

NATIONAL TRUST HOUSING FINANCE LIMITED

RISK MANAGEMENT POLICY

INTRODUCTION

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 National Housing Bank (NHB) is attaching great importance to this area and it has set out detailed guidelines through its circular No. NHB(ND)/HFC(DRS-REG)/ALM/35/2010 dated October 11, 2010.

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.

This policy document aims to achieve the under mentioned objectives

OBJECTIVES

- a) To identify the areas of risks as also various types of risks involved in the business.
- b) To suggest the method to the measure / quantify the risks.
- c) To control and mitigate various types of risks involved.
- d) To specify the risk bearing capacity of the HFC.
- e) To ensure regulatory compliance on risk management and prudential norms sets by NHB / Government.
- f) To improve the assets quality of the HFC by using the risk management techniques.
- g) To maximize the profit of the HFC.
- h) To maximize the return on equity with an acceptable level of risk, for the purpose of protecting, preserving and increasing the net worth of the HFC.

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. However, at the organizational level, the overall risk management has been assigned to an independent Risk Management Committee comprising of the following Members, which is accountable for reporting to the Board of Directors:

1. Mr.V.Rajaraman
2. Mr.Jawahar Vadivelu
3. Mr.Alok Aggarwal

NATRUST seeks to establish and maintain a sound and stable portfolio of housing loans. In achieving this objective, the overriding emphasis is on the quality of the portfolio, which determines the integrity of earnings and capital. NATRUST 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.

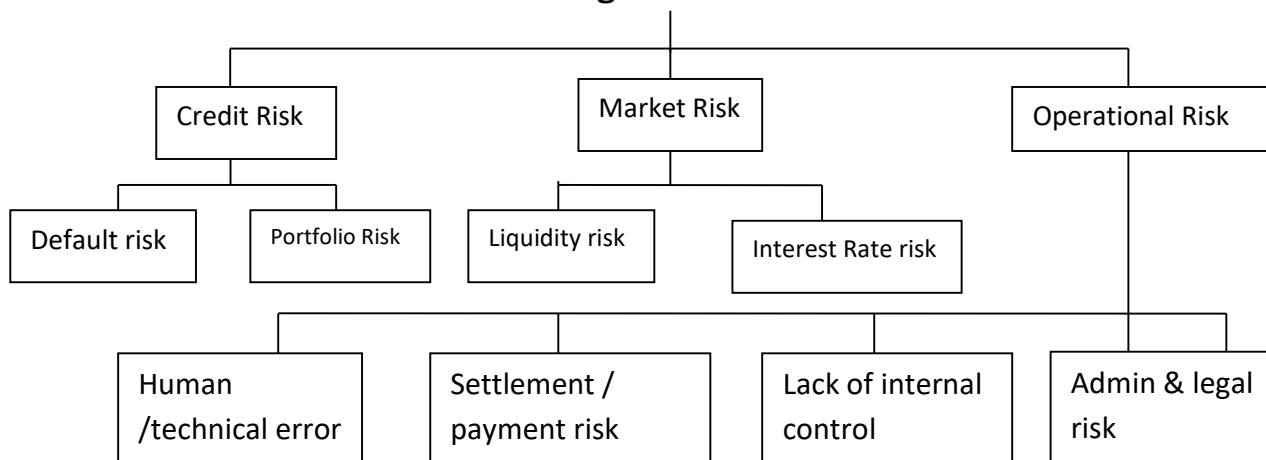
As housing loans are of long term nature, the significant challenge is that of [understanding and managing risk. Recovery of loan depends primarily upon the quality of loan underwritten and the integrity of the borrower. NATRUST exercise

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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.

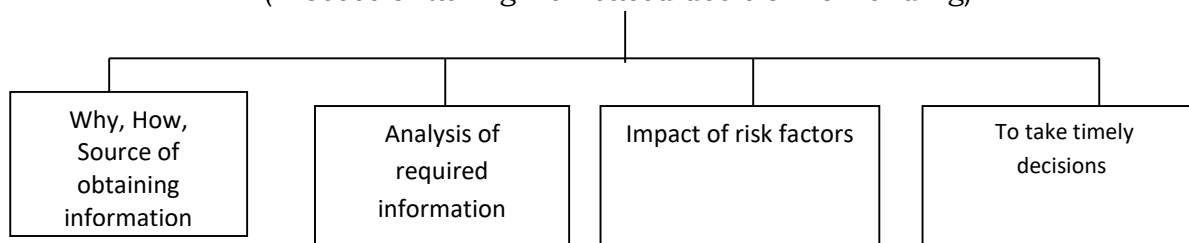
Risks affecting credit decisions



Keeping the above in mind, NATRUST has underlined the process of appraisal, an efficient legal system, verification of the credentials of the borrower(s) by independent agencies close follow up mechanism. It is in the fitness of things that we in NATRUST 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.

NATRUST 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.

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- ❖ 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) Instalment-to-Income ratio
 - b) 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.

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.

CAPITAL

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

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.
- ❖ One of the principles of the company in mitigating the IRR is risk pricing namely fixing the ROI in relation to the prime lending rate accounting risk on a scientific basis.
- ❖ We monitor the quality of Credit portfolio on a monthly basis.
- ❖ A robust auditing system is in place.

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

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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 Lawyers & Engineers to give opinions / reports for better accountability.
- ❖ Senior officials of the Company do not travel together during visits.

