Home Finance

Document review and approval

Document Control

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06/02/2019	Finance, Risk & Compliance Department	1.0	V. Vasantha, Managing Director
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Financial Institutions in the process of financial intermediation are confronted with various types of risks- both financial and non-financial. With the onset of globalization and financial sector reforms, risk management in Housing Finance Company (HFC) is a matter of concern, which cannot be overlooked. In the deregulated environment, Asset Liability mismatch is bound to occur. The Reserve Bank of India Master has outlined Direction DNBR. PD. 008/03.10.119/2016-17 dated September 01, 2016 ("RBI Circular")

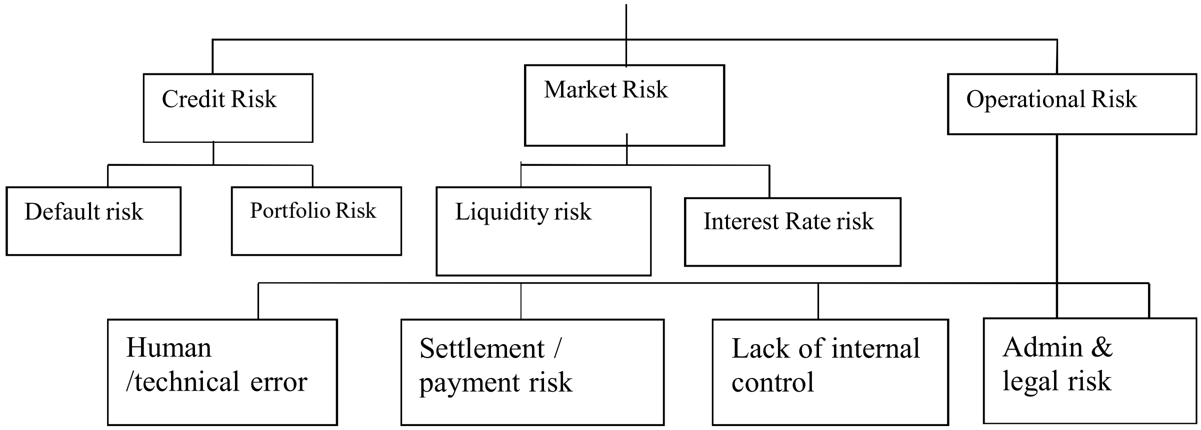
It is suggested that the Board of HFC shall articulate a Risk Management philosophy and policy, compatible with the type and size of operation as well as risk perception. The risk management philosophy and policy of our HFC is drawn up based on the guidelines of NHB.

ORGANISATIONAL STRUCTURE: The primary responsibility of laying down risk parameters as well as establishing risk management and control system rests with the Board of Directors.

IKF Home Finance Ltd (IKFHFL) seeks to establish and maintain a sound and stable portfolio of housing loans and mortgage loans. In achieving this objective, the overriding emphasis is on the quality of the portfolio, which determines the integrity of earnings and capital. IKFHFL had always focused on 'investment quality" loans where the borrower is able and willing to repay the loan and the property constitutes sufficient security for the mortgage.

As housing loans are of long term nature, the significant challenge is that of understanding and managing risk. Recovery of loan depends primarily upon the quality of loan sanctioned and the integrity of the borrower. IKFHFL exercise due diligence and care at the time of appraisal to take care of credit risk, operational risk and market risk. To summarise, the following is tabled.

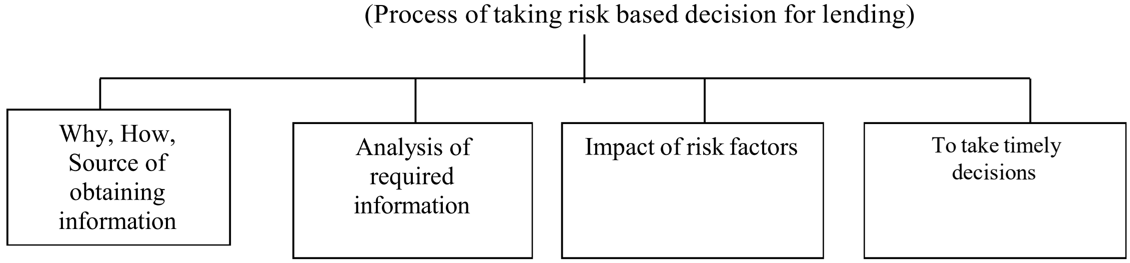
Risks affecting credit decisions



Keeping the above in mind, IKFHFL has underlined the process of appraisal, an efficient legal system, verification of the credentials of the borrower(s) by independent agencies and close follow up mechanism. It is in the fitness of things that we in IKFHFL adopt following systems and procedures, to understand, evaluate, operationalise and mitigate the above risks.

