PROSPER HOUSING FINANCE LIMITED

{*Registered with National Housing Bank (NHB)*}

Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances

In accordance with Housing Finance Companies (NHB) Directions

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1. INTRODUCTION

PROSPER HOUSING FINANCE LIMITED (Herein after called PHFL) is a Public Limited Company incorporated under Companies Act, 1956 and governed by directives of National Housing Bank. The code has been formulated by the company pursuant to the guidelines issued by National Housing Bank (NHB) in accordance with NHB guidelines. The purpose of this document is to define the Grievance Write off Process of the Company in accordance with National Housing Bank (NHB) directions for Housing Finance Companies. This is a living document and supposed to be updated on Regular Basis.

2. Company Philosophy:

PROSPER Housing Finance Limited (PHFL) believes in and compliance with prevalent practices that are in line with Directions provided by NHB to Housing Finance Companies.

PROSPER Housing Finance Limited believes in transparency and Fair Trade Practices.

3. Available Products:

PHFL has following loan products:

i. **Housing Loan:**

- Construction Loan
- Loan for New Purchase
- Old Purchase
- Renovation Loan

ii. **Non Housing Loan**

- Loan against Property

4. INCOME RECOGNITION

a) Income Recognition Policy

The policy of income recognition of PHFL is based on the record of recovery. Income from non-performing assets (NPA) is not recognized on accrual basis but is booked as income only when it is actually received. Therefore, PHFL do not charge and take to income account interest on any NPA.

b) Reversal of income

If any loan becomes NPA, the entire interest accrued and credited to income account in the past periods, is reversed if the same is not realized by PHFL. In respect of NPAs, fees, commission and similar income that have accrued is ceased to accrue in the current period and is reversed with respect to past periods, if uncollected by company.

c) Appropriation of recovery in NPAs

Interest realized on NPAs is be taken to income by company provided that the credits in the accounts towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.

In the absence of a clear agreement between the bank and the borrower for the purpose of appropriation of recoveries in NPAs (i.e. towards principal or interest due), PHFL adopt accounting principles and exercise the right of appropriation of recoveries in a uniform and consistent manner.

d) Interest Application

On an account turning NPA, PHFL reverse the interest already charged and not collected by debiting Profit and Loss account.

5. Definitions:

a) NON PERFORMINGASSETS:

Non-performing assets means a loan asset, in respect of which, interest has remained overdue for period of ninety days or more. Where several facilities have been granted to a borrower, even if one of the facilities is required to be classified as NPA, all the facilities granted to the borrower in the same capacity would also be classified as NPA, even if few of them may be in order. Classification of account as NPA is irrespective of the security available However, advances against term deposits,.

b) Past Due:

Past due means an amount of income or interest which remained unpaid for thirty days beyond the due date.

c) Standard Asset:

Standard Asset means and Asset on respect of which, no default in repayment of principal or payment is received and which does not disclose any problem nor carry more than normal risk attached to Business.

6. ASSET CLASSIFICATION

I. Categories of NPAs

PHFL classify non-performing assets further into the following three categories based on the period for which the asset has remained non performing and the realisability of the dues:

i. **Substandard Assets**

ii. **Doubtful Assets**

iii. **Loss Assets**

a) Substandard Assets

A substandard asset would be one, which has remained NPA for a period less than or equal to 12 months. Such an asset will have well defined credit weaknesses that liquidation of the debt and are characterised by the distinct possibility that the Company will sustain some loss, if deficiencies are not corrected.

b) **Doubtful Assets**

An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months. A loan classified as doubtful has all the weaknesses inherent in assets that were classified as sub-standard, with the added characteristic that the weaknesses make collection or liquidation in full, – on the basis of currently known facts, conditions and values – highly questionable and improbable.

- **Doubtful-I**

The NPA after completion of 365-730 days in Sub-Standard category will slip to Doubtful-I category.

- **Doubtful - II**

The NPAs after completion of 730 days till 1095 days from date of NPA category will slip to Doubtful-II category.

