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Standard Underwriting Guidelines

for

Indian Mortgage Loans

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Comparative Income Analysis

Borrower's Name

Instructions: This form is to be used to compare the borrower's business over a period of time.
Determine year-to-year trends in gross income, expenses and taxable income as described below.

Gross Income

Steps 1. Enter the gross income/expenses/net income from each year's profit and loss account where indicated.
2. Determine the percentage change in gross income from one year to the next by :
   * calculating the difference between the two years; and
   * dividing the amount arrived at by the previous year's gross income.
3. Enter percentage of increase/decrease where indicated.

	199 -9	199 -9	199 -9	% age Change 2nd year		% age Change 3rd year	
Gross Income				+/-	%	+/-	%
Expenses				+/-	%	+/-	%
Net Income				+/-	%	+/-	%

Comments of the Loan Officer

Signature Date

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CHAPTER 7: LOAN DISBURSEMENT PROCEDURES

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CHAPTER 1: INTRODUCTION

Current State of Loan Underwriting Procedures

In general, there is a broad range of agreement on loan underwriting policy and procedures among the five main housing finance companies. A review of the practices in use at Can Fin Homes, Dewan, HDFC, LIC Housing Finance and SBI Home Finance indicates that the procedures currently in use are generally very good. All HFC's are taking steps to ensure the quality and integrity of the mortgage loans they make. However, each HFC does this in its own slightly different way. For example, all HFC's obtain some form of verification of income, employment and resources and all HFC's require guarantors, but how each company calculates the borrower's monthly income varies widely.

Purpose of Standard Guidelines

This manual is an attempt to bring standardization to the housing finance industry by building upon the best practices now used by five major Indian housing finance companies. Standardization will be beneficial for borrowers, lenders and potentially for investors.

By standardizing and improving upon the best practices of HFC's, this manual is intended to contribute to the quality and the expansion of the housing finance system.

No set of criteria is intended to be all-inclusive, or to relieve lending officers and senior credit officers of the responsibility and opportunity for exercising independent judgment on individual lending decisions. A housing finance company's policy should recognize that particular circumstances, technically called "compensating factors," can justify the acceptance of risks that deviate from established lending criteria. Such exceptions should always be justified by supporting memoranda.

This manual is a practical document which should be revised periodically as conditions and practices change. It is not meant to be a definitive work; rather, it should be considered a starting point for further analysis and development.

Scope

The guidelines cover lending to individual borrowers for purchase of ready-built houses, flats, and apartments; purchase of flats and apartments under construction in a multi-storied housing complex promoted by a private developer or in a group housing society, and for construction of a new housing unit. The guidelines also cover cases where income of a co-borrower is considered for determining loan entitlement.

Methodology

The guidelines in this manual are based on the best practices currently in use at five major housing finance companies: Can Fin Homes, Dewan, HDFC, LIC Housing Finance and SBI Home Finance. The authors were asked to describe, expand upon, and where necessary improve on the practices found during the field research. For example, there was significant variation among the housing finance companies in calculating a borrower's monthly income. This guide has based monthly income on gross income. This is a figure which is unambiguous and easy to determine. When a best practice was found uniformly across HFC's, it was incorporated directly into the guidelines.

Basic Concepts of Loan Underwriting

Housing finance companies seek to establish and maintain a sound, profitable portfolio of real estate lending risks. In achieving this objective, the overriding emphasis is on portfolio quality, which establishes reliable earnings and safeguards capital. The highest standard of mortgage quality is "investment quality". This can be defined as a mortgage of such quality that it is attractive to a potential outside investor.

Investment-quality loans are those that meet the following criteria:

> the borrower is able and willing to repay the mortgage debt; and
> the property constitutes sufficient security for the mortgage.

The task of underwriting investment-quality loans demands that lenders maintain a delicate balance between the "science" of gathering information and analyzing risk and the "art" or making a judgment that gives the borrower every possible consideration. When the balance is maintained, lenders can originate investment-quality loans that meet borrower's home financing needs without imposing excessive financial burdens. Such loans represent sound, prudent investments for a lender's funds and a quality investment for any potential outside investor.

These guidelines address how housing finance companies should determine a borrower's:

1. **ability to repay the loan** - by developing uniform standards for calculating the amount of income available to service the loan and developing reasonable installment to income ratios to ensure that the loan repayment will not adversely impact the household's established lifestyle.

