to be issued by the housing finance companies. Besides the lending operations, NHB's dedicated Training Division conducts regular training programs in areas relating to housing and housing finance for development of management capabilities of officials working in the financial sector.
The main objectives of NHB are as follows:

a. To promote a sound, healthy, viable and cost effective housing finance system to cater to all segments of the population and to integrate the housing finance system with the overall financial system.

b. To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.

c. To augment resources for the sector and channelize them for housing.

d. To make housing credit more affordable.

e. To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.

f. To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.

g. To encourage public agencies to emerge as facilitators and suppliers of serviced land, for housing.

Main Function of NHB

A. Promotion and Development Function—The institution had been set up when regional and local level housing finance institution were nearly absent and the banking sector was not willing to do housing finance on any significant level. As a result the sector was grossly capital deficient and the housing shortage in the country was growing at an alarming level. There was a need to set up local and regional level financial institutions for supply of housing credit. The households above the average income could be well served by an institution which raises resources through the open market and deliver credit with minimum necessary prudential regulations by the regulator. For households below the poverty line, the institutional credit will have to take into account the employment and poverty alleviation programmes having an element of subsidy. It is the middle group which constitutes nearly half of the total number of households in the country that needs to be taken care of. NHB is encouraging the financial institutions to lend to this segment through its refinance programmes. There has been a sustained effort at creating and supporting new set of specialised institutions to serve as dedicated centres for housing credit. NHB also participates in the equity of HFCs. NHB is of the opinion that intervention through
institutional credit can be made more effective by adoption of different approaches to cater to the needs of different income groups. With the setting up of NHB in 1988, there has been sustained efforts at creating and supporting new set of specialized institutions to serve as dedicated centres for housing credit. NHB’s role in this regard can be measured from the fact that from about 90 companies that were acting as dedicated housing finance institutions when NHB came into existence, there are now more than 53 such specialized institutions\(^1\) spread over the vast span of the country. NHB has been participating in the equity of the housing finance companies which are financing for the rural and low cost housing for the weaker section of the society. NHB has been imparting training to the banking sector and housing finance companies in particular for developing housing finance skill. It has so far organized more than 200 such trainings for more than 2000 officials.

**B. Regulatory and Supervisory Function**- The second most important function of NHB is the regulatory role assigned to it. This role assumes more importance as the housing finance system in India enters a secondary phase of development in terms of integration with the debt and capital markets. The case for regulation also emanates from the need for credible and stable housing finance system in the country. Without in any manner against the free market approach, NHB has attempted to put in place an effective system of responsive regulation. The housing finance system as such is still developing in the country and thus there needs to be a great amount of stability in terms of resource development, policy development and institution building. NHB has come up with guidelines for recognising Housing Finance companies (HFCs) for its financial assistance, guidelines for financial assistance. Besides it has also issued guidelines for prudential norms for income recognition, asset classification etc. NHB also regulate deposits taking activity of the housing finance companies. In terms of section 29A of the National Housing Bank Act, 1987 it is necessary for each of the housing finance companies to obtain registration certificate from NHB before commencement of business of housing finance.

**C. Financial Function**- The third important role of NHB is to provide financial assistance to the various banks and housing finance institutions. As an apex refinance

\(^1\) www.nhb.org.in
institution, the principal focus is to generate large scale involvement of primary lending institutions falling in various categories to serve as dedicated outlets for assistance to the housing sector. It supports housing finance sector by extending refinance to different lenders in respect of eligible housing loans extended by them to individual beneficiaries and for project loans extended by them to various implementing agencies. It also supports by lending directly in respect of projects undertaken by public housing agencies for housing construction and development of housing related infrastructure. Other institutions include scheduled banks (both commercial and cooperative), regional rural banks, specialized housing finance institutions, Agriculture and Rural Development Banks and the Apex co-operative housing finance societies. It helps by guaranteeing the repayment of principal and payment of interest on bonds issued by housing finance companies. Real Estate and Stock Market fluctuations also are monitored. Finally it acts as a special purpose vehicle for securitising the housing loan receivable. So the major things under the financial role that NHB plays are refinance operations, project finance, guarantee and securitisation.

**Future Strategies**- It has been estimated that the housing requirements till 2012 in India is around 74 mn units out of which nearly 90% of the total housing units in both the rural and urban areas are for the poor and low income segment households. Though the growth of housing finance is about 30% in the last few years it has not been able to satisfy the requirements of the poor sections of the society. So the NHB not only needs to develop a new financial architecture but also policy and regulatory framework for affordable housing on sustainable lines for the weaker sections of the society. The recent initiatives taken in this direction include interest subsidy scheme for urban poor, top up loan scheme, emphasis on public private partnership focussing on housing for poor, JNNURM\(^2\) for bringing appropriate policy and legal reforms for providing affordable housing to poor. So for all these to materialize synchronization is needed in the working of Government, Reserve bank of India (RBI) and NHB. Also public agencies, financial institutions and builders need to be incentivised so that NHB can achieve the goals that it has embarked on. NHB is also involved in

\(^2\) Jawaharlal Nehru National Urban Renewal Mission, Government of India
implementing housing relief schemes of the Government of India. NHB also raises resources for the housing sector towards increasing new housing stock and provides refinance to a large set of retail lending institutions. These include scheduled commercial banks, scheduled state cooperative banks, scheduled urban cooperative banks, specialized housing finance institutions, apex co-operative housing finance societies and agriculture and rural development banks.

**Guaranteeing Bonds of HFCs**

Housing Finance companies depend to a great extent on refinance assistance from NHB. However, the extension of refinance assistance by NHB is constrained by various factors like NHB's own Net Owned Fund (NOF), HFCs' borrowing power etc. In addition, in the present liberalized environment, the HFCs prefer to raise resources directly from market in order to eliminate the cost of intermediation. Besides NHB refinance, HFCs mainly depend upon term loans from banks and public deposits. Of late, the maturity profile of public deposits has been shortening leading to asset liability mismatches for HFCs. One way to overcome this problem is floatation of bonds/debentures having a longer maturity period of say five to seven years. To attract the investors at competitively low rates, such bonds/debentures should have sufficiently high rating. Many of the HFCs have not been able to float bonds/debentures because of the lower credit rating from the rating agencies for various reasons including the inherent mismatch between assets and liabilities. NHB's intervention in this area was considered critical and accordingly a scheme was introduced to extend guarantee to the bonds/debentures to be floated by HFCs meeting certain laid down criteria. Under the scheme, NHB will provide top ended guarantee relating to the repayment of principal and interest which will provide necessary credit enhancement and will enable HFCs to acquire higher credit rating leading to competitive pricing of these instruments. The salient features of the scheme are as under:

**Scope:** The Scheme envisages provision of guarantee by NHB to the investors regarding repayment of principal and interest during the top end (say last two years)

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3 NOF means Paid up capital+Reserve and Surplus (excluding revaluation reserve)+Long term liabilities (to be paid after one year), Deduct the following -- Trading investment-Fictitious assets (like preliminary exp., debit bal of Profit & Loss).
irrespective of the repayment schedule fixed by the HFC and the guarantee shall not exceed 67% of the total amount to be raised and the interest thereof.

