

NHB(ND)/DOS/Sup. Circular No.9/2022-23

Department of Supervision

April 26, 2023

All registered Housing Finance Companies with asset size of Rs. 1000 crore or above as on March 31, 2023

Madam/Sir,

Early Warning Signals Framework in HFCs

Analysis of the frauds reported by the HFCs has revealed that the reasons behind accounts being identified as fraud accounts are seller impersonation, submission of fake income/employment documents, submission of fake title deeds, collusion of the builder & borrower etc. It has also been observed that such deficiencies are identified only when the borrower stops paying the EMIs after the disbursement of the loans.

2. It has been therefore decided that an Early Warning Signals (EWS) Framework should be adopted by the HFCs so that an alert is triggered before the account turns into Non Performing Asset (NPA) or declared as a fraud account. Tracking of the EWS must be integrated with the Credit Monitoring Process in the systems of the HFCs so that it becomes a continuous activity. Through the EWS framework, HFCs will be encouraged to take into account Fraud Risks in their Risk Management Practices.

3. A suggestive list of EWS indicators is given in *Annexure*. The list is indicative and HFCs are advised to add other EWS indicators based on their experience.

4. HFCs must report implementation and progress of EWS framework to the Audit Committee of the Board. An escalation matrix for reporting breach, if any, will be developed by HFCs.

5. This Circular shall be placed in the immediate next meeting of the Board of Directors for information and devising an implementation strategy, under the Board's supervision. The mechanism needs to be put in place by April 1, 2024.

Yours faithfully

(S. K. Padhi)

General Manager

Encl: As Above

Annexure

An indicative list of the EWS are given below:

S.No	Indicators
	Retail Loans
1	Disbursement of loan done without meeting all pre-disbursement conditions
2	Disbursement of loan done without collecting all the documents as prescribed in the Legal report/Valuation report
3	Occupation of the borrower has changed
4	Adverse developments in the Sector in which the borrower is employed
5	Construction of the house not proceeding as per the disbursement schedule
6	Unusual delay in submission of Post Disbursement documents/Non collection of title documents from Registrar of assurance
7	Company is unable to contact the borrower during credit monitoring
8	It has come to the notice of the company that other lenders have reported NPAs/Fraud accounts in the same project where the company has also given loans
9	Construction of house not commenced even after 18 months in case of composite loans
10	Waiver of submission of KYC documents
11	Other accounts sourced by the DSA who has sourced the account have turned into NPA/Fraud
12	Branch to which the account belongs has been reporting an increase in NPAs/Frauds
13	Dispute on title/area/security of the collateral securities
14	Concealment of documents/information related to the loan observed during credit monitoring
15	Account in SMA 2 (>60 days overdue status) for more than 3 consecutive months
16	Proposals of takeover of existing loans from other Banks/HFC (Balance Transfer) with request for additional loan based on fresh valuation of property (in excess of 10% from original loan/asset value)
17	Accounts involving cash payment of processing charge/EMIs (where electronic payment from Savings bank account not established)
18	Accounts where NACH/PDC bounces for 3 or more occasions in previous 12 months and EMIs are serviced in cash
19	Multiple loans in name of members of same family sanctioned together/during a year in quick succession
20	Abrupt fall in market price (per square feet rate) of property or guidance value in an area
21	Non creation /modification of charge with CERSAI/MCA etc within stipulated time
22	Loan granted without obtaining NOC from the builder/developer while providing individual housing loan
	Corporate/Project Loans
23	Disbursement of loan done without collecting all the documents as prescribed in the Legal report/valuation report

24	Borrower approaches the company for restructuring of the loan i.e there is a change in terms and conditions of the loan
25	Reduction in stake of the promoter in case of project/builder/corporate loans
26	Borrower is facing legal proceedings from other Statutory Authorities and has been imposed fines/penalties
27	Delays observed in the completion of the project in construction finance cases
28	Borrower has approached the company for other credit facilities to repay the existing loan
29	Resignation of the key personnel and frequent changes in the management observed in the borrowing entities
30	Substantial related party transactions
31	Material discrepancies/red flags /inconsistencies observed in the annual report of the borrowing entities
32	Not routing of sale proceeds/receipts through the designated escrow accounts
33	Account in SMA 2 (>60 days overdue status) for more than 3 consecutive months
34	Accounts where NACH/PDC bounces for 3 or more occasions in previous 12 months and EMIs are serviced in cash