CREDIT RISK & MANAGEMENT

(Process of taking risk based decision for lending)



In simple terms, credit risk is defined as the possibility of losses closely associated with diminution in the credit quality of borrowers and arises out of default due to inability or unwillingness of a customer to meet his commitments.

IKFHFL adopts a very healthy appraisal system and focuses on **FOUR Cs** namely **C**redentials, **C**apacity, **C**ollateral and **C**apital.

CREDENTIALS

- Obtaining personal information.
- Verification of the information collected through independent agencies.
- The above ensures KYC norms to a great extent and we attach highest importance to this aspect.
- Evaluating the standard of living.
- Area in which he lives.
- Easy traceability.
- Assessing the loan quantum

CAPACITY

- Stability of employment at least for two full previous years.
- Verification of at least three most recent pay slips/ Form -16/ Income tax returns/ Bank statement
- Employment/ Income by way of salary/cash salary / Income tax returns are verified through independent means.
- The employer profile is evaluated to ensure the capacity of the employer to offer continuous employment and to make salary payments on time.
- Two important ratios considered by us to determine the loan amount and repayment capacity of the borrower are :
  a) Total obligation-to-Income Ratio which is expected to be less than or equal to 50% of the gross income is below Rs.30K and below 60% for income more than Rs.30K per month
  b) Surplus income after payment of existing obligations, Proposed EMI and Household expenditure
- Higher ratios are considered based on huge margin money, employability, adequate net worth, nuclear family and Collateral security.

- ❖ Measurement of risk through credit rating /Scoring (CIBIL Report)
- ❖ Guarantors/co-applicants of adequate net worth is invariably taken.

COLLATERAL

- ❖ Technical report is obtained from qualified engineers.
- ❖ For high value loans, two independent engineer's technical reports are obtained.
- ❖ Marketability of the property in terms of the locality.
- ❖ Loan to value ratio is assessed and ensured that LTV is not exceeding 80% or prescribed NHB Guidelines, whichever is lower.
- ❖ Maximum age of property at time of loan maturity should be 50 years for Apartments and 60 years for Independent Houses and Residual age of property, as established by technical Report, at the end of the loan tenure should be minimum 5 years.
- ❖ It is always insisted by the company that the loanee resides in the house and he is a single property owner.
- ❖ Verification of approved building plan with the competent authority.

CAPITAL

- ❖ Margin money put in by the borrowers
- ❖ Evaluation of credit worthiness
- ❖ Net-worth of applicants

MARKET RISK MANAGEMENT

Market risk is the possibility of loss caused by changes in the market variables. It arises from adverse changes in the market variables which, inter alia, include liquidity risk, interest rate risk, and commodity price risk.

To tackle Market Risk the following efforts are taken:

- ❖ Transparent and comprehensive policies are framed

- ❖ **We fix prudential risk limits for the various categories of loans**.

Liquidity Risk:

The company's assessment of Liquidity Risk is two-fold:

- Short-term dynamic liquidity assessment.
- Structural Liquidity assessment of assets and liabilities as on a reference date.

Short Term Dynamic Liquidity Assessment:

Based on the business plan, inflows and outflows over the next 6 months are forecast and plotted to ascertain the gaps, if any. The gaps are then matched with the available working capital limits from banks. Such a liquidity assessment statement is prepared and reviewed by the management every month.

Structural Liquidity Assessment:

Every half year, the company assesses the maturity pattern of assets and liabilities as on a reference date by plottingthe values in various time buckets viz up to 1 month, 1-2 months, 2-3 months, 3- 6 months,6-12 months, 1-3 years,3-5 years, 5-7 years, 7-10 years and Over 10 years.

The cumulative negative gap (excess of outflows or inflows) in any of the time bucket is identified and presented to the Asset Liability Management Committee. The Committee assesses whether the cumulative negative gap, if any, is within the prudential limits set by the Committee and the relevant regulatory requirements.