**Terms and Conditions for Guarantee**

The HFC desirous of availing the guarantee from NHB has to comply with the following terms and conditions:

(i) The bond issue shall carry at least a rating of “AA-” from an approved rating agency. However, the Bank can consider providing the guarantee in the case of an instrument being rated ‘A’ subject to the HFC meeting the following requirements:

- a. NOF should be Rs.30 crores or more
- b. Net NPA should be less than 2%
- c. The HFC should have earned profit during the last three years or since its inception if it is in existence for less than 3 years
- d. The overdue for more than 3 months should not exceed 10% of the aggregate demand for the year, and
- e. The HFC shall have complied with all the provisions of the Housing Finance Companies (NHB) Directions, 1989 as amended from time to time and all the provisions of the Guidelines on prudential norms.

(ii) The maturity of the bonds/debentures should be for a period of five years to begin with.

(iii) The market should determine the coupon rate.

**Exposure Norms:** For the purpose of extending guarantee to the HFCs, exposure limits is fixed by NHB along with the annual refinance limit. The aggregate amount of the guarantee in a year can be maximum up to the actual amount of the bond to be floated at a time or the annual refinance limit provided in a particular year, whichever is less. The overall borrowing including the amount to be mobilized through the bond/debenture issue should not be more than 7 times the NOF of the company.

**Minimum Size of Each Issue:** The minimum size for each issue should be Rs.10 crores and subjected to the overall borrowing powers fixed under the Housing Finance Companies (NHB) Directions, 1989, as amended from time to time.
Security: The HFCs desirous of availing the guarantee has to create a floating charge on the assets equivalent to 125% of the principal amount in favour of NHB. In case the HFC offers any other security in addition to a floating charge for its existing borrowing or is in a position to provide further security, the same also to be asked for. In case of the HFCs, where personal or corporate guarantee has been obtained, the same should be extended to cover the guarantee for the bonds/debentures.

Guarantee Fee: For extending the guarantee, the HFCs is charged 75 basis points per year of the amount to be floated as guarantee commission and this is to be payable upfront.

Creation of Reserves: The HFC has to create appropriate bond/debenture redemption reserves as may be laid down under the Companies Act, 1956 from time to time.

Returns: The HFC has to furnish such returns/information as laid down from time to time for the purpose of availing refinance.

D. Training and Capacity Building

Among the multiple responsibilities entrusted to NHB under Chapter IV\(^4\) of the NHB Act, 1987, the development of human resources in the sector is a major agenda of the Bank. This is sought to be addressed partially through training programmes, seminars and symposia on matters related to housing for the officials of the Housing Finance Companies (HFCs), Commercial Banks and Public Housing Agencies. The growth in the housing sector has resulted in a need for human resources development and training in the sector. These needs are highly specialized as mortgage finance is different from extending financial assistance to other activities.

The last quarter of the 20th Century has been witnessing radical changes in technology, consumer markets, organisational structure, social values and the world order at large. Training and learning assume an all-time importance in the scenario of the swiftly changing environment. Organisation have to become "learning institutions" whose members endeavor to help their organisations to cope with the dynamics of change in technology, organisational systems and social values of the modern world. NHB endeavours seems to address this through, *inter alia*, conducting training programmes, seminars and symposia on matters related to housing.

\(^4\) Section 14.
design and faculty support to various categories of institutions dealing in housing and related activities.

The training programmes conducted by NHB are on a wide spectrum of topics and for different target groups. Orientation programmes are targeted at the entry level employees of the sector whereas, specialized programmes are designed and conducted for personnel working in specialized areas such as legal, regulatory and supervisory, risk management, securitization etc. Besides in-house faculty, experts in the respective fields are also invited to share their experiences with the participants. Various training methodologies such as class-room sessions, case studies, informal discussion, management games and interaction amongst the faculty and participants are used. Thrust is on free exchange of views and participation so as to learn from each other.

The NHB also provides programme design (course content, study material etc.) and faculty support to various institutions for conducting their in-house training programmes based on their requirements. In the past such support has been provided to a large number of banks, housing finance companies as well as co-operative sector institutions. In the larger context, NHB's efforts have been directed at capacity building of the sector so as to ensure capability and commitment in the personnel working in the sector.

Training is essential to the achievements of a business. Its most positive benefit is better employees. A company develop the potential of an employee, and part of the way a company encourages improvement is through training. The advantage employers should remember about training is it offers them an improved retention rate. Employees are more loyal to companies that value their growth and want to cultivate it, and thus provide a better performance and decrease the rollover rate at any company, no matter how small or large.

The growth in the housing sector has resulted in a need for human resources development and training in the sector. These needs are highly specialized as mortgage finance is different from extending financial assistance to other activities. For empowering the Regional Rural Banks (RRBs) and introducing them to the latest skill sets, NHB conducts training programmes for them at towns/rural areas where
they are based, defraying all the expenditure. The programmes meant for HFCs and Banks are nominally charged.

The National Housing Bank (NHB) has formulated a special Rural Housing Finance Scheme to mark the Golden Jubilee of Indian Independence. The scheme known as Golden Jubilee Rural Housing Finance Scheme was launched on August 16, 1997. It envisages provision of institutional credit to individuals desirous of constructing or acquiring new dwelling units and for extensions or repairs of existing units.

A number of Primary Lending Institutions (PLIs) are currently active in the housing finance sector in India. The institutions provide finance to individual borrowers, builders, corporate houses etc. for purchase/construction of houses and for repair / upgradation of existing house.

With the objective of providing long-term funds to these institutions, NHB extends refinance in respect of the loans extended by them. The following categories of institutions are eligible to take refinance from NHB:

a. Housing Finance Company
b. Scheduled Commercial Banks
c. Scheduled Urban Cooperative Banks
d. Regional Rural Banks
e. State Level Apex Co-operative Housing Finance Societies
f. Agriculture and Rural Development Banks
g. New Schemes

The National Housing Bank has sought permission from the Government of India and the Reserve Bank of India for financing to the Non-Banking Financial Companies, Builders for EWS category and Micro Finance Institutions.

The institutions desirous of availing refinance from NHB are required to fulfil basic criteria. The terms and conditions of refinance and the procedure for availing it are contained in the information brochure. The brochure can be obtained from NHB. The proposal is pending with the Government of India. It is reported that all these amendments to the National Housing Bank Act will be carried out once the Government decides transfer of equity from Reserve Bank to Government of India.
The trend of refinance disbursements since 1999-2000 to 2012-13 (upto 31-12-2012) is as under:

### Disbursement and Cumulative Disbursement (₹ crore)

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<td>2012-13</td>
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<td>94540</td>
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<td>(upto 31-12-12)</td>
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During the 2012-13, the Bank launched two new refinance schemes, Special Refinance Scheme for Urban Low Income Housing, and the Refinance Scheme for Installation of Solar Water Heating and Solar Lighting Equipments in Homes. The two schemes were launched by the Hon’ble Union Minister for Housing and Urban Poverty Alleviation, Government of India, Kumari Selja, at the inaugural ceremony of the Bank’s Silver Jubilee Year on 09-07-2012.