- **Doubtful-III**

The NPAs above 1095 days months from date of NPA category will slip to Doubtful-III category.

*no. of days may vary in leap year

c) **Loss assets**

An asset which has been identified as loss asset by the PHFL or its internal or external auditor or by the National Housing Bank, to the extent it is not written off by the PHFL and An asset which is adversely affected by a potential threat of non recoverability due to any one of the following, namely:-

(a) Non-availability of security, either primary or collateral, in case of secured loans and advances;

(b) Erosion in value of security, either primary or collateral, is established;

(c) Insurance claim, if any, has been denied or settled in part;

(d) Fraudulent act or omission on the part of the borrower;

(e) The debt becoming time barred under Limitation Act, 1963 (36 of 1963);

(f) Inchoate or defective documentation. Explanation- For the removal of doubt, it is clarified that mere right of the housing finance company to file suit against the borrower/guarantor for recovery of dues does not debar the National Housing Bank or the auditors to consider the asset or part thereof as loss asset due to aforesaid reasons;

7. Guidelines for classification of assets

PHFL has adopted appropriate internal systems (including technology enabled processes) for proper and timely identification of NPAs, especially in respect of high value accounts. PHFL has adopted various Flag Indicators at a minimum cut off point o decide what would constitute a high value account. The cutoff point is valid for the entire accounting year. Responsibility and validation levels for ensuring proper asset classification is fixed by the PHFL. PHFL ensure that doubts in asset classification due to any reason are settled through specified internal channels within one month from the date on which the account would have been classified as NPA as per extant guidelines.

- **Availability of security / net worth of borrower/ guarantor**

The availability of security or net worth of borrower/ guarantor is not be taken into account for the purpose of treating an advance as NPA by company.

- **Upgradation of loan accounts classified as NPAs**

If arrears of interest and principal are paid by the borrower in the case of loan accounts classified as NPAs, the account is no longer treated as non-performing and is classified as 'standard' accounts.

- **Accounts regularised near about the balance sheet date**

The asset classification of borrowal accounts where a solitary or a few credits are recorded before the balance sheet date is handled with care and without scope for subjectivity by PHFL. Where the account indicates inherent weakness on the basis of the data available, the account should be deemed as a NPA. In other genuine cases, company furnishes satisfactory evidence to the Statutory Auditors about the manner of regularisation of the account to eliminate doubts on their performing status.

8. Provisioning Norms:

- **Standard assets**

The provisioning requirements for all types of standard assets stands as below .PHFL make general provision for standard assets at the following rates

a) General provision of 0.4% percent on total outstanding is made on standard assets in respect of Housing Loans.
b) General provision of 0.4% percent on total outstanding is made on standard assets in respect of Non-Housing Loans.
c) The provisions on standard assets are not reckoned for arriving at net NPAs.
d) The provisions towards Standard Assets need is not netted from gross advances but shown separately as 'Contingent Provisions against Standard Assets' under 'Other Liabilities and Provisions Others' balance sheet.

- **Substandard assets**

A general provision of 15% percent on total outstanding is made on sub-standard assets

- **Doubtful assets**

100 percent of the extent to which the advance is not covered by the realisable value of the security to which PHFL has a valid recourse and the realisable value is estimated on a realistic basis.

In regard to the secured portion, provision is made by PHFL on the following basis, at the rates ranging from 25 percent to 100 percent of the secured portion depending upon the period for which the asset has remained doubtful:

Period for which the advance has remained in 'doubtful' category	Provision requirement (%)
Up to one year	25
One to three years	40
More than three years	100

9. Disclosures

PHFL, separately disclose in its balance sheet the provisions made as per paragraph 28 of Housing Finance Companies(NHB) directions 2010 without netting them from the income or against the value of assets.

- The provisions shall be distinctly indicated under separate heads of accounts separately for housing and non-housing finance business and individually for each type of assets as under:

- Provisions for sub-standard, bad and doubtful and loss assets; and

- Such provisions is not appropriated from the general provisions and loss reserves held, if any, by the PHFL

- Such provision for each year is debited to the profit and loss account. The excess of provisions, if any, held under the heads general provisions and loss reserves is written back without making adjustment against them.