2. **willingness to repay the loan** - by ensuring that credit officers verify and if necessary, investigate how a borrower has handled credit and other obligations in the past.

3. **adequacy of the collateral** - by developing uniform guidelines for determining the value of the property collateralizing the debt. These guidelines will ensure that the value of the property is sufficient to repay the debt in the case of default and foreclosure.

Verification and Documentation; The Importance of a Complete Loan File

In order to ensure authenticity and objectivity, all information used in making the credit decision must be verified by sources who are not directly related to the loan transaction. Verification of information is also an effective method of detecting and preventing fraud. This guide identifies acceptable sources for verifying information provided by the borrower.

Loan files provide a history of the loan application and approval. They should be complete and well organized. A file should contain sufficient documentation such that any external auditor, manager, or other credit officer can pick up the file and without knowing anything about the borrower or the property, understand how and why the credit officer arrived at the credit decision.

In addition, the loan file is the primary source of information in any legal proceedings which may arise from the loan decision or performance. It should be sufficiently complete to provide adequate defense of the bank's position in a court of law.

Benefits of Standardization

Standardization of lending guidelines and mortgage application forms will ensure more objective treatment of applicants. This will lead to more confidence in the lending system by borrowers and generally to increased loan volume.

Standardized guidelines will also lead to a uniform method of evaluating the lending portfolios of various housing finance institutions. This will inspire confidence in the quality of the portfolios of institutions complying with the guidelines, making them more attractive to investors.

Attracting the interest of investors can lead to a variety of secondary market opportunities for expanding the affordability of homeownership to a broader segment of the population.

CHAPTER 2: ANALYZING THE BORROWER'S ABILITY TO PAY

Introduction

This chapter explains how to gather and verify information needed for assessing the ability of a borrower to repay the mortgage. It explains how to process the information and relate a borrower's mortgage payment to his income, assets, liabilities and net worth. This chapter also discusses the ratios employed for determining loan entitlement and takes note of circumstances when a borrower can be qualified for a higher entitlement.

Standard Credit Documentation

Completeness of Documentation

The borrower's application package must contain sufficient information for the loan officer to reach an informed decision about whether to approve the mortgage. The application package should also include supplementary information needed to verify, clarify, or substantiate information in the borrower's application.

Authenticity of Documentation

The documents in the application package must be legible originals that do not have alterations, erasures, or correction fluid ("whiteouts"). Facsimiles or photocopies are not acceptable substitutes for original documents.

Age of Documentation

Credit documents must be no more than 90 days old on the date the promissory note and loan agreement are signed. If the documents will be more than 90 days old at the time of loan closing, the lender must obtain updated written verifications.

Required Credit Documents

The following are required credit documents:

1. Residential Mortgage Loan Application Form

2. Blanket Authorization Form, signed by the borrower. It grants the lender permission to request confidential information about the borrower from banks, creditors and employers, and authorizes them to release such information to the bank

3. Verification of Credit/ Creditor's Opinion or other acceptable credit verification documentation

4. Verification of Deposit

5. Opinion letter from bankers about the conduct of account(s) by the borrowers.

6. Verification of Employment

7. Tax returns (both individual and business returns) for the past two years, with all applicable schedules
   attached, (required for self-employed borrowers; salaried employees who are required to file tax returns; and individuals who earn all or most of their income from commissions).

8. Tax Deduction at Source (TDS) certificate issued by the employer

9. A year-to-date profit and loss statement for a self-employed borrower's business

10. A balance sheet for the previous two fiscal years, for a self-employed borrower's business

11. Self-employed Income Analysis form for self-employed borrowers

12. Comparative Income Analysis form for self-employed borrowers

13. Borrower Interview Sheet completed and signed by the Loan Officer/Loan Manager

14. Agreement of Sale, Sales Deed, Purchase and Sales Agreement, Permission/No Objection Certificate from appropriate Development Authority

15. Property Documents: Conveyance/Sale/Lease Deed, Agreement to Sell, permission for mortgage from appropriate local development authority (lessor) in case of a leasehold property; tri-partite agreement in case of purchase of apartment under construction from a professional developer/group housing society; and membership certificate from the group housing society.

16. Plan sanction by the local authority for construction of new housing unit, for a housing project of a professional developer, and for a project of a group housing society.

17. Estimate of construction cost in respect of a new housing unit; housing project of a professional developer; or of a group housing society.

