

NHB (ND)/DRS/ Pol-No. 58/2013-14
November 18, 2013



All Registered Housing Finance Companies (HFCs)

Dear Sirs,

Disbursement of housing loan to individual linked to the stages of construction

Instances have been brought to our notice that some housing finance companies are offering certain innovative Housing Loan Schemes in association with developers /builders, e.g. upfront disbursement of sanctioned individual housing loans to the builders without linking the disbursements to various stages of construction of housing project, interest/EMI on the housing loan availed of by the individual borrower being serviced by the builders during the construction period/specified period, etc. This might include signing of tripartite agreements between the HFC, the builder and the buyer of the housing unit. These loan products are popularly known by various names like Subvention Schemes by the Builders, 80:20, 75:25 etc.

2. These housing loan products are likely to expose the HFCs as well as their home loan borrowers to additional risks e.g. in case of disputes between individual borrowers and developers/builders, default/delayed payment of interest/EMI by the developer/builder during the agreed period on behalf of the borrower, non-completion of the project on time, etc. Further, any delayed payments by developers/builders on behalf of individual borrowers to banks may lead to lower credit rating/scoring of such borrowers by credit information companies (CICs) as information about servicing of loans gets passed on to the CICs on a regular basis. In cases where loans are also disbursed upfront on behalf of their individual borrowers in a lump-sum to builders/developers without any linkage to stages of construction, HFCs run disproportionately higher exposures with concomitant risks of diversion of funds.

3. As the higher risks associated with such lump-sum disbursement of sanctioned housing loans and customer suitability issues, HFCs are advised that disbursement of housing loans sanctioned to individuals should be closely linked to the stages of construction of the housing project/houses and upfront disbursement should not be made in cases of incomplete/under-construction/green field housing project/houses.

भारतीय रिज़र्व बैंक के संपूर्ण स्वामित्व में
कोर 5-ए, चतुर्थ तल, इंडिया हैबिटेट सेंटर, लोधी रोड, नई दिल्ली-110003
दूरभाष नं. पी. बी. एक्स-011-2464 9031-35 फ़ैक्स : 011-2464 6988, 2464 9041
वेबसाइट : www.nhb.org.in ई-मेल : ho@nhb.org.in तार निवास बैंक

Wholly owned by Reserve Bank of India
Core 5-A, 4th Floor, India Habitat Centre, Lodhi Road, New Delhi-110003
Phone : PBX 011-2464 9031-35 Fax : 011-2464 6988, 2464 9041
Website : www.nhb.org.in E-mail : ho@nhb.org.in Gram : NIWAS Bank

“बैंक हिन्दी में पत्राचार का स्वागत करता है”

4. It is reiterated that HFCs while introducing any kind of product should take into account the customer suitability and appropriateness issues and also ensure that the borrowers/customers are made fully aware of the risks and liabilities under such products.

Yours faithfully



(R. S. Garg)

Executive Director