10. Writing-Off of Bad -Debts

➢ **PHFL has adopted Finance Committee having Powers to write off, Waiver of Interest and absorption of Legal Expenses:**

Sr. No	APPROVING AUTHORITY		Designation(s)
1.	Mrs. Gurvir Kaur Sran		Director
2.	Mrs. Harmeet Kaur Sran		Director
3.	Mr. Vibha Wadhwa		Chief Financial Officer

- The task of committees is to examine the compromise / relief / write-off proposals and ensure that the settlement offer is fair, responsible, in the best interests of the bank and in line with the guidelines for settlement of such proposals as contained in the Policy. The committees will meet at regular intervals in keeping with flow of proposals. The frequency of Committee meetings will be such that proposals are cleared expeditiously.
- The Committees will record minutes of the meetings, giving account wise final proposals submitted to the delegating authorities.

Introduction

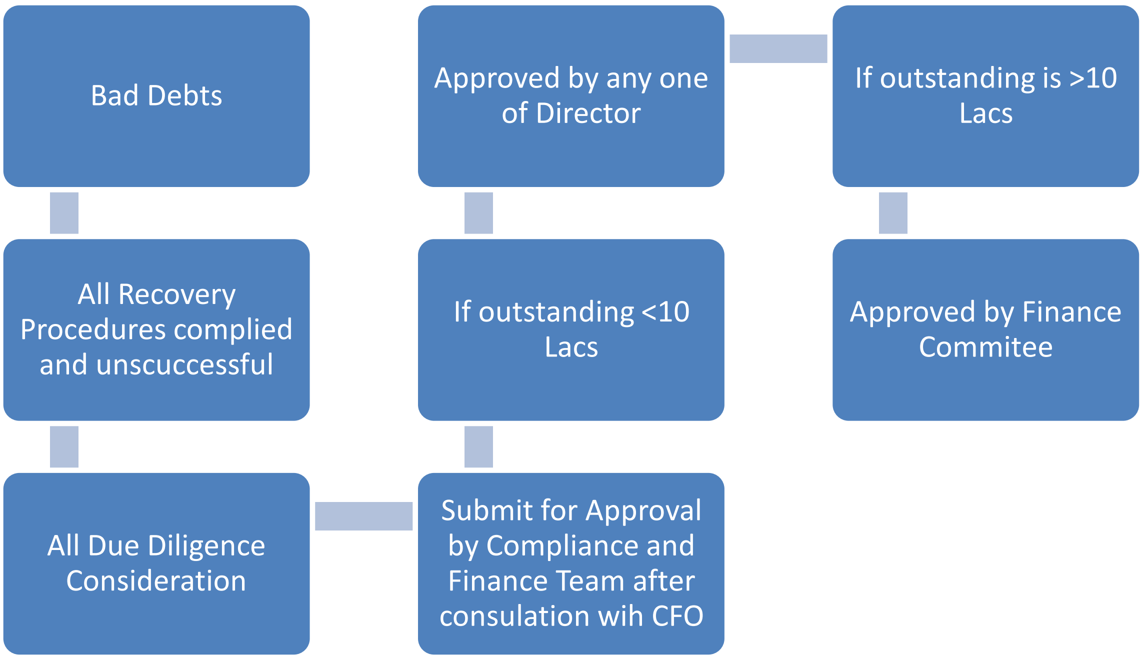
- The purpose of this procedure is to outline the PHFL'S guidelines to staff, on the management; provision for and write off of bad debts. It is the responsibility of the organization to ensure that the bad debts financial practices are consistent with this statement.

- Writing off bad debts is a non-routine function, and all practical means will be undertaken to recover outstanding amounts due to the organisation. Procedures shall be reviewed regularly by the Finance Committee to minimise bad debts and where appropriate and viable, legal action may be taken to recover amounts outstanding.

- Only after all avenues to collect the amount due have failed, will the bad debt be removed from PHFL'S books as bad debt.

