

By Speed-post

NHB (ND)/DRS/Misc. Circular No.5/2011

July 28, 2011

To All Registered Housing Finance Companies

Dear Sir/Madam

**Need for ensuring due diligence in the
matter of deployment of funds by HFCs**

On scrutiny of various returns submitted to the National Housing Bank by the housing finance companies (HFCs) as also other information gathered by the Bank in the matter of deployment of funds by them, it has been observed that loans are being sanctioned without proper credit appraisals and without security / adequate security. It is also observed that loans have been sanctioned and disbursed without ensuring permission/clearances from Government/Local Authorities. In many cases, there is lack of system of independent verification of third party certification such as property valuation certificate, title certificates etc. Instances of disbursements having taken place without reference to the stage of construction / physical progress of the projects have also come to light. Such acts/practices are considered prejudicial to the development of a healthy housing finance system in the country.

2. Therefore, and with a view to ensure growth of housing finances system on healthy and sound lines, it is advised as under :-

- (a) HFCs should take proper and adequate security for the loans. In case a loan is to be sanctioned on unsecured basis, the same should be in accordance with the Board approved policy of the HFC.
- (b) HFCs should review and strengthen their credit appraisal systems. Wherever documents of title are submitted as security for loans, there should be a system of verification of their genuineness, especially in large value loans. Wherever a chartered accountant certificate, property

valuation certificate, legal certificate, guarantee/line of credit or any other third party certification is submitted by the borrower, the HFC should independently verify the authenticity of such certification by directly communicating with the concerned authority issuing the certificate. Indirect confirmation may also be resorted to, ie. Indicating to the issuer that in case there is no response by certain deadline, it would be assumed that the certificate is genuine. HFCs should ensure that the borrowers have obtained all required permissions/clearances from Government/Local Government/Statutory Authorities for the project. In case of construction loans, there should be system in place for physical verification/project progress monitoring with proof (snap shots) and technical reports ought to be put up to the competent authorities/committee/board at regular intervals.

- (c) Any relaxation in terms & conditions either at the time of sanction or anytime thereafter should also be in accordance with Board approved policy of the HFC, as also in conformity with the regulatory directions/guidelines. The cases and reasons for such relaxation should be clearly recorded. Any rescheduling of the loan should be done with the prior approval of the Board/Competent Authority and in accordance with applicable Directions/ Guidelines in this regard.

3. Please acknowledge receipt.

Yours faithfully,

sd/-

(R.S.Garg)

General Manager

Department of Regulation & Supervision