E. Project Lending from NHB
The National Housing Bank provides financial assistance for project lending to a range of borrowers both in the public and private sector. The eligible agencies for project lending are:

**Eligible Borrowers**

1. **Public Agencies**

   Agencies incorporated under the enactments of the Central or State Legislatures or under the Companies Act, 1956 such as:

   1. State Housing Boards/Improvement Trusts
   2. State Slum Clearance Boards/Authorities
   3. Housing Development Authorities
   4. Municipal Corporations/Councils
   5. New Town Development Agencies /Authorities
   6. Local Authorities for Housing & Urban Development
   7. Public Sector Companies for employee housing projects
   8. Agencies set up or notified by Government for Specific Housing Programmes (e.g. Earthquake rehabilitation etc.)

2. Microfinance Institutions/Self Help Groups/NGOs/Societies registered under the Societies Act, 1860 and Section 25 companies.

3. **Joint Ventures and Public Private Partnerships institutions**

**Eligible Purposes**

The Bank offers financial assistance for various types of projects right from township development, land acquisition and development, slum redevelopment projects etc. The same are enumerated below under three main heads namely special projects, general projects and short term facility:
I. Special Projects
   1. Slum redevelopment projects
   2. Housing for EWS/LIG etc.

II. General Projects
   1. Township cum housing development projects.
   2. Construction of houses on individual plots or group housing.
   3. Land acquisition for the purpose of township and housing development.
   4. Land development for housing including provision of facilities like roads, water supply, storm water drains, sewerage system etc.
   5. Development of land into buildable plots.
   6. Employee Housing.
   7. Special housing projects for people affected by natural calamities.
   8. Water & Sanitation: The Bank can also extend financial assistance for Water and Sanitation Programmes being undertaken by Micro Finance. Institutions (MFIs)/Non Government Organizations (NGOs)/Urban Local Bodies (ULBs) as a part of their Housing finance programme

III. Short Term Facility
Short term finance facility up to a maximum period of 2 years to public agencies engaged in housing projects is available from National Housing Bank.

IV. Takeover of Term Loan Liabilities of Public Housing and Development Agencies

Interest Rates
The option of availing fixed or floating interest rates is available. The interest rates are determined based on the Prime Lending Rate of the Bank. NHB reviews and resets the interest rates from time to time, depending upon the market conditions, commercial interest etc. Such changes in the rate of interest are applicable on the outstanding balances in the loan accounts under the floating rate option. In respect of fixed interest rates, NHB has the option to review and reset the rates on outstanding loans on completion of 3 years. The cut-off date for this purpose remains June 30/December 31 following the completion of 3 years. Borrowers is having option to either accept the revised rates or to prepay the outstanding amount without any prepayment levy if they find the revised rates unacceptable.
Prepayment Charges
Prepayment of loans is permissible with payment of prepayment levy as under:

1. On floating rate loans: 0.50% of amount to be repaid.
2. On Fixed rate loans: 0.50 to 1.50%, according to residual maturity.

It is surprising to note that NHB is levying prepayment charges on the institutions repaying outstanding loan amount before due date whereas it does not allow housing finance companies to levy pre-payment charges on their borrowers who intend to repay the outstanding loan amount before due date.

Extent of Financing and Period of Loans
The extent of financing is based on the type of project and also the rating assigned by National Housing Bank. It varies between 65 to 100% of the project cost.

The maximum period of loan is 15 years.

Security
The project finance shall be secured through one or more of the following depending on the Agency/project:

1. Mortgage/charge over immovable property acceptable to NHB
2. Charge over receivables
3. Bank Guarantee
4. Government Guarantee
5. Corporate Guarantee
6. Charge on Book Debts
7. Fixed Deposit Receipts
8. Hypothecation of property
9. Any other security acceptable to NHB
10. Interim Security (in some cases interim security may be required till the main security is lodged with the Bank)

Customer Service
NHB provides excellent customer service by quick disposal of project proposals and individual attention. It will also provide requisite financial and technical expertise and guidance in project formulation, if so required by the borrowers.
H. Procedure for Availing Financial Assistance The agencies desirous of availing financial assistance from NHB are required to fulfil certain criteria and conditions and procedure for availing the assistance.

Preamble of NHB Act, 1987
This is an Act to establish a bank to be known as the National Housing Bank to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support to such institutions and for matters connected therewith or incidental thereto.\textsuperscript{5} It extends to the whole of India including the State of Jammu and Kashmir.

NHB Residential Property Index (RESIDEX)
Keeping in view the prominence of housing and real estate as a major area for creation of both physical and financial assets and its contribution in overall National wealth, a need was felt for setting up of a mechanism, which could track the movement of prices in the residential housing segment. Regular monitoring of the house prices can be useful inputs for the different interest groups. Accordingly, National Housing Bank, at the behest of the Ministry of Finance, undertook a pilot study to examine the feasibility of preparing such an index at the National level. The pilot study covered 5 cities viz. Bangalore, Bhopal, Delhi, Kolkata and Mumbai. Besides, a Technical Advisory Group (TAG), with Adviser, Ministry of Finance, as its Chairman and comprising of experts members from RBI, National Sample survey Organization (NSSO), Central Statistical Organization (CSO), Labour Bureau, NHB and other market players, was constituted to deal with all the issues relating to methodology, collection of data and also to guide the process of construction of an appropriate index. Based on the results of the study and recommendations of the TAG, NHB launched RESIDEX for tracking prices of residential properties in India, in July 2007 by Shri P. Chidambaram (Hon’ble Finance Minister). It has been updated up to quarter ended September, 2012. In order to guide and oversee the construction of NHB RESIDEX and extension of its coverage, to include all the 63 cities under Jawaharlal Nehru National Urban Renewal Mission (JNNURM); a Standing Committee of technical experts has been constituted

\textsuperscript{5}Preamble of National Housing Bank Act, 1987.
under the Chairmanship of CMD, NHB with representations from the Government of India, (Ministry of Finance, NSSO, CSO, Labour Bureau), RBI, and other prominent market players. At present, index is being developed only for residential housing sector. However, at a later stage, based on experience of constructing this index for a wider geographical spread, the scope of the index could be expanded to develop separate indices for commercial property and land, which could be combined to arrive at the real estate price index.