11. Writing off Procedure adopted by PHFL

PHFL has adopted the following procedure for writing off bad Debts which are listed below



a) Recovery Procedures

Bad Debts are written off when the recovery compliances have proven unsuccessful and the Borrowers is unwilling to pay the amount due and further action is either not cost effective or highly unlikely to succeed

b) **Due Diligence Consideration**

Before the decision is made to write off individual arrears or part thereof, due diligence consideration will include the following:

- The cost of recovery action against the amount of the arrears being pursued.
- The likelihood of success i.e.
    - is it an individual or Local Authority
    - are there funds to pay available

- What was the cause of non payment

- Is or was the credit control procedures followed

- Could we improve on our procedures and practices

c) <u>If outstanding is less than Rs 10 Lacs or Rs 10 Lacs</u>

The Finance and Compliance Team after consultation with the Chief Financial Officer will submit arrears to be written off for approval. Any one of the Director will approve the write off, of individual arrears to the value of Rs 10 Lacs

d) **<u>If outstanding is greater than Rs 10 Lacs</u>**

If outstanding is Rs 10 Lacs than it will be referred to the Finance Committee. For approval

The procedure outlined below is intended to ensure that proper prior approval of write offs is obtained, and that each request is based on fully documented good faith efforts to collect the account (i.e. due diligence). This procedure does <u>not</u> include adjustments, amendments to accounts that are incorrect, and in such circumstances the corrections of accounting records procedures should be followed.

Efforts for recovery be continued even after the balance in the account is written off. In case of a suit filed account where the balance has been written off, suit proceedings/execution proceedings be continued. The court cost and other incidental charges for such recovery be debited to Profit & Loss Account.

12. Guidelines

The authority to write off of arrears lies with the Finance Committee. All decisions to write off an account are based on review of documented collection efforts and evidence, demonstrating that due diligence has been exercised.

- All write offs must be submitted to the Director for review prior to submission to the Finance Committee.

- Any receivable account balance which remains unpaid 90 days after the initial payment due date shall be referred to the Chief Financial Officer responsible for taking appropriate collection steps.

- Initiation of legal action to recover amounts due if the account remains unpaid after 120 days can only be issued with awareness of Chief Financial Officer about the steps taken

- If the account is still outstanding after 365 days, then the Chief Financial Officer in consultation with the Director and Finance Committee shall assess if any further legal action should be taken, before a recommendation to write off the account will be made.

13. **<u>Record Retention:</u>**

The complete record of the account, including write off approval and documentation of due diligence in the collection effort, will be retained in the archives of the collections department for six (6) years.

14. **<u>TECHNICAL WRITE OFF</u>**

The technical write off of NPA is resorted to for accounting purpose in case of

"Loss and Doubtful assets" and also Sub standard assets.

- Such write off is essentially a prudent accounting measure to reduce the level of Gross NPA as such accounts are either fully provided for or substantial provision is already available.
- The prudential write off to be effected to the debit of Contingency Account will be restricted to the extent of outstanding balance in the running ledger and against the provision available. The shortfall in provision on account of write off is to be made good while finalizing the Bank's account.
- Interest held in dummy ledger is not be waived. Branches will continue to maintain dummy ledgers in respect of NPAs prudentially write off.
- Recovery efforts in such accounts should continue to be vigorously pursued by branches. Suits filed should be expedited to their logical conclusion by constant follow up with our advocates. Where decrees are obtained, execution proceedings should be launched without delay.
- The fact of prudential write off should be kept in strict confidence and not disclosed to the borrowers under any circumstances.
- Branch should keep a close watch on the borrowers' activities, their means, assets not charged to the bank etc., so as to mount pressure on them for recoveries.
- Delegated powers for Technical Write Off will be Board of Director

15. Review

The Board of Directors of PHFL would provide for the periodical review of the compliance of Prudential Norms in accordance with Housing Finance Companies (NHB) Directions and the functioning of Committee at the various levels of Management.

FOR PROSPER HOUSING FINANCE LIMITED

Gurvir Kaur San
(Director)
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