18. Search Report and Non-encumbrance Certificate from panel advocate

19. Property Description and Analysis

The Residential Mortgage Loan Application Form

The Residential Mortgage Loan Application form is the fundamental document in the mortgage loan file. Apart from information about the principal borrower, the application provides for the inclusion of a co-borrower. A co-borrower should preferably be the spouse, father, mother, son, or daughter having his/her own income. The entitlement is determined, where necessary, by aggregating incomes of both the borrower and the co-borrower.

The application requires the borrower and the co-borrower to provide:

> personal information -- name, current address, date of birth, year of schooling, number of dependents, unique identifier (ration card, photo identity card, driving license, passport, etc.) of each applicant; employment information -- name and address of current employer, position held, date of hire, current salary, job title, name and address of previous employer;
>
> financial information -- current salary, amount of savings, terms of any debt currently outstanding, net worth, other properties owned; bank account details -- name and address of bank, savings account number, current account number, date account(s) established, current balance, average balance during past three months;
>
> credit details -- For each account: name and address of creditor, account number, date account established, length of credit term, amount of credit granted, current balance, monthly payment;

details of property to be purchased/constructed/upgraded -- address; purchase price; name of developer/ promoter/ development authority or current owner; size; year built;

loan details -- amount of margin money, source of margin money, amount of credit requested;

references -- name and address, relationship, length of acquaintance;

guarantors -- names and addresses of two guarantors, relationship, length of acquaintance; financial soundness of guarantors;

All information provided by the borrower with regard to income, assets, liabilities, credit, employment and the property being purchased must be independently documented and verified by the loan officer. All credit decisions must be documented in writing and made part of the permanent loan file by the loan officer.

Analyzing Borrower Employment and Income

In order to analyze a borrower's ability to repay a mortgage, a loan officer must understand and verify the stability and the amount of the income.

Employment and Income Stability

An important indicator of a borrower's ability to repay a mortgage loan is the stability of their income. A loan officer must evaluate the borrower's employment at the time of the mortgage application and the probability that the borrower's employment will remain stable in the future.

To determine how a borrower generates income over a reasonable period of time, the loan officer will need to verify employment for the three full years preceding the mortgage application. In cases where the borrower has an employment history of less than three years and was previously in school, or in the military, the loan officer must obtain a copy of the borrower's school leaving or university certificates, transcript or discharge papers and include it in the loan file. If a borrower has been with his current employer less than three years, a Verification of Employment must be sent to the previous employer as well as to the current employer.

Verifying Employment

To substantiate employment and income for a salaried employee, the loan officer must obtain:

1. a verification of employment completed on a standard form (see Forms Section). The form must be completed by the employer and returned directly to the lender. The employer's address should be a street address, not a post office box. If a post office box address is given, the borrower must also provide the street address to the loan officer. The verification of employment may not be more than 30 days old at the time of mortgage disbursement.

2. two most recent months' pay receipts from employer. Pay receipts must clearly identify the borrower, and state the borrower's gross earnings for the pay period. A pay certificate showing the year-to-date income must also be secured.

Borrowers must have a history of receiving stable income from employment or other sources and a reasonable expectation that the income will continue to be received in the foreseeable future.

Income received from any source that the loan officer cannot verify is not acceptable for the purpose of qualifying the borrower.

If a borrower has filed income tax returns in the past three years, he must provide a copy of all returns to the loan officer to be used in making the credit decision. This is true for salaried as well as self-employed borrowers. If no tax returns have been filed, the loan officer should note this in the loan file.

Frequent Changes in Employment/Job-Hopping

Frequent changes in employment should not necessarily be viewed as a negative.

If a borrower has changed jobs frequently but has remained in the same line of work and income has remained stable or is increasing, this should be considered positively.

However, job-hopping without advancement and/or in unrelated areas may indicate inability to master a job and may lead to unstable income. Such borrowers must provide acceptable explanations for such behavior or have offsetting financial strengths to be considered for a mortgage loan.

Gaps in Employment

Gaps in employment need not be viewed negatively; however, the borrower must satisfactorily explain employment gaps lasting more than one month.

If gaps are regularly occurring because of seasonal employment but the borrower has a record of successfully meeting all financial obligations, the income from such seasonal employment may be considered stable.

