

NHB(ND)/HFC/BP&P/2966/2005
June 21, 2005

Dear Sir,

Fraudulent Transactions in Housing Finance

It is observed that incidences of fraudulent transactions in the housing finance sector have been growing during the last few years. To share the modus operandi and causative factors of such frauds, the Fraud Management Cell in NHB has been collecting such information from HFCs, RBI & IBA etc. and circulating the same to HFCs to enable them to take adequate precautions, exercise due-diligence and initiate timely corrective actions to avoid occurrences of such fraudulent incidences in future.

2. In the past NHB has issued four Circulars on the modus operandi, causative factors etc relating to fraudulent transactions in housing finance.

3. In this context a detailed Circular superceding the earlier Circulars, indicating the causative factors and suggestive remedial actions is enclosed for your information and necessary action.

4. The contents of the Circular may be circulated amongst your staff functionaries especially at the branch level for taking necessary safe-guards and exercising adequate controls to avoid occurrence of fraudulent transactions.

Yours faithfully,

(P K Kaul)
General Manager

Encl: as above

Guidelines on Causes and Remedial Actions on Incidence of Frauds in Housing Finance

Point No.1	
Type of Frauds	Fabrication of Income Documents like Income-tax return, salary slip/balance sheet etc.
Severity of fraud	LOW
Modus Operandi	Committed generally by borrowers in connivance with Direct Selling Agent/Estate Agent/Builders.
Mitigating factors/Suggestions for Preventive Cures	<ol style="list-style-type: none"> 1. Verification of salary slips with employer. 2. Income Tax Department should upload on their website the list of Income Tax payers and defaulters. 3. Salary amount should be compared with Bank Statement. 4. Cross verification of balance sheet. 5. Personal interview of the borrower plays very important role.
Point No.2	
Type of Frauds	Loan amount disbursed by way of cheque/Demand drafts are encashed by third party/agents etc.
Severity of fraud	MEDIUM
Modus Operandi	Disbursed amount cheques are collected by the Agents/third parties from the borrower's bank and deposited in fictitious account opened for this purpose and amounts are withdrawn from such bogus account.
Mitigating factors/Suggestions for Preventive Cures	<ol style="list-style-type: none"> 1. Cheques should be issued in the name of bankers to the Builders with the bank account number on it. 2. Cheque should not be handed over to the borrower/agent/seller. Bank's Marketing Officials can be sent for delivery of cheque to the builders/sellers of property at the registered address mentioned in the title deeds.
Point No.3	
Type of Frauds	Title documents being forged – Stamped documents forged by borrower customer/builder
Severity of fraud	HIGH
Modus Operandi	Coloured Xerox copy of various documents are produced including encumbrance certificate, fake

	stamp papers etc. which are difficult to identify/distinguish from the original one.
Mitigating factors/Suggestions for Preventive Cures	<ol style="list-style-type: none"> 1. Tracking and sharing of all information among the HFCs and Banks about names of blacklisted builders & developers. 2. Agreement for sale/document of title should be in DEMAT form. 3. In case of large value loans, HFCs can approach the Sub-Registrar's Office to verify the genuineness of stamp paper/documents/registration receipts etc.
Point No.4	
Type of Frauds	Over valuation of the property
Severity of fraud	MEDIUM
Modus Operandi	These frauds are committed to draw higher loan amount by the borrower in connivance with the builders/valuers. The value of the property are inflated by including various expenditure and additional amenities, fixtures, legal charges, society advance, maintenance charges etc. which are non-existing.
Mitigating factors/Suggestions for Preventive Cures	<ol style="list-style-type: none"> 1. For valuation over Rs. 25 lacs, valuation should be done by two independent valuers. 2. Government should introduce certification course for the approved valuers. 3. HFCs should develop in house expertise for valuation of properties.
Point No.5	
Type of Frauds	Multiple financing
Severity of fraud	HIGH
Modus Operandi	These frauds are extension of the fake documents that are produced to different banks/HFCs
Mitigating factors/Suggestions for Preventive Cures	<ol style="list-style-type: none"> 1. Tracking & sharing of information among the banks and HFCs about names of black listed builders & developers selling same properties to more than one buyer. 2. Agreement for sale/document of title should be in DEMAT form. 3. HFC should insist on the original title deeds of the landed property on which structure is built.
Point No.6	
Type of Frauds	Cancellation of booking of flats/property i.e.