**RESIDEX: Salient Features**

1. Pilot study covered 5 cities viz. Delhi, Mumbai, Kolkata, Bangalore and Bhopal representing the various regions of the country.
2. Actual transactions prices considered for the study in order to arrive at an Index which will reflect the market trends.
3. 2001 was taken as the base year for the study to be comparable with the WPI and CPI. Year to year price movement during the period 2001-2005 has been captured in the study, and subsequently updated for two more years i.e. up to 2007.
4. Thereafter, NHB RESIDEX was expanded to cover ten more cities, viz, Ahmedabad, Faridabad, Chennai, Kochi, Hyderabad, Jaipur, Patna, Lucknow, Pune and Surat.
5. At the time of last updation and expansion of coverage of NHB RESIDEX to 10 more cities, the base year has been shifted from 2001 to 2007.
6. From quarter January-March, 2012, NHB RESIDEX has been further expanded to cover 5 more cities viz Bhubneshwar, Guwahati, Ludhiana, Vijayawada & Indore.
7. The Index for Delhi has been expanded to cover Gurgaon, Noida, Greater Noida and Ghaziabad thereby expanding its coverage to National Capital Region (NCR). Thus, from April-June, 2012 onwards the Index of Delhi would cover National Capital Region (NCR).
8. Further, with 2007 as base, NHB RESIDEX has been updated up to quarter ended September, 2012 with quarterly update (July-September, 2012).
9. At the time of last updation and expansion of coverage of NHB RESIDEX to 10 more cities, the base year has been shifted from 2001 to 2007.
10. NHB RESIDEX is now being updated on quarterly basis. In the first phase NHB RESIDEX will be expanded to cover 35 cities having million plus population.
11. The proposal is to expand NHB RESIDEX to 63 cities which are covered under the Jawaharlal Nehru National Urban Renewal Mission to make it a truly national index.
12. Prices have been studied for various administrative zones/property tax zones constituting each city.
13. The index has been constructed using the weighted average methodology with Price Relative Method (Modified Laspeyre’s approach).
14. Primary data on housing prices is being collected from real estate agents by commissioning the services of private consultancy/research organisations of national repute; in addition data on housing prices is also being collected from the housing finance companies and bank, which is based on housing loans contracted by these institutions.

At present, NHB RESIDEX has covered 20 cities in the first phase, it is proposed to cover 35 cities having million plus population. The proposal is to expand NHB RESIDEX to 63 cities, which are covered under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), to make it a truly national index, in a phased manner. It is envisaged to develop a residential property price index for select cities and subsequently an all India composite index by suitably combining these city level indices to capture the relative temporal change in the prices of houses at different levels.

**REVERSE MORTGAGE**
Reverse mortgage is a financial product that enables senior citizens (60 +) who own a house to mortgage their property with a lender and convert part of the home equity into tax-free income without having to sell the house.
Instead of one making monthly payments to a lender, as with a regular loan, the lender makes payments to him. Multiple options are available for repayment of the loan in
lump sum at the end of the loan term. Maximum period of loan is of twenty years. The loan is not required to be serviced as long as the borrower is alive and in occupation of the property. On the borrowers death, the loan is repaid through sale of property.

**Qualifications for reverse mortgage eligibility**

1. Should be a Senior Citizen of India above 60 Years of age.
2. Married Couples will be eligible as joint borrowers provided one of them being above 60 years of age and other not below 55 years of age.

**Benefits of a reverse mortgage**

It aims at partially meeting the financial needs of senior citizens without selling the property and enables recurring funds inflows to the senior citizens during their lifetime. After the death of the senior citizen, the surviving spouse can continue to occupy the property till his/her demise

**F. BUSINESS OF THE NATIONAL HOUSING BANK**

1. promoting, establishing, supporting or aiding in the promotion, establishment and support of housing finance institutions;
2. making of loans and advances or rendering any other form of financial assistance whatsoever for housing activities to housing finance institutions, scheduled banks, state co-operative agricultural and rural development banks or any other institution or class of institutions as may be notified by the Central Government;
3. making of loans and advances for housing or residential township-cum-housing development or slum clearance projects;
4. subscribing to or purchasing stocks, shares, bonds, debentures and securities of every other description;
5. guaranteeing the financial obligations of housing finance institutions and underwriting the issue of stocks, shares, bonds, debentures and securities of every other description of housing finance institutions;
6. drawing, accepting, discounting or rediscounting, buying or selling and dealing in bills of exchange, promissory notes, bonds, debentures, bundies, coupons and other instruments by whatever name called;

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6Section 14.
7. buying, selling or otherwise dealing in any loans or advances secured by mortgage or charge of the immovable property relating to scheduled banks or housing finance institutions;

8. creating one or more trusts and transferring loans or advances together with or without securities therefor to such trusts for consideration;

9. setting aside loans or advances held by the National Housing Bank and issuing and selling securities based upon such loans or advances so set aside in the form of debt obligations, trust certificates of beneficial interest or other instruments, by whatever name called, and to act as trustee for the holders of such securities;

10. setting up of one or more mutual funds for undertaking housing finance activities;

11. undertaking or participating in housing mortgage insurance; promoting, forming, conducting or associating in the promotion, formation or conduct of companies, mortgage banks, subsidiaries, societies, trusts or such other association of persons as it may deem fit for carrying out all or any of its functions;

12. undertaking research and surveys on construction techniques and other studies relating to or connected with shelter, housing and human settlement;

13. formulating one or more schemes for the purpose of mobilization of resources and extension of credit for housing;

14. formulating a scheme for the purpose of accepting deposits referred to in clause (a) of section 2 of the Voluntary Deposits (Immunities and Exemptions) Act, 1991 and crediting forty per cent. of the amount of such deposits to a special fund created;

15. formulating one or more schemes for the economically weaker sections of society which may be subsidized by the Central Government or any State Government or any other source;

16. organizing training programmes, seminars and symposia on matters relating to housing;

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Section 37.
17. providing guidelines to the housing finance institutions to ensure their growth on sound lines;
18. providing technical and administrative assistance to housing finance institutions;
19. co-ordinating with the Life Insurance Corporation of India, the Unit Trust of India, the General Insurance Corporation of India and other financial institutions, in the discharge of its overall functions;
20. exercising all powers and functions in the performance of duties entrusted to the National Housing Bank under this Act or under any other law for the time being in force;
21. acting as agent of the Central Government, the State Government or the Reserve Bank or of any authority as may be authorized by the Reserve Bank;
22. any other kind of business which the Central Government may, on the recommendation of the Reserve Bank, authorize; and
23. generally, doing of all such matters and things as may be incidental to or consequential upon the exercise of its powers or the discharge of its duties under this Act.