Interest Rate Risk:

Every half year, the company assesses the maturity pattern of interest rate sensitive assets and liabilities on a reference date by plotting the values in various time buckets. The impact of changes in interest rates applicable on the assets and liabilities on the profitability of the company is assessed. The impact shall be reviewed and suitable risk management measures as may be required from time to time shall be implemented.

OPERATIONAL RISK & MANAGEMENT

Operational risk is synonymous with settlement or payment risks and business interruption, administrative and legal risks. It arises from human or technical error. It also includes acts of omission or commission such as ineffectiveness or break down in internal control and lapses in internal audit systems leading to frauds, error or failure in performance in a timely manner.

- ❖ A time tested procedure right from appraisal to disbursement stage has been established to avoid any technical or human error.

- ❖ Review is periodically done to identify, assess, monitor and control the various facets of operations.

- ❖ The periodical review ensures risk limitation and advises control strategies, in the light of their overall risk appetite.

- ❖ We are engaging in-house internal audit team to verify the legal opinions / Valuation reports for better accountability.

OTHER SALIENT FEATURES OF PROCEDURES ADOPTED BY IKFHFL TO MITIGATE THE RISKS.

Loan Appraisal and credit processing

- ❖ The loan applications are sourced by Marketing Team, who are employees of the company. Or management approved / empanelled connectors / agents

- ❖ Login of loan proposals is system driven to avoid duplication.

- ❖ The genuineness of all the bank accounts are verified by independent agency.

- ❖ In case of self-employed applicants, we verify with the Income tax department the genuiness and correctness of the return submitted. . This is done through independent agency.

- ❖ Building plan approvals are verified by sending a mailer to the concerned approving authority, in line with the NHB guidelines.

- ❖ While qualified technical engineer visits the property and gives report, a second level inspection is conducted by Credit team & Branch Manager before sanction of the case.

- ❖ In case property closure to slum / under developed /negative / community dominated, The recovery personnel / Risk Manager ensures that the property is having good marketability at a future date, if and when a need arises.

- ❖ A cross check is also made with the EB card along with tax receipts to ensure the genuiness of the ownership of the existing properties.

- ❖ Maximum LTV is 80% in the case of purchases and 75% in the case of Self construction which is far below NHB norms (not exceeding 90% for housing loans upto Rs.20 lacs and not exceeding 80% for housing loans above RS.20 lacs) and home equity / LAP loans maximum it is 60%.

- ❖ If any applicant is having employer loans and the same EMI is reflecting in salary slip, we should consider the same for FOIR calculation instead of marking closure condition or below 6 months proof.

- ❖ Before sanction, CERSAI report is generated to adduce more strength to the legal scrutiny.

- All cases should be covered by securing with insurance and the same should be minimum of 80% of the loan amount. Below of the same will be approved by MD / CEO. Also insurance tenure waiver allowed maximum of 2 year with RBH level.

- For loan amount more than Rs.50.00 Lacs, Risk team will do complete underwriting before case approved by board / MD.

- Internal audit implemented in order to strengthen the Credit Process. 100% of disbursed loans are audited.

- Company periodically conducts FPC workshops for both the Marketing and Credit Teams. The importance of KYC / AML / adherence is stressed to ensure 100% compliance. Training on Credit processes and procedures is also given to enhance the quality of credit appraisal.

- Similarly frequent interaction and discussions with all Branch managers / Credit managers will help the company to revise the credit policy norms and present it to the Board. This will certainly bring perceptible improvement in our functioning.

- Final / Blended Rate of interest is offered based on scientifically designed credit scoring system.

- Apart from the EC submitted by the customer, the company suo-moto applies for EC for the property and compares with title flow.

- All title documents for title flow are verified at two levels. First, Local branch level (BM & CM) and second level by enpanelled lawyer.

- AVP - Credit approval on every legal opinion should be documented before disbursement.

- Original title documents are further verified risk team and Operations Team at Corporate Office before disbursing the loan to the applicants. It is applicable for Self-Construction, LAP & Refinance cases. For purchase cases branch team will send the original documents to HO. Operations team will kept inside after taking the confirmation from risk team.

- Online search of prohibited areas should be done by Legal / internal credit team before hand overing the docket to operations.

- The Company has given special training to all our internal employees (Sales & Credit Team) to find the fake stamp paper and fake documents.

- Loans are not sanctioned for speculative purposes. Hence company does not encourage loans for land purchases

- As part of better Corporate Governance all sanctions are reported to a level higher than the approving authorities including credit sanctions made by Managing Director being reported to Board.

- To meet any unforeseen adverse development for the property and /or to the personnel, the company educates the customer on the importance of insuring self and the property and ensures that insurance of the property and the life of the applicant.

- Valuation reports are obtained from more than one valuer for loam amount is over and above Rs.30.00 Lacs.

- Guidance for frequency of valuation or the trigger point for valuation are in place. Like loan accounts turns into NPA - New valuation should be done annually / as decided by the risk / collection team.

- If more than 3 instalments are not paid (pre-emi or EMI or any other due) within first 6 months from the date of disbursement, the Valuation report needs to be obtained afresh

- In case one of the loan account turns into NPA where the borrower is having multiple loans with IKFHFL or there is group exposure by IKFHFL, the entire assets accepted as collaterals needs to be revalued

- Revaluation exercise to be carried on once in every three years from the date of last disbursement where the outstanding loan balance is more than Rs 40 lacs and LTV is more than 75%.

- 50% of the approved cases should be suprise visits to be done by local credit team before disbursement of the cases and the same to be informed to higher authorities in case of any adverse observed during the visit.

- We monitor the quality of Credit portfolio on a quarterly basis.

- FCU vendor will manage by Risk team. Every month they will send the FCU MIS to risk team.

- All Credit Team members will inform to risk team, whenever they found fraud cases while processing the case. Risk team will do complete check and proper action will be taken.

- Before empanelment of any new vendor like DSA, Connector approval from Business Head and for Valuer, CPV Agent & Legal Advocate Approval from Risk Head should be taken.

- NOC from all vendros to be documented quarterly once and the same will be verified by audit team

- All vendor bills will be verified by audit team before preparation of cheque.

- MODT document also vetted by empanelled advocate and the same vetting report should be document in file.

Recovery System

- A vibrant system in the procedure of follow up of defaulting loan accounts is in place to mitigate any adverse impact on the funds lent.
- The company is able to recover hard core NPA accounts through SARFAESI / Arbitration Act.
- Watch category account status is reviewed for all loans periodically from the date of disbursement
- Staff Accountability formats are in place to mitigate non-performing assets by following up on the deficiencies, if any.

Risk emanating from the credit appraisal, operations, finance, recovery and information technology is monitored and appropriate actions are taken not only for the purpose of regulatory compliance but also to analyse and take effective steps to protect the critical business functions.

Minimum Documents available in physical file.

- NDC Checklist
- Duly filled application forms countersigned by all applicants
- OSV on all documents (OSV should contain Name, Signature and EMP No.)
- ID proof of all applicants (PAN card is mandate for income considered applicants)
- Address proof of all applicants
- Signature proof of all applicants
- Other KYC documents like Relationship proof etc.,
- Income documents of all applicants, whose income is considered for eligibility. (eg: Salary slips, ITRs, Bills, GST / Sales returns etc.,)
- Business / Employment continuity proof as per policy
- Latest 6 / 12 months Bank statement for all applicants
- Existing outside loan documents and EMI reflecting bank statements.
- IMD Cheque copy and receipt
- Property visit report and Sales verification sheet done by BM.

- ❖ Credit appraisal and verification documents like PD report, CAM, Approval mail, CPV, FCU, DM, CIBIL, ITR / Salary slip verification, Bank statement verification, 2 Business photographs, 2 Property photos, 2 photos of employer in case of small time employer and Guarantor's verification documents if any.

- ❖ Valuation Report with longitude and latitude and property photos inside 2 and outside 2 pics.
- ❖ Legal opinion report with AVP Credit signature on it along with list of documents examined by advocate.
- ❖ Online search report of prohibited areas
- ❖ Duly filled Insurance forms with calculation sheets (Both property and life)

- ❖ Documentation fee payment proofs or declaration from customer to deduct the same amount from disbursement.
- ❖ Two sets of NACH forms with 7 PDCs for Purchase / LAP Case, 10 PDCs for self-construction / renovation case.
- ❖ Loan agreement kit with duly singed by all applicants on all pages including DPN.
- ❖ Original documents along with vetting report to be kept in seperate cover.

IX. GENERAL

- □ The Board of Director of company provide for periodical review of the compliance at various levels of management. A consolidate report of such reviews (if required) may be submitted to the Board at regular intervals, as may be prescribe by it.

- □ The Company reserves to itself the right to alter/delete/add to these codes at any time without prior individual notice and such alterations /deletion/addition shall be binding.

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