	collusion between customer and builder
Severity of fraud	MEDIUM
Modus Operandi	In this case after availing the initial loan amount, the booking is cancelled and the borrower directly take the refund from the builders.
Mitigating factors/Suggestions for Preventive Cures	Registration receipt issued by Registrar of stamp office should bear hypothecation clause as in case of certificate of registration in case of auto loans.
Point No.7	
Type of Frauds	Sale of property by loatee without clearing existing loan.
Severity of fraud	MEDIUM
Modus Operandi	Property is sold through duplicate/fake title deeds even though legal title is with the HFC.
Mitigating factors/Suggestions for Preventive Cures	<ol style="list-style-type: none"> 1. Equitable mortgage should be created at Registrar's office by deposit of title deeds. For this purpose all banks should represent to Central & State Government through IB A & RBI for enactment of necessary provisions. 2. Internal due diligence plays important role to prevent this type of frauds.
Point No.8	
Type of Frauds	Mis-representation of end use of loan
Severity of fraud	LOW
Modus Operandi	Loan taken for residential housing property. However, commercial property is purchased by availing such loan.
Mitigating factors/Suggestions for Preventive Cures	In order to ensure end use of loan, HFCs should depute officers for inspection/verification of property, whether it is residential housing property or commercial property.
Point No.9	
Type of Frauds	Sale of property by builder without clearing/repaying Construction Funding Loan availed by them from banks/HFCs
Severity of fraud	MEDIUM
Modus Operandi	Builders/property developers after taking Construction loan from banks/HFCs are selling developed ready flats/Galas/developed plots etc. without knowledge of their financiers & without repaying construction funding loan to them.

Mitigating factors/Suggestions for Preventive Cures	<ol style="list-style-type: none">1. This aspect of construction funding loan whether availed by the developer/builder or not, should be verified at project clearance level by banks/HFCs.2. Original document should be called for verifications at the time of appraisals of any housing loans.

Circular
NHB(ND)/HFC(P&D)/15.3/6065/2003
December 10, 2003

CONFIDENTIAL

To Chief Executives of all Registered HFCs

Dear Sir,

Fraudulent transactions in disbursal of home loans

It has been reported to us that unscrupulous borrowers have defrauded a number of primary lending institutions (PLIs), mainly the housing finance companies, scheduled commercial banks etc. by obtaining multiple finance against the same property/or through submission of fake/forged/stolen documents including fake title deeds. The borrowers had offered the same guarantors to all the institutions from whom they have availed housing loans on the aforesaid property. The modus operandi adopted in the perpetration of frauds were reported to be as under:

- i) In connivance with the builders/scheme organizers or any of its members, the borrowers prepared a number of original sets of documents and submitted to various PLIs. They might be well aware of and acquainted with housing loan appraisal systems in various PLIs and had accordingly prepared the application and paper work to meet with the requirements of PLIs.
 - ii) In certain cases, Title clearance report (TCR) was obtained from approved panel of advocates of PLIs with a detailed legal appraisal report stating that advocate had taken a search in revenue/government records for the last 30 years regarding the title of land/property. They had certified that the title of the particular flat was clear, marketable and applicant was a real and bonafide allottee and hence the creation of equitable mortgage was possible by depositing various title deeds/papers. No advocate had pointed out any thing adverse.
 - iii) Common chartered accountants' services were utilized who might have provided/fabricated some income tax returns and other methodology.
 - iv) Whenever pre/post visits were undertaken by PLIs, the colluding organizers/builders/applicant had shown the same flat to the visiting officials. Almost all the flats were found vacant during such visits.
 - v) In all accounts, registration of lien and creation of equitable mortgage was properly carried out with payment of appropriate stamp duty.
2. The other types of modus operandi which have led to frauds and have come to our notice were as under:

- i) In many cases, same property was offered as security to different HFCs/banks by submitting fake title deeds. Borrowers availed housing loan by providing color photo copy of the sale deed and by submitting fake documents/Sale deed and forged signatures of builder.
 - ii) In some cases, the mortgaged properties were found to be non-existent.
 - iii) Loans were granted to persons without verifying their antecedents/credentials and as a result they were found to be non-existent subsequently.
 - iv) The documents submitted for availing the loans such as title deeds, income tax returns, salary certificates etc. were found to be fake/fictitious.
 - v) The chartered accountants who had purportedly issued/verified the documents were found to be non-existent themselves.
 - vi) In a number of fraud cases, the builders/developers defrauded the HFCs/banks by pocketing the housing loans which they managed to obtain in the names of fictitious persons by submitting forged documents.
 - vii) In certain cases, builders/developers/vendors in connivance with the borrowers arranged housing loans from HFCs/banks by submitting fake/forged/manipulated salary certificates. Such loans were subsequently misappropriated.
 - viii) In certain cases, loan disbursement cheque issued in favour of the builder was handed over to the borrower in good faith. Borrower/co-borrower fraudulently encashed the loan disbursement cheque/draft issued in favour of builder/developer by opening a Bank Account in the name of builder firm.
 - ix) The flat against which housing loan is taken by the borrower has been sold to another party led by the developer/builder.
3. Keeping in view the above, Housing Finance Companies are advised to take extra precautions while accepting/verifying the documents, handing over the loan disbursement cheques, verifying the credentials and bonafides of the borrowers/vendors etc. Accordingly, branch level functionaries have to be vigilant in this regard. You may therefore review the existing system and controls and plug the lacunae therein to prevent occurrence of such frauds. The Board of Directors may be kept apprised, on a periodical basis, of the irregularities revealed and the likely loss on these accounts.

Yours faithfully,

Sd/-

(Lalit Kumar)

Assistant General Manager

No. 003/VGL/29
Government of India
Central Vigilance Commission

Satarkta Bhawan, Block 'A'
GPO Complex, INA,
New Delhi – 11 0023
Dated the 11th March, 2004

Office Order No. 18/03/04

To

All the Chief Vigilance Officers of PSBs

Subject: **Sanction of Housing loan/Consumer loan by PSBs – procedural lapses
Regarding.**

The Commission is in receipt of very large number of references from banks regarding irregularities in the grant of Housing loan/Consumer loan viz. –

- a) Non-verification of genuineness of the identity and records of the borrowers.
- b) Absence of visit to the housing site, independent enquiries with employer of the borrowers.
- c) Negligence in handing over pay orders to the borrowers instead of direct delivery to the builders/housing societies/housing development agencies.

2.As sanctioning of these loans are being pursued as high priority activities by banks and tough targets are being fixed, unscrupulous elements are taking advantages.

3.All the Public Sector Banks are advised to take urgent remedial and proactive steps to guard against these frauds.

4.CVOs may bring this to the notice of all concerned.

Sd/-
(Anjana Dube)
Deputy Secretary

NHB(ND/HFC(P&D/15.3/592/2004
March 31, 2004

Address Block

Dear Sir,

Sanction of Housing Loan – Procedural Lapses.

Central Vigilance Commission is in receipt of a large number of references of following nature from financial institutions regarding irregularities in the grant of housing loan.

- i. Non-verification of the identity and records of the borrowers.
- ii. Absence of visit to the housing site and independent enquiries with employer of the borrower.
- iii. Negligence in handing over the pay orders to the borrowers instead of direct delivery to builders/housing societies/housing development agencies.

With the rapid growth in housing finance business and increasing competition, a number of unscrupulous elements are reportedly misusing the system and taking advantage. All housing finance companies are advised to take urgent remedial and proactive steps to guard against these frauds.