Training

Program for Housing Finance Companies /Scheduled Commercial Banks.
1. Legal Issues in Housing Finance
2. Risk Management & ALM
3. Mortgage Finance for Homes
4. KYC-FPC & Customer Service
5. Prevention of Fraudulent Transactions
6. Regulatory Framework for HFCs
7. Orientation in Housing Finance
8. Rural Housing

NEW PROGRAMMES
1. Retail Assets - NPA Management & Recoveries
2. ‘E-Governance, E-Payments, E-Procurements and E-Learning’
3. Mortgage Finance for Homes
4. Appraisal Techniques for Housing Loans
5. Housing Project Finance: Appraisal techniques
6. Importance of Customer Service in a competitive housing loan market
7. Grievance Redressal
8. Know Your Customer Guidelines & Anti Money Laundering
9. Legal aspects & Documentation in Housing Finance
10. Central Registry of Securitization, Asset Reconstruction & Security Interest of India
11. Prevention of Fraudulent Practices in Housing Finance

**Financial and Operational Aspects of Fraud & Risk Mitigation Measures**

1. Government initiatives for fraud prevention and RBI Guidelines to safeguard against frauds
2. Central Registry of Securitization, Asset Reconstruction & Security Interest of India
3. Case Studies on Housing Loan Frauds
4. Management of Mortgage Frauds
5. Legal Remedies for recovery
6. Fraud Detection and Investigation
7. Fraud Detection and Mitigation: Case Studies
8. Regulatory Framework for Housing Finance Companies
10. Regulation & Supervision-II (Directions)
11. Consumer issues-guidelines for HFCs - (Fair Practices Code, DSAs, Recovery Agents & Complaints)
12. KYC & PMLA- Reporting to FIUIND
13. Overview of Financial Sector Regulation
14. Accounting Standards applicable to HFCs (Disclosure, valuation, Income recognition, Treatment of DTA & DTC etc.)
15. CFR & Broad Parameters of Financial Health of HFCs
16. Legal Issues in Housing Finance
17. Documentation in Housing Finance and Investigation of Title
18. Recovery of Housing Loans- Law and Procedure with reference to mortgages (other than covered under SARFAESI), Guarantees, pledge, other securities.
19. The Consumer Protection Act, 1986, housing and housing finance
20. Enforcement of Security Interest- Law and procedure
21. Enforcement of Security Interest- Case Study
22. CERSAI-Further Developments
23. Frauds in Housing Finance
24. Study of Case Laws
25. Risk Management & ALM
26. International Perspective as applicable under Basel Accord & Indian Scenario
27. Process of Conceptual Framework
28. Credit Risk
29. Interest Rate Risk
30. Operational Risk
31. Liquidity Risk & ALM
32. Risk Mitigating Techniques

Faculty
1. Reserve Bank of India
2. Reserve Bank of India Staff Training College
3. State Bank of India Staff College
4. State Bank Academy
5. Bank of India Staff Training College
6. Canara Bank Staff Training College
7. CERSAI
8. Housing Development Authorities
9. People Process Consultancy
10. Human Settlement Management Institute
11. National Housing Bank
Trainings Conducted

<table>
<thead>
<tr>
<th>FY</th>
<th>No.</th>
<th>for</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-06</td>
<td>5</td>
<td>HFCs/Banks</td>
</tr>
<tr>
<td>2006-07</td>
<td>8</td>
<td>HFCs/Banks</td>
</tr>
<tr>
<td>2007-08</td>
<td>10</td>
<td>HFCs/Banks</td>
</tr>
<tr>
<td>2008-09</td>
<td>10</td>
<td>HFCs/Banks/RRBs/MFIs</td>
</tr>
<tr>
<td>2009-10</td>
<td>11</td>
<td>HFCs/Banks/RRBs</td>
</tr>
<tr>
<td>2010-11</td>
<td>15</td>
<td>HFCs/Banks/RRBs</td>
</tr>
<tr>
<td>2011-12</td>
<td>19</td>
<td>HFCs/Banks/RRBs/Cooperatives</td>
</tr>
<tr>
<td>2012-13</td>
<td>15*</td>
<td>HFCs/Banks/RRBs/UCBs</td>
</tr>
</tbody>
</table>

*tilt December 2012

It is evident that maximum number of programs were conducted during the year 2012-13. The position of participation of the trainees has been shown as under:

Participation

<table>
<thead>
<tr>
<th>FY</th>
<th>No. of Participants</th>
<th>YOY Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>250</td>
<td>-</td>
</tr>
<tr>
<td>2008-09</td>
<td>303</td>
<td>21%</td>
</tr>
<tr>
<td>2009-10</td>
<td>315</td>
<td>4%</td>
</tr>
<tr>
<td>2010-11</td>
<td>423</td>
<td>34%</td>
</tr>
<tr>
<td>2011-12</td>
<td>575</td>
<td>36%</td>
</tr>
</tbody>
</table>

Since July 2007 till date, more than 2300 delegates have participated in the Bank’s Training Programmes.
Participation

![Bar chart showing participation from 2007-08 to 2011-12.]

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Training Centers since July 2010

![Map showing training centers across India.]
G. Regulatory and Supervisory Function

The second important function of NHB is the regulatory role assigned to it. It has mandate to regulate and supervise housing finance companies in India. Any company incorporated under Companies Act, 1956 has to obtain a certificate of registration from the National Housing Bank before commencing housing finance business. The objective is to create the framework for an effective system of ‘responsive regulation’ in tandem with the free market approach which would promote the credibility of the housing finance system among the savers and investors. The NHB has issued Directions to the HFCs. These Directions are called ‘Housing Finance Companies (NHB) Directions, 1989.’ The directions were amended from time to time and now fresh directions were issued in 2010.

Housing Finance Companies (HFCs)

Regulatory Function of NHB - Objectives of Regulation:

1. To safeguard public interest
2. To assist in sound and healthy growth of the sector
3. To minimize chances of systemic failures

The National Housing Bank Act, 1987 defines Housing Finance Institution: Includes every institution whether incorporated or not, which primarily transacts OR has as one of its principal objects the transacting of the business of providing finance for housing, whether directly or indirectly.

Companies which have sought Registration: 152
Companies which have failed to seek Registration: 256
Total: 408
Companies registered with NHB (31.12.2012) 53

256 companies that were on the ‘mailing list” have not applied for Registration. Of these, 166 companies are not traceable. A total of 152 companies have applied for Registration Of these, 91 were on the “mailing list”. 61 were not on the ‘mailing list.

H. Regulation of Housing Finance Companies

Generally in tune with the regulatory policy set by the RBI for the financial sector (banks, FIs, NBFCs) which, in turn, is based on the international best practice...
recommended by the Basel committee. HFCs are considered a sub-set of NBFCs and
the regulatory norms prescribed for HFCs are comparable to the regulatory norms
applicable to NBFCs. Norms prescribed for HFCs differ from those for NBFCs only
where there is genuine need for deviation.

**NHB : Instruments of Regulation**

2. Housing Finance Companies (NHB) Directions, 2001, as amended in 2010
3. Guidelines on Asset Liability Management
4. Supervision of HFCs
5. Statutory Returns (Annual Returns (Deposits), Half-yearly Returns (Prudential
   Norms), Quarterly Returns (Liquid Assets).
6. Disclosure Requirements
7. Advertisements / Statement in lieu of advertisement
8. Auditors’ Reports
9. On spot inspections of HFCs conducted of HFCs
10. Media reports
11. Complaints
12. Feedback from/co-ordination with other regulators / authorities viz. Reserve
   Bank of India, Security Exchange Board of India, Department of Company
   Affairs of the Government of India, Registrar of Companies etc.