Negative Comments From Current Employer

Negative comments from an employer on the Verification of Employment must be considered very carefully by the loan officer. If the comments indicate that the income stability of the borrower may be in jeopardy, the loan officer must investigate and resolve the question, documenting the results.

Employment By Relatives

A relative is defined as a parent, sibling, uncle, aunt, cousin, spouse, spouse's parents or spouse's siblings, spouse's uncle, spouse's aunt, or spouse's cousin.

Where a borrower is employed by a relative or is employed in a family business, his income certificate from the employer must be supported by income tax returns or tax deduction certificates of both the individual and the firm. The findings of the field credit investigation and the assessment of the employer's financials must be recorded and made part of the loan file.

Employment in a Small Firm

Where the borrower is employed in a small company or partnership/ proprietorship, a field credit investigation must be carried out by the loan officer. In addition, scrutiny of the employer's financial statements and tax returns for the past two years is recommended. The findings of the field credit investigation and the assessment of the employer's financials must be recorded and made part of the loan file.

Employment Stability - Compensating Factors

Confirmation in a job imparts stability to employment. If an employer states that the borrower is confirmed in his or her position, the loan officer may use this as a measure of stability.

Where the borrower is professionally qualified, length of employment can be relaxed; however, in all such cases, either verification of previous employment or of the claimed qualification must be obtained. Chartered accountants, company directors, doctors, law graduates, engineering graduates, or university lecturers/professors may be classified as professionally qualified.

Where a borrower is an officer of an all-India service or any of the central services, or a state service, the required length of employment can be relaxed, if the probation period has been completed.

Analyzing Non-Wage Income

Income may come from many different sources. Salary and wage income are the easiest to determine and verify. Income from most other sources can be considered as qualifying income as long as it is properly documented and is likely to continue in the foreseeable future (i.e. one year beyond the date of loan application).

Special consideration may need to be given to income from sources other than wages and salaries. Specific treatment for other types of income is discussed in more detail below:

1. Productivity-Linked Incentives. Payment of such incentives is common in most establishments. This may be considered as income if there is at least a two-year history of its payment and reasonable expectation that it will continue in the future.

2. Overtime Payment. If there is a verified record of continuous overtime payment over the past three years and the employer indicates that the payment is likely to

continue during the next year, then the overtime income may be used to qualify the borrower.

Where the overtime amounts have varied but the payments have been regular, an average of the past two years' overtime may be used to qualify the borrower.

If there is a trend of declining overtime income, the overtime income should not be used in qualifying the borrower unless there are compelling offsetting factors. These factors must be documented by the loan officer and made part of the file.

3. <u>Bonus Payment.</u> Under the Payment of Bonus Act, a minimum bonus of 8.33% must be paid by employers. This minimum bonus may be used to qualify the borrower.

   Where there is evidence of a higher bonus having been paid over the past three years, and the employer verifies the probability of the higher level continuing, an average of the most recent two years' bonuses may be used to qualify the borrower.

4. <u>Commission Income.</u> Commission payment is related to target achievement and may vary from year to year. The borrower must have consistently received commission income for at least three years before it can be considered a stable source of income. The employer must verify the payment and confirm the likelihood of continuance before commission can be considered in qualifying a borrower.

   An average of the past three years' verified commission payments may be used to qualify the borrower. However, if there is a significant declining trend, the loan officer must use his best judgement in determining what portion of commission income to use in qualifying the borrower.

Such a judgement and the reason for it must be documented and included in the loan file.

5. <u>Reimbursement of Expenses.</u> If a borrower is receiving reimbursement from his employer for certain expenses such as rent, transport, entertainment, etc. and this is likely to continue in the foreseeable future, the income may be used to qualify the borrower. Such income must be verified by the employer and be deemed likely to be paid in the foreseeable future. Generally, an average of the two most current years' reimbursements may be used to qualify the borrower.

6. <u>Interest Subsidy on Mortgage Payment.</u> An employer may subsidize mortgage payments by reimbursing a portion of the interest cost on a mortgage loan. The employer must indicate, in writing, the amount and anticipated duration of such a subsidy. If it will continue beyond the first year of the mortgage it may be used to qualify the borrower. The subsidy should be added to the gross income when calculating the installment-to-income ratio.

7. <u>Pension Payment.</u> In some cases a borrower may be receiving a pension from a previous career while currently being employed full time. This is especially common among armed forces personnel who seek voluntary retirement after a term of service.