Yours faithfully,

Sd/-
(R.V. Verma)
Executive Director

CREDIT INFORMATION RAEVIEW

BANKING

**301
AUGUST
2004**

Minimizing incidence of Frauds

Observing that there were administrative lapses in the processing of applications and in monitoring of accounts in a large number of cases reported as frauds, the Advisory Board on Bank. Commercial and Financial Frauds has offered an illustrative list of deficiencies noticed at the sanctioning/monitoring stage and suggestions to improve the system. The list of deficiencies noticed and the suggestions for minimizing the incidence of frauds in the advances portfolio are:

Deficiencies

At the sanction stage

- (i) Credit proposals were not appraised with due diligence. High projections of the borrowing company were not critically analyzed. In some cases, credit limits were sanctioned on the basis of appraisal made by the Merchant Banking Division for the purpose of public issue and no separate assessment for credit risk was done.
- (ii) Term loans were sanctioned without insisting on the project report, cost of project and means of finance.
- (iii) Additional loans were sanctioned at the time of mid-term review of projects, without proper appreciation of the market conditions and the factors which led to time and cost overruns.
- (iv) Irregularities based on stock verification reports, audit reports etc., pointed out by lower level functionaries were overlooked.
- (v) Officials in controlling offices/branches did not give full facts about borrowers and projects to the sanctioning authorities.
- (vi) Despite being aware of the unsatisfactory position of borrower accounts, facilities were sanctioned overlooking the deficiencies.
- (vii) The fact that at the time of take over of accounts, the borrowing company had irregular accounts with the previous bank/s, was overlooked.
- (viii) Adhoc limits were sanctioned frequently even when the company had regular limits and its accounts were running irregularly.
- (ix) The terms and conditions prescribed at the time of sanction of loan facilities were subsequently relaxed while disbursing funds without any justification for such relaxation.
- (x) In some cases, the sanctioning authorities acted on extraneous influences, rather than deciding on the merits of the case.

At the monitoring stage:

- i) Terms and conditions for sanction of loans and advances laid down by the central office were blatantly violated by branch officials.
- ii) Companies' financial standing and end-use of funds by borrowers were not properly monitored.
- iii) Chartered accountants'/valuers' certificates were unduly relied upon without co-operating them with other relevant procedures.
- iv) Banks failed to detect disappearance of stocks given as security resulting in misappropriation of funds/sale of stock and realization of receivables without their knowledge.

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- (v) Banks failed to ensure adequacy of the security offered by borrowers, and also failed to verify whether the same asset was mortgaged to another Bank/FI.
- (vi) After the funds were lent, accounts were not reviewed periodically.
- (vii) Proper assessment of the financial standing of the projects was not carried out when the accounts were taken over from another bank.
- (viii) Excess drawings in the borrowal accounts permitted by the branch/regional office level functionaries, were ratified by the head office in a routine manner without examining the need for such permissions.

(ix) Limits sanctioned were allowed to be interchanged indiscriminately without proper authority.

(x) As regards term loans for financing projects, important terms and conditions of the sanction stipulated by the board of directors, such as, induction of technical directors, constitution of audit committees and independent project monitoring committees were not taken seriously.

Suggestions

- (i) Lending banks should obtain a certificate from the borrowers on a quarterly basis furnishing details of accounts opened with other banks.
- (ii) Banks may consider setting up of independent cells for valuation, to be manned by technical personnel with the right expertise.
- (iii) Immediate action should be taken where the malafides/gross negligence by dealing officials are noticed. Wherever there is a prima facie case against the dealing officials, appropriate action in terms of the Central Vigilance Cell (CVC) guidelines for their inclusion in the list of officers with doubtful integrity should be initiated in consultation with the Central Bureau of Investigation.
- (iv) Banks should evolve a process of check listing to enable them to take note of any deficiency while releasing funds to the borrowers or monitoring their end-use.
- (v) Banks should build up a cadre of officials with proper educational background and training to take care of at least large projects.
- (vi) In the case of project finance, disbursements should be made only after promoter/borrower brings in his stipulated contribution.