Risk Management Framework - Asset Liability Management

The NHB has, by way of its circular dated October 11, 2010, prescribed guidelines for asset liability management system in HFCs ("**ALM Guidelines**"). In terms of the ALM Guidelines, HFCs are exposed to several major risks in the course of their business. These risks include credit risk, interest rate risk, equity/commodity price risk, liquidity risk and operational risk. In terms of the ALM guidelines, the asset liability management ("**ALM**") process involves, amongst others, (i) ALM information systems, which includes management information systems and availability of information and accuracy, adequacy and expediency thereof; (ii) ALM organisation, which includes involvement of top level management; and (iii) identification, measurement and management of risks and having in place risk policies and tolerance levels. Further, the scope of the ALM function of the HFC includes, amongst others, liquidity risk management, management of market risks, funding and capital planning, profit planning and growth projection, forecasting and analysing 'what if scenario' and preparation of contingency plans.

RBI circular on Risk-based Internal Audit ("RBIA") dated February 3, 2021 ("RBIA Guidelines")

By means of circular no. RBI/2021-22/53 DoS.CO. PPG.SEC/03/11.01.005/2021-22 dated June 11, 2021, RBI extended the applicability of the RBIA Guidelines to all deposit taking HFCs and every non-deposit taking HFC with assets size of ₹ 50 billion and above, ("**Applicable HFC**").

The RBIA Guidelines, inter alia, are intended to enhance the efficacy of internal audit systems and contribute to the overall improvement of governance, risk management and control processes of the Applicable HFCs. Under the RBIA Guidelines, the Applicable HFCs are *inter alia* required to formulate a RBIA policy with the approval of the board of directors. The RBIA policy must be reviewed periodically and it shall clearly document the purpose, authority, and responsibility of the internal audit activity, with a clear demarcation of the role and expectations from risk management function and RBIA function. Further, the RBIA Guidelines also require that the risk assessment of business and other functions of the Applicable HFCs should be conducted at least on an annual basis.

The National Housing Bank Master Circular – Returns to be submitted by Housing Finance Companies (HFCs) dated December 31, 2021

As per the Master Circular – Returns to be submitted by Housing Finance Companies (HFCs) dated December 31, 2021, as amended, HFCs are required to put in place a reporting system for filing various returns to the NHB with respect to their deposit acceptance, prudential norms compliance, ALM etc.

As per the circular, the compilation of the returns should be on the basis of the figures available in the books of account of the HFC. HFCs which are covered under Rule 4 of the Companies (Indian Accounting Standards) Rules, 2015 and are required to prepare its financial statement by complying with Ind AS, are required to submit all returns based on Ind AS financials. The reporting is required to be made online within the prescribed timeframe through the Centralised Reporting and Management information System (CRaMIS) portal. Further, HFCs are required to strictly adhere to the timeframe prescribed in the circular for submitting returns to the NHB failing which the concerned HFCs would be liable for penal action under the provisions of NHB Act.

RBI Guidelines on Digital Lending dated September 2, 2022 ("Digital Lending Guidelines")

In terms of the Digital Lending Guidelines, the regulated entities, which includes HFCs, shall ensure that the Lending Service Provider ("**LSP**") engaged by them and the Digital Lending App ("**DLA**") (either of the regulated entity or of the LSP engaged by the regulated entity) comply with the Digital Lending Guidelines. Regulated entities shall ensure that all loan servicing, repayment, etc., shall be executed by the borrower directly in the regulated entities' bank account without any pass-through account or pool account of any third party.

As per the Digital Lending Guidelines, the disbursements shall always be made into the bank account of the borrower except for disbursals covered exclusively under statutory or regulatory mandate (of RBI or of any other regulator), flow of money between regulated entities for co-lending transactions and disbursals for specific end use, provided the loan is disbursed directly into the bank account of the end-beneficiary. In terms of the Digital Lending Guidelines, HFCs and other regulated entities shall ensure that in no case, disbursal is made to a third-party account, including the accounts of LSPs and their DLAs, except as provided for in Digital Lending Guidelines.

Further, the Digital Lending Guidelines require the regulated entities to conduct enhanced due diligence before entering into a partnership with a LSP for digital lending, taking into account its technical abilities, data privacy policies and storage systems, fairness in conduct with borrowers and ability to comply with regulations and statutes. HFCs and other regulated entities are also required to carry out periodic review of the conduct of the LSPs engaged by them and impart necessary guidance to LSPs acting as recovery agents to discharge their duties responsibly and ensure that they comply with the required instructions.