**Supervisory process step-1**

1. Evaluation of feedback
2. Assessment of financial health & other relevant parameters
3. Meetings/discussions with company officials
4. Corrective measures
5. Co-ordination with other regulators/ authorities, wherever necessary

**Supervisory process step-2**

1. Corrective advice
2. Prohibition from acceptance of deposits/from alienation of assets
3. Public awareness/ depositor education
4. Redressal of depositors’ grievances
5. Prosecution & Penal Action
Regulatory provisions

1. NHB Act
2. Entry norms- Registration
3. Maintenance of liquid assets
4. Creation of reserve fund
5. NHB Directions 2001
6. Provisions relating to deposits
7. Prudential norms
8. Directions to auditors

Entry Norms (Requirement of Registration and Net Owned Fund): Housing finance company can not commence or carry on the business of a housing finance institution without,

(a) obtaining a certificate of registration issued by NHB; and
(b) having the net owned fund of twenty-five lakh rupees or such other higher amount as the National Housing Bank may, by notification, specify (presently 10 crores).

Supervision

1. Power to inspect and obtain information or verify its authenticity
2. Power to order special audit at the cost of HFCs
3. Power to collect information/ statement from HFCs
4. NHB undertake on-site inspection of HFCs.

I. National Housing Bank to have access to records of HFCs

The National Housing Bank is having free access to all such records of any institution which seeks to avail of any credit facilities from the National Housing Bank and to all such records of any person who seeks to avail of any credit facilities from such institution, the perusal of which may appear to the National Housing Bank to be necessary in connection with the providing of finance or other assistance to such institution or the refinancing of any loan or advance made to such person by that institution.

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10 S.21
Supervision of HFCs

1. Market intelligence
2. Complaints
3. News papers/media reports
4. Information received from other players
5. Interaction with other regulators
6. Various returns from HFCs
7. Exception reports from auditors.
8. Information through various returns prescribed.
9. Imposing of penalty in case of delay submission of returns/reports
10. Shortcoming in the returns/reports
11. Penalty for non-compliance of the Act and Directions
12. Action taken on negative reports received from other regulators/agencies/public and media reports.

J. Power to inspect HFCs\textsuperscript{11}

The National Housing Bank at any time can cause an inspection to be made by one or more of its officers of any institution to which the National Housing Bank has made any loan or advance or granted any other financial assistance, and its books, accounts and other documents; and the National Housing Bank can supply to the institution a copy of its report on such inspection. It is the duty of every officer, employee or other person or persons in charge of the whole or part of the affairs of the institution to produce to any officer making an inspection all such books, accounts and other documents in his custody or power and to furnish within such time as the said officer may specify, any statements, information relating to the affairs of the institution.

Power to collect credit information\textsuperscript{12}

The National Housing Bank can at any time direct any institution to submit to it credit information from time to time. The National Housing Bank can collect information from the Central and State Governments and any other institutions. Credit information means any information relating to the amount of loans and advances and other credit facilities granted for the purpose of housing, the nature of

\textsuperscript{11} Section 24.
\textsuperscript{12} Section 25.
security taken for such loans, advances or other credit facilities, the guarantees furnished; and any other information which has a bearing on the credit-worthiness of the borrower.

**Power to publish information**\(^{13}\)

The National Housing Bank, in the public interest can publish any credit information or other information obtained by it.

**Advisory services**—The National Housing Bank can provide advisory services to the Central and State Governments, local authorities and other agencies in the matter of,

(a) formulation of overall policies aimed at promoting the growth of housing and housing finance institutions; and (b) legislation relating to matters having a bearing on shelter, housing and human settlement.

**K. Special provisions relating to housing finance companies receiving deposits**

Need for regulations—prevention of

1. Proliferation and mushroom growth
2. Entry of inexperienced and weak players
3. Imprudent lending
4. Forays into un-synergetic activities
5. Mobilization of funds at high cost
6. Systemic risks

**L. Objective of regulations—to ensure,**

1. Functioning of HFCs on sound and healthy lines.
2. Meeting the claims of the depositors and other creditors as and where the claims arise.
3. Consistency of business with monitory and credit policy.
4. Dispensing of credit to agents of economic development.
5. Integration with other financial system.
6. Ensuring financial soundness of HFCs

**Process followed for registration**

1. Submission of prescribed application
2. Scrutiny by the Department of Regulation and Supervision

\(^{13}\) Section 26.
3. Views of co-regulators
4. Inspection of HFCs for Registration
5. Presentation of application before Registration Committee
6. Grant/Rejection of application by the Competent Authority.

The National Housing Bank, for the purpose of considering the application for registration, can cause inspection of the books of such housing finance institution and also following conditions are fulfilled: (a) that housing finance institution is or will be in a position to pay its present or future depositors in full as and when their claims accrue; (b) that the affairs of the housing finance institution are not being or are not likely to be conducted in a manner detrimental to the interest of its present or future depositors; (c) that the general character of the management or the proposed management of the housing finance institution is not be prejudicial to the public interest or the interests of its depositors; (d) that the housing finance institution has adequate capital structure and earning prospects; (e) that the public interest should be served by the grant of certificate of registration to the housing finance institution to commence or to carry on the business in India; (f) that the grant of certificate of registration will not be prejudicial to the operation and growth of the housing finance sector of the country; and (g) any other condition, fulfilment of which in the opinion of the National Housing Bank, will be necessary to ensure that the commencement of or carrying on the business in India by a housing finance institution will not be prejudicial to the public interest or in the interests of the depositors.

The National Housing Bank can after being satisfied that the conditions specified are fulfilled, grant a certificate of registration stipulating/without stipulating any conditions (s). The National Housing Bank may cancel a certificate of registration granted to a housing finance companies if such companies, (i) ceases to carry on the business of a housing finance institution in India; or (ii) has failed to comply with any condition subject to which the certificate of registration had been issued to it; or (iii) at any time fails to fulfil any of the conditions; or (iv) fails - (a) to comply with any direction issued by the National Housing Bank under the provisions of the Act; or (b) to maintain accounts in accordance with the requirement of any law or any direction or order issued by the National Housing Bank under the provisions of the
Act; or (c) to submit or offer for inspection its books of account and other relevant documents when so demanded by an inspecting authority of the National Housing Bank; or (d) has been prohibited from accepting deposit by an order made by the National Housing Bank under the provisions of the Act and such order has been in force for a period of not less than three months: A housing finance institution aggrieved by the order or rejection of application for registration or cancellation of certificate of registration can prefer an appeal to the Central Government (Ministry of Finance), within a period of thirty days from the date on which such order of rejection or cancellation is communicated to it. The decision of the appellant authority will be final: Provided that before making any order of rejection of appeal, such institution is given a reasonable opportunity of being heard.

