Annex V

Valuation of Properties – Empanelment of Valuers

The issue of correct and realistic valuation of properties or fixed assets owned by HFCs and that accepted by them as security (primary or collateral) for a sizable portion of their advances' portfolio assumes significance in view of its implications for correct measurement of capital adequacy position of HFCs. In this context, there is a need for putting in place a system/ procedure for realistic valuation of properties/ fixed assets and also for empanelment of valuers for the purpose. HFCs shall be guided by the following aspects while formulating a policy on valuation of properties and appointment of valuers:

1. **Policy for valuation of immovable properties**

    1.1. HFCs shall have a Board approved policy in place for valuation of properties including collaterals accepted for their exposures.

    1.2. The valuation shall be done by professionally qualified independent valuers i.e. the valuer should not have a direct or indirect interest. However, valuation of properties by the internal technical valuers of housing finance companies is permissible subject to the internal technical valuer having qualifications similar to those prescribed under the Companies (Registered Valuers and Valuation) Rules, 2017.

    1.3. The frequency of valuation shall be decided by the Board of an HFC, based on the observed volatility in the prices of the assets in the past except annually in the case of Non-Performing Asset (NPA). The frequency of valuation in case of NonPerforming Asset (NPA) shall be annual in case of assets classified as substandard for more than six months or the classification of assets as doubtful assets. The frequency decided by the HFC shall be reviewed by its Board annually. Further, where the value of the properties has been substantially impaired by any event, these are to be immediately revalued and appropriately factored in to capital adequacy computation.

    1.4. Valuation procedure to be followed to ensure that the realisable value of properties is reasonably estimated.

1.5. HFCs shall obtain minimum two valuation reports, at least one of them being from an independent valuer, in case the loan amount is ₹50 lakh or above (or such any other lower value as may be decided by the Board of the company) and below ₹75 lakh. The lower of the two valuations shall be considered by the HFC for deciding upon the loan amount.

1.6. In case the loan amount is ₹75 lakh or above, HFCs shall necessarily obtain minimum two independent valuation reports and the lower of the two shall be considered by the HFC for deciding upon the loan amount.

1.7. The requirement of valuation in respect of financing of the initial purchase of a residential dwelling unit from a State Housing Board/Municipal Corporation/ Developmental Authority or other public agencies by an HFC shall be decided by the company with the approval of its Board.

1.8. In respect of financing of any initial transaction of the purchase of a property, the value of the property for the purposes of arriving at the Loan to Value ratio (LTV) should not exceed the documented transaction value as per the agreement to sale, sale deed etc. Valuation in such cases, if required, may be done as per the policy approved by the Board of the company.

2. **Policy of revaluation of HFC’s own properties**

In addition to the above, the HFCs may keep the following aspects in view while formulating policy for revaluation of their own properties:

2.1. HFCs have been permitted to include revaluation reserves at a discount of 55% as a part of Tier 2 Capital. In view of this, it is necessary that revaluation reserves represent true appreciation in the market value of the properties and HFCs have in place a comprehensive policy for revaluation of fixed assets owned by them. HFCs shall have a Board approved comprehensive policy in place for valuation of its own properties and such a policy should inter-alia cover procedure for identification of assets for revaluation, maintenance of separate set of records for such assets, the frequency of revaluation, depreciation policy for such assets, policy for sale of such revalued assets etc. The policy should also cover the disclosure required to be made in the 'Notes on Account' regarding the details of revaluation such as the original cost of the fixed assets subject to revaluation and accounting treatment for appreciation/ depreciation etc.

2.2. As the revaluation should reflect the change in the fair value of the fixed asset, the frequency of revaluation should be determined based on the observed volatility in the prices of the assets in the past. Further, any change in the method of depreciation should reflect the change in the expected pattern of consumption of the future economic benefits of the assets. The HFCs should adhere to these principles meticulously while changing the frequency of revaluation/method of depreciation for a particular class of asset and should make proper disclosures in this regard.

3. **Policy for Empanelment of Independent Valuers**

3.1. HFCs should have a procedure for empanelment of professional valuers and maintain a register of 'approved list of valuers'.

3.2. HFCs shall prescribe a minimum qualification and minimum post qualification experience for empanelment of valuers. Different qualifications and experience may be prescribed for different classes of assets (e.g. land and building, plant and machinery, agricultural land, etc.). While prescribing the qualifications, HFCs may take into consideration the qualifications prescribed under Section 34AB (Rule 8A) of the Wealth Tax Act, 1957.

3.3. While framing the above policy, HFCs shall also be guided by the provisions of the Section 247 of the Companies Act, 2013, Rules made or to be made thereunder and amendments therein, from time to time. Further, HFCs shall also be guided by relevant Accounting Standards.