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

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 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 genuineness of the ownership of the existing properties.
- ❖ Maximum LTV is 80% in the case of Home loan 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.

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- ❖ 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.
- ❖ 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.
- ❖ 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.

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- ❖ 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.

Inspection and Risk Management

1. A well experienced person was appointed as " Asst. Manager- Internal Control" in September 2016.
2. The inspection report is submitted directly to the Managing Director.
3. Frequent visits to all the Branches is undertaken by the Consultant.
4. A detailed check list on the various aspects to be checked in systematically followed.
5. Report on the findings is discussed and placed to the Audit Committee and to the Board of Directors.
6. Appropriate actions taken on the findings.
7. Audit is being done on all the Files where the sanction is accorded and the disbursement of the loan is done.
8. A portfolio analysis covering all areas of risk is being done on a frequency as desired by the Board of Directors and placed before the Risk Management Committee and thereafter to the Board of Directors for their review.

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.

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Branch Visit Report

Name of the Branch	
Date of Visit	
Name of Visiting Officer	
Designation	
Date of Report	

Description	Yes/No/NA	Remarks
OPERATIONS DEPARTMENT		
Following registers are maintained up to date		
Visitor Interface Sheet		
Document Movement Register		
EMT Register		
PEMT Register		
MOTD Register		
Safety locker Key movement register		
BSLI/Royal Insurance Register		
Cheque release register		
Courier/Speed post register		
CTR/STR weekly report file		
Counterfeit currency register		
Following posters are displayed in the reception area	Yes/No/NA	Remarks
Fair Practice Code		

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Why KYC – Customer Awareness Brochure		
Interest Rate & other charges display		
License Display		
Interest Subvention Scheme		
Most Important Terms & Conditions [MITC]		
Annexure A-to MITC- fees & charges		
OTHERS		
Whether the work stations are neat and clean		
Whether original documents are maintained in the safe locker		

ACCOUNTS DEPARTMENT

DESCRIPTION	Y / N / NA	REMARKS
<u>CASH OPERATIONS:</u>		
Is the cash book closed for the last working day?		
Is the cash physically tallied on the above date, recorded correctly and duly signed by the Accountant and the Branch Manager		
<u>Suspense vouchers:</u> <ul style="list-style-type: none"> ▪ Number of suspense vouchers ▪ Total amount in suspense that is unsettled ▪ Number and amount over 7 days unsettled 		
Are the cash vouchers and cash receipts serially numbered and filed neatly?		
Petty cash statement - till when sent to CO for reimbursement		

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Whether all cash collections deposited into the bank - give date till when deposited?		
BANKING:		
Bank book updated till when?		
Is cheque collection register maintained?		
Are proper receipts issued for all cheques collected?		
Are the receipts serially numbered and filed neatly?		
Whether all cheques collected from customers are deposited into the bank account?		
DESCRIPTION	Y / N / NA	REMARKS
List of cheques not deposited and reasons for same.		
List of PDCs on hand with full details of date of cheque, borrower, amount, reasons for PDC collected.		
Bank Reconciliation Statement done till when?		
<u>Uncleared entries in BRS:</u> <ul style="list-style-type: none"> ▪ Number of entries uncleared ▪ Entries older by 15 days or more ▪ Action initiated to clear the same 		
<u>Cheques dishonoured list</u> <ul style="list-style-type: none"> ▪ Amount of the cheque bounced ▪ Date of dishonour ▪ Loan proposal number ▪ Action initiated and progress ▪ Current status 		

CUSTOMER'S QUERY:

Pending list of customers' query		
What action initiated and progress?		

FIXED ASSETS REGISTER:

Is the Fixed Assets Register updated?		
Till when updated?		

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When was the last physical verification done?		
Findings of the physical verification and matching with the Fixed Assets Register - Certified Report of the Branch Accountant and Branch Manager to be produced.		
Has the same been communicated to CO?		
Is confirmation obtained from CO for the above?		
DESCRIPTION	Y / N / NA	Remarks
OTHERS:		
a. Electricity and water bills paid till when		
b. Rent paid till when		
c. Service Tax return filed till when		
d. Professional Tax paid till when		
e. PF/ESI paid till when		
f. Others, if any.		
CUSTOMER SERVICE		
Whether the employees are servicing the customer politely with smiling face		
Whether acknowledgement is given to customer across the counter for the documents received		
Whether any intermediary seen in branch premises		

PERSONNEL & ADMINISTRATION DEPARTMENT		
Whether the name board displayed is in proper condition		
Whether Attendance register is maintained		
Whether fire extinguishers are sighted		

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Whether fire extinguishers are refilled and valid		
Whether employees are wearing ID cards		
Whether tables and chairs are in order		
DESCRIPTION	Y / N / NA	Remarks
Whether phone lines are working		
Whether Air conditioners are working		
Whether the premises is neat and clean		
RECOVERY		
Whether palm-top machines are being used properly (check individual machine)		
Whether collections made through palm-top machines are being entered in ERPS on the same day or utmost the next day in all cases (check atleast 5 entries for the last 5 days)		
How many NPA cases are there in the branch and what action has been taken to recover dues in all such accounts?		
How many NPAs are stuck up in court litigation and what is the present status in each of these cases?		
SYSTEM RELATED		
Whether CCTV is functioning		
Whether thumb impression gadget is working		
Whether VOIP is working		
General Remarks, if any		
Signature of the visiting Officer		
Emp. code		