

NATIONAL TRUST HOUSING FINANCE LIMITED

POLICY ON FRAUD DETECTION / PREVENTION / MANAGEMENT

As part of the Policy, the following are the highlights in regard to Policy on Fraud Detection / Prevention / Management.

A healthy appraisal system that focuses on the Credentials of the borrowers, their capacity and availability of collateral.

a) Credentials of the borrower

- 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

b) Capacity of the borrower

- 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:
 - Instalment-to-Income ratio
 - Total obligation-to-Income Ratio which is expected to be less than or equal to 58% of the gross income.
- 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.

c) Availability of 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% at best.
- Age of property is considered up to a maximum of 20-25 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.

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Further, to mitigate the issues involved and to prevent frauds, the following procedures are adopted:

Loan Appraisal and credit processing

- The loan applications are sourced by Marketing Team, who are employees of the company.
- Log in of loan proposals is system driven to avoid duplication.
- Keeping in mind our risk appetite, the maximum loan quantum offered is Rs.25 lakhs. However, this is increased by Rs. 10 lakhs in both the categories only for investment-quality proposals.
- 90% of our customers belong to salaried employees which includes 30% of State and Central Government employees.
- Field inspection by independent agency is carried out for residence verification, employment verification and rental income verification.
- 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 genuineness 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 Recovery personnel.
- In property inspection, the recovery personnel ensure 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 genuineness of the ownership of the existing properties.
- Maximum LTV is 80% in the case of Home loans and 60% in the case of Home Equity loan which is far below NHB norms.
- Before sanction, CERSAI report is generated to adduce more strength to the legal scrutiny.
- Prior to the disbursement of high quantum loans, a pre-audit is conducted and disbursements are made only subsequently.
- Concurrent 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 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.
- The Company has given special training to all our In-House lawyers to find the fake stamp paper and fake documents.
- Rate of interest is offered based on scientifically designed credit scoring system.

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- Apart from the EC submitted by the customer, the company suo-moto applies for EC for the property and compares with title flow.
- Similarly, as an abundant precaution, company applies for copy of the latest sale deed with the concerned SRO directly, to ensure the genuineness of the document submitted by applicant.
- All title documents for title flow are verified at two levels. First, in house lawyer at branch level and second level by another lawyer at corporate office.
- 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 MD 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.

Accounting and Financial Management

- Our effective control on Finance management improves the profitability of the company which is strengthened by high net interest margin due to higher yield on our portfolio.
- In order to evaluate the performance of the company, monthly file audit and Monthly Review meeting are conducted which includes ALCO meeting wherein the financial bearing aspects are discussed.
 - Investment decision
 - Un-availed Term Loans status reviewed
 - Revision in PLR Rates in tandem with the NIM
 - Repayment schedules of Term Loans compared to the repayment schedule of the loan borrowers are discussed to ensure there is no gap in the financing.
- Balances in current accounts are reviewed closely and appropriate investment decisions are taken to ensure maximum returns. Investment in Fixed Deposits with Banks and other short term liquidity investment in high return CP and Mutual Funds are explored from time to time. Placing fixed deposit with banks on monthly basis is fixed at 20 lakhs.
- Review of cash holding position and cash -in-transit amounts across all branches to ensure the sums transacted are within the policy limits.
- Focused attention on controlling expenditure at all levels and in all activities.
- Effective follow up at CO takes care of CTR/STR transactions.

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- Improvement in CAR compared to last year indicates that the company has adequate Capital to Risk Weighted Assets which ultimately signifies that the company has sound capital base.

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.
- Electronic hand held devices used at collection points to ensure tamper proof information. This being monitored at branch as well as at co level.
- Recovery collections and Recovery Collection Settlements are automated to ensure no manual intervention.
- The company is able to recover hard core NPA accounts through SARFAESI Act.
- Watch category account status is reviewed for all loans within six months from the date of disbursement
- Staff Accountability formats are introduced to mitigate non-performing assets by following up on the deficiencies, if any.

Information Technology:

- An effective ERP system is in place. We are fine tuning the system periodically.
- We have implemented Video Conferencing Facility which helps to coordinate with branches for interactive meetings.
- Electronic hand held devices used at collection points are connected to the centralised server in order to have effective monitoring.
- Dedicated Data Centre is in place.
- We have installed CCTV for collection monitoring.
- We have installed Biometric Door Access System
- A secured network is in place.

With the above measures that are put in place we have a robust Policy on Fraud Detection / Prevention / Management.