**Maintenance of percentage of liquid assets.**

Every housing finance company is reported to 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, should not be less than five percent as the National Housing Bank by notification, specify, of the deposits outstanding at the close of business on the last working day of the second preceding quarter. If the housing finance company fails to adhere to the provisions NHB can impose penalty.

**M. National Housing Bank to regulate or prohibit issue of prospectus or advertisement soliciting deposits of money.**

The National Housing Bank is empowered, in the public interest, (a) regulate or prohibit the issue by any housing finance institution of any prospectus or advertisement soliciting deposit of money from the public; and (b) specify the conditions subject to which any such prospectus or advertisement, may be issued.

**N. Power of the National Housing Bank to determine policy and issue directions.**

The National Housing Bank, in the public interest, to regulate the housing finance system of the country and to prevent the affairs of any housing finance institution

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14 Section 29B of the National Housing Bank Act, 1987.
15 Section 30 of the National Housing Bank Act, 1987.
16 Section 30A Inserted by Act.No.15 of 2000, s.14 (w.e.f.12 June, 2000)
being conducted in a manner detrimental to the interest of the depositors or in a manner prejudicial to the interest of the housing finance institutions, can determine the policy and give directions to all or any of the housing finance institution relating to income recognition, accounting standards, making of proper provision for bad and doubtful debts, capital adequacy based on risk weights for assets and credit conversion factors for off balance-sheet items and also relating to deployment of funds by a housing finance institution. Housing finance institution are bound to comply with the policy made by National Housing Bank.

O. Power of National Housing Bank to collect information from housing finance institutions as to deposits and to give directions

The National Housing Bank can direct that every housing finance institution accepting deposits will furnish to the National Housing Bank statements, information or particulars relating to deposits received by the housing finance institution.

P. Duty of housing finance institutions to furnish statements, etc., required by National Housing Bank

Every housing finance institution is required to furnish the statements, information or particulars called for, in such form as may be prescribed, and comply with any direction given to it.

Q. Powers and duties of auditors

The auditor of every housing finance institution will be required to report whether or not the housing finance institution has furnished to the National Housing Bank such statements, information or particulars relating to or connected with deposits received by it, as are required to be furnished, and the auditor, except where he is satisfied on such enquiry that the housing finance institution has furnished such statements, information or particulars, is required to make a report to the National Housing Bank giving the aggregate amount of such public deposits held by the housing finance institution.

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17 Section 31.
18 Section 32.
19 Section 33 of the National Housing Bank Act, 1987.
Power of National Housing Bank to prohibit acceptance of deposit and alienation of assets.\(^{20}\)

If any housing finance institution violates the provisions of any section or fails to comply with any direction or order given by the National Housing Bank under any of the provisions of the Act. The National Housing Bank can prohibit the housing finance institution from accepting any deposit.

The National Housing Bank, in the public interest, can direct the housing finance institution against which an order prohibiting from accepting deposit has been issued, not to sell, transfer, create charge or mortgage or deal in any manner with its property and assets without prior written permission of the National Housing Bank.

R. Power of National Housing Bank to file winding up petition\(^{21}\)

(1) The National Housing Bank, can file an application for winding up of such housing finance institution under the Companies Act, 1956 \(^{22}\), if that HFC, (a) is unable to pay its debt; or (b) has by virtue of the provisions of section 29A become disqualified to carry on the business of a housing finance institution; or (e) has been prohibited by the National Housing Bank from receiving deposit by an order; or (d) the continuance of the housing finance institution is detrimental to the public interest or to the interest of depositors of the company, (2) A housing finance company will be deemed to be unable to pay its debt if it has refused or has failed to meet within five working days any lawful demand made at any of its offices or branches and the National Housing Bank certifies in writing that such company is unable to pay its debt. (3) A copy of every application made by the National Housing Bank is to be sent to the Registrar of Companies.

Inspection of Housing Finance Companies

The National Housing Bank can cause an inspection of any housing finance institution accepting deposits, for the purpose of verifying the correctness or completeness of any statement, information or particulars furnished to the National Housing Bank.

\(^{20}\) Inserted by Act 15 of 2000, s.17 (w.e.f.12 June, 2000).
\(^{21}\) Section 33B of the National Housing Bank Act, 1987.
\(^{22}\) The Companies Act 1956, sections 439-483 read with sections 528-559.
Deposits not to be solicited by unauthorized persons.\textsuperscript{23}

Person who is not authorized on behalf of the housing finance company cannot accept any deposits from public.

Power of National Housing Bank to exempt any housing finance institution

The National Housing Bank can declare by notification that any or all the provisions of the NHB Act will not apply to a particular housing finance institution or a group of housing finance institutions.

S. Chapter V of the NHB Act to override other laws\textsuperscript{24}

The provisions of this Chapter V of the NHB Act, 1987 containing regulatory and supervisory functions have over-riding effects upon any other law, in the subject matter.

T. Power to order repayment of deposit\textsuperscript{25}

Every deposit accepted by a housing finance company unless renewed, has to be repaid in accordance with the terms and conditions of such deposit. NHB has powers to order refund of public deposits.

Appointment of recovery officer\textsuperscript{26}

The Central Government can, in consultation with the National Housing Bank, by notification appoint officers of the approved institution, to be recovery officers.

Application to the recovery officer\textsuperscript{27}

Where any borrower, who is under a liability to an approved institution under an agreement, makes any default in repayment of any assistance or any installment thereof or otherwise fails to comply with the terms of said agreement, then, without prejudice to the provisions of the Transfer of Property Act,\textsuperscript{28} the approved institution may apply, to the recovery officer within the limits of whose jurisdiction the borrower actually resides, or carries on business or personally works for gain, or the cause of action wholly or in part arises, for the sale of the property pledged, mortgaged, hypothecated or assigned to the approved institution as security for the dues.

\textsuperscript{23} Section 35 of The National Housing Bank Act 1987.
\textsuperscript{24} Section 36.
\textsuperscript{25} Section 36A.
\textsuperscript{26} Section 36D.
\textsuperscript{27} Section 36E.
\textsuperscript{28} The Transfer of Property Act 1882, section 69.
Enforcement of order of recovery officer.\(^{29}\)
Where the borrower refuses or fails to comply with the order within the time specified therein the recovery officer can take possession of any property pledged, mortgaged, hypothecated or assigned to the approved institution as security for any assistance in respect of which default has been made and transfer by way of sale, lease or otherwise.

Chief Metropolitan Magistrate and District Magistrate to assist recovery officer in taking charge of property.\(^{30}\)
Where any property is sold or leased in pursuance of power conferred to the recovery officer can, for the purpose of taking into custody or under control any such property, request, in writing, the Chief Metropolitan Magistrate or the District Magistrate within whose jurisdiction any such property is situated or found to take possession thereof, and the Chief Metropolitan Magistrate/District Magistrate will, on request being made to him take possession of property in question and related records/documents.

Offences by companies\(^{31}\)
Where an offence has been committed by a company, every person who, at the time the offence was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, will be deemed to be guilty of the offence and is liable to be proceeded against and punished.

Cognizance of offences\(^{32}\)
No court can take cognizance of any offence punishable under NHB Act except upon a complaint in writing made by an officer of the National Housing Bank, generally or specially authorized in writing on behalf by the National Housing Bank, and no court other than that of a Metropolitan Magistrate or a Judicial Magistrate of the first class or a court superior thereto will try any such offence.

\(^{29}\) National Housing Bank Act 1987, Section 36G.
\(^{30}\) Section 36H.
\(^{31}\) Section 50.
\(^{32}\) Section 51.
U. Power of National Housing Bank to impose fine

If the contravention or default is committed by a housing finance company, the National Housing Bank can impose on such institution- (a) a penalty not exceeding five thousand rupees; or a penalty not exceeding five lakh rupees or twice the amount involved in such contravention or default, where the amount is quantifiable, whichever is more; and where such contravention or default is a continuing one, further penalty which may extend to twenty-five thousand rupees for every day, after the first, during which the contravention or default continues.

V. Housing Finance Companies (NHB) Directions, 2010

National Housing Bank had issued Housing Finance Companies (NHB) Directions, 2010 in respect of matters relating to acceptance of public deposits and compliance with the prudential norms by housing finance companies. Prudential norms for income recognition, accounting standards, asset classification, provision for bad and doubtful assets, capital adequacy and concentration of credit/investments are required to be observed by the housing finance companies and matters to be included in the Auditors Report by the auditors of housing finance companies.

These Directions are effective from June 26, 2010. All the housing finance companies are required to comply with these Directions. The Directions have been framed in tune with the National Housing Bank Act, 1987.

The Housing Finance Companies (NHB) Directions, 2010

a. Acceptance of Public Deposits : Restrictions (I)

HFCs not having the minimum required credit rating may accept public deposits up to 2 times of NOF or Rs.10 crores whichever is lower, subject to:

1. Compliance with all Prudential Norms
2. Capital Adequacy Ration (CAR) not less than 15% as per last audited balance sheet

(HFCs can not accept deposits in excess of 16 times its NOF)

An HFC holding deposits in excess of this limit at the commencement of Directions, will,

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33 Section 52A.  
34 Published in the Gazette of India Part III Section 4 dated June 26, 2010.
1. Not accept / renew fresh deposits.
2. reduce such deposits by repayment on maturity including
   a. Public deposits
   b. Loans / other assistance from NHB
   c. amounts as provided in the NHB Act.\(^{35}\)

b. Acceptance of Public Deposits : Restrictions (II)
In case of downgrading of credit rating to below the minimum specified level, the HFC has to,
   a. Inform NHB within 15 working days
   b. Stop accepting fresh public deposits (beyond twice its NOF or Rs.10 lakhs, whichever is lower)
   c. Repay the deposits on maturity or otherwise, so as to bring them within permissible level within 3 years from date of downgrading.

c. Acceptance of Public Deposits : Restrictions (III)
HFCs can not accept / renew following type of deposits :
   a. Which is repayable on demand, or
   b. For a period less than 12 months &
   c. For a period more than 84 months

Where a public deposit is in installments, the period of such deposit shall be computed from the date of receipt of the first installment. No HFC shall repay any public deposit within a period of 3 months from the date of its acceptance except in case of death of the depositor.

d. Acceptance of Public Deposits : Restrictions (IV)
Deposit application form to contain all particulars specified in the Non-Banking Financial Companies and Miscellaneous Non-Banking Companies (Advertisement) Rules, 1977.\(^{36}\) An HFC intending to accept deposits without inviting such deposits, it shall file a Statement In Lieu of Advertisement (SILA) with NHB

e. Acceptance of Public Deposits : Restrictions (V)
Furnishing of receipts to depositors : Deposit registers to be maintained at each branch and a consolidated register for all branches at the Registered Office Information to be furnished to the Board.

\(^{35}\) National Housing Bank act, 1987 ss. 45 I (bb) (iii) to (vii)
\(^{36}\) The Companies Act, 1956, s.58 (A)
f. Acceptance of Public Deposits: Restrictions (VI)

HFC can not accept or renew any public deposit on a rate of interest exceeding 12.50% compounded at rests not shorter than monthly rests.

Rates of interest on pre-mature repayment of public deposits to keep as under:

a. Between 3 to 6 months: No Interest
b. Between 6 to 12 months: Not exceeding 10% p.a.
c. Between 12 months and maturity: 1% less than the rate applicable to the period for which deposit was actually held

f. Acceptance of Public Deposits: Restrictions (VII)

HFC is not allowed to pay,

1. brokerage/commission, etc. in excess of 2% of the deposits collected through a broker
2. Expenses by way of reimbursement in excess of 0.5%

g. Acceptance of Public Deposits: Other provisions

An HFC can grant a loan to a depositor upto 75% of the amount of public deposit after the expiry of 3 months from the date of the acceptance of the public deposit @ 2% above the interest rate payable.

h. Opening and Closing of Branches

HFC to inform NHB before opening a branch or an office. No HFC accepting deposits can close its branch/office without public notice in any one national level newspaper and one vernacular newspaper in circulation in the relevant place advising NHB, 90 days in advance.

Prudential Norms

1. Income Recognition
2. Accounting Standards
3. Asset Classification
4. Provisioning Requirements
5. Capital Adequacy Norms
6. Concentration of Credit/Investment
Income Recognition
Income from Non-Performing Assets (NPAs) is to be recognized only when it is actually realized. No separate treatment for Government Guaranteed Loans / Assets is allowed. Dividend income on shares of corporate bodies and mutual funds can be taken into account on cash basis except where dividend has been declared by the corporate body in its annual general meeting & the HFC’s right to receive payment is established.

Accounting Standards
ICAI Accounting Standards & Guidance Notes have to be followed by all the housing finance companies.

Asset Classification
An asset becomes non-performing (NPA) when it ceases to yield income. An asset in respect of which interest has remained unpaid and has become past due is considered to be NPA. An amount is past due when it remains unpaid for 30 days beyond the due date (A Non-Performing Asset means loan asset/ interest unpaid for 6 months a term loan beyond 1 year, and installment overdue for 6 months or interest past due for 6 months.)

Assets are required to be classified as Standard, Sub-standard, Doubtful and Loss assets. The class of assets can not be upgraded merely as a result of rescheduling.

Capital Adequacy Norms: Tier I capital - core capital, provides most permanent & readily available support against losses (equity capital, compulsorily convertible preference shares, free reserves, etc.)

Tier II capital - not permanent or readily available (non-convertible preference shares, general provisions & loss reserves, hybrid debt capital instruments, subordinated debt, etc.)

Capital Adequacy Ratio (CAR)- 10% as on 31.03.2001
(CAR) Capital Adequacy Ratio - 12% as on 31.03.2002

Tier II capital not to exceed 100% of Tier I

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