   Pensions may be used to qualify the borrower if their source, amount and likelihood of continuance can be verified by the loan officer.

A copy of the borrower's pension pass book, confirming regular deposit of payments, serves to verify the pension. A copy of the pension payment order should also be included in the loan file.

8. Interest and Dividend Income. Interest and dividend income may be used to qualify the borrower if it is properly documented and has been received for the past two years. The loan officer may use an average of the most recent two years in evaluating the borrower's income qualifications. Any funds used as margin money or for closing costs must be subtracted before interest can be calculated. If interest or dividend income is used to qualify the borrower, the fixed deposit receipts or share/debenture certificates must be held in the custody of the lending institution for the first two years of the mortgage.

9. Rent Receipts. Rental income may be considered as income only where it is supported by lease agreements and/or tax returns. Generally, only 60% of the gross rental income may be used to qualify the borrower. This is the amount which may be reasonably expected to be available after deductions for property maintenance and tax payments. If a larger fraction of the rental income is used, there must be compelling factors which must be documented by the loan officer and included in the credit file.

10. Non-taxable income. Sources of non-taxable income and the likelihood of their continuing in the foreseeable future must be properly documented. When considering non-taxable income in qualifying the borrower, the amount of tax savings may be computed and added to the income for qualifying purposes.

11. Military Income. Military personnel may be entitled to different types of pay in

addition to their base pay. Allowances for flight, hazard, rations, clothing allowance, quarters allowance, and special proficiency may be considered part of qualifying income as long as their future continuance can be established and documented.

12. Capital Gains/Losses. Generally, a capital gain (or loss) is a one time or isolated transaction. Capital gains (or losses) can accrue in the buying and selling of assets, including investments in shares and debentures. Where a borrower has reported capital gains consistently for the past three years on tax returns and there are reasonable prospects for such transactions continuing in the foreseeable future, an average of the past three years' capital gains (and losses) should be used to adjust the borrower's income. The sources of the capital gains must be verified, as must remaining assets, to ensure that no income generating asset has been sold that might impair the flow or amount of future income.

Documenting, Verifying and Analyzing Assets, Liabilities and Net Worth

Assets, liabilities and net worth are three important indicators of a borrower's ability to pay.

Borrower Cash Requirement

In all cases, the borrower must have sufficient liquid assets to cover the difference between his loan entitlement and the total cash required: (1) margin money for the property (2) loan closing costs and (3) reserves (cash equal to at least two pre-equated monthly installments for the loan should remain with the borrower after loan closing). Margin money is that portion of the purchase price that the borrower pays from his own sources. It represents the borrower's equity in the property, creating a personal stake in the transaction and making the borrower more likely to honor the mortgage obligation. A minimum margin of 25% of the property's market value or sales price, whichever is less, is required. Equity in the subject property may be considered as part of the margin money.

If the borrower does not have enough liquid assets to meet these three requirements, he has a financing "gap". Sources and amounts of funds used to fill any such gap must be carefully documented and verified by the loan officer as part of the credit analysis.

Acceptable Sources of Borrower Cash

Acceptable means for raising cash to meet the requirements for margin money, closing costs, and reserves are:

1. Bank deposits. Funds from current, savings and term deposits are all acceptable sources of funds. The bank must complete a Verification of Deposit and return it directly to the lending institution. In addition, the loan officer must scrutinize copies of the past six months' statements or copies of actual passbook pages for the same period. If there are any unusually large deposits or withdrawals in that period, they must be investigated and documented.

2. Proceeds from the Sale of Shares/Debentures and Other investments. The borrower may have invested in shares, debentures or other instruments such as Indira Vikas Patra, Kisan Vikas Patra, National Savings Certificates, etc. The borrower may use the proceeds from the sale of these investments for the margin money and closing costs. The existence of these investments must be verified, documented and included in the loan file.

3. <u>Gifts.</u> A borrower can meet part of his requirement of funds for margin money and closing costs with gifts received from relatives. For underwriting purposes, a 'relative' is a spouse, father, mother, grandparent, brother or sister of the borrower or their spouse. Gifts may constitute up to 50% of the margin money amount. Gifts must be verified by obtaining a signed confirmation from the donor that the gift has been made, the amount of the gift, the source of the gift, the donor's relationship to the borrower and a statement from the donor that no repayment is expected. If the gift has already been made, receipt of the money must be cross-verified. Copies of statements showing withdrawal from the donor's account and deposit to the borrower's account are required and must be made part of the loan file.

4. <u>Borrowed funds.</u> Borrowed funds are generally not acceptable sources of funds for margin money. If the loan officer has reason to believe that any margin money has been borrowed, he must employ caution and closer scrutiny.

   Possible indications of borrowed funds include large unexplained deposits to the borrower's account, recently opened bank accounts, and a sudden jump in average bank balance.

   Borrowed funds can be considered acceptable sources of funds for the margin money <u>only</u> in cases where loans have been secured against verified assets of the borrower such as term deposits, shares/ debentures, or life insurance policies. Monthly payments for such secured loans must be considered as debt when calculating total monthly obligations. If the loan does not require monthly payment of installments, a notional installment must be calculated and considered in determining the total monthly obligation ratio.

5. Loans from Friends or Other Relatives. Some homebuyers may partially fund the margin money by borrowing from friends or relatives. Such loans must not exceed 10% of the value of the margin money. Such loans must be verified and the loan agreement scrutinized to confirm the repayment terms.

   The monthly repayment obligation on such loans must be considered when calculating total monthly obligations.

6. Sale Proceeds. Proceeds from the sale of a borrower's existing property may be considered an acceptable source of funds. The source must be verified and documented by obtaining a copy of the sale agreement executed by the borrower.

Margin Money Requirement: Compensating Factors

The margin money requirement is an important indicator of whether a borrower will be motivated to repay the loan. It also ensures that the property constitutes adequate security for the mortgage in the event of default and judicial sale.

In the unusual case where the loan officer approves a loan-to-value ratio higher than 75 percent, he must document compelling reasons for doing so in the loan file.

Compensating factors which could justify a higher loan-to-value ratio include:

a. the borrower has substantial net worth after the loan is considered.

b. the borrower has consistently demonstrated an ability to devote a greater-than-normal portion of his income to meet repayment obligations and has a good credit history; or

c. the borrower has a total obligations-to-income ratio of less than 45% of gross income and has a good credit history.

Liabilities

A borrower's liabilities include all debts of a continuing nature which extend beyond twelve months. These debts must be taken into consideration in determining total monthly obligations. Each debt must be documented and payment terms and history verified. All verifications must be obtained directly from the creditors.

Net Worth

The accumulation of net worth can be a strong indicator of a borrower's ability to pay. A strong net worth position can be an insurance against unexpected obligations or temporary interruption of income. A borrower with a strong net worth position generally has demonstrated competence in managing financial affairs and may have developed a strong savings habit.

Calculating and Analyzing Borrower Payment-to-Income Ratios

Installment-to-income ratios determine the loan entitlement of a borrower.

Attention to two ratios will ensure that the monthly mortgage payment is within the borrower's means and does not overburden his budget. They are:

a. Installment-to-Income Ratio (IIR) -- the monthly mortgage payment (EMI, or equated monthly installment) divided by the borrower's gross monthly income; and

b. Total Obligations-to-Income Ratio -- the borrower's total monthly obligations divided by his gross monthly income. Total obligations include the EMI and monthly payments toward other liabilities.

Information used to calculate the ratios must be documented and independently verified.

In general, the Installment-to-Income Ratio should not exceed 30% and the Total Obligations-to-Income Ratio should not exceed 50% of a borrower's gross income. Higher ratios may be considered if there are strong compensating factors. These factors must be documented by the loan officer and included in the underwriting decision.

<u>Compensating Factors: Payment-to-Income Ratios</u>

There are various circumstances which could justify using higher Installment-to-Income and Total Obligations-to-Income ratios. Such circumstances must be verified by the loan officer and made part of the loan file. Some examples of such compensating factors include:

a. Large amount of margin money, in excess of 30% of the value of the property.
b. The entire amount of the margin money is coming from the borrower's personal savings.
c. Documented history of large savings.
d. Documented history of wise use of credit and the maintenance of a spotless credit history.

e. Documented history of successfully repaying obligations with a higher EMI than the current loan.

f. Educational qualifications or training which ensure the borrower the potential for increased earnings or advancement.

g. Documented net worth in an amount to repay at least 50% of the mortgage loan, even in the absence of earnings.

h. A small number of dependents.

i. Posting of additional security in the form of liquid or semi-liquid collateral.

j. The borrower's employer agrees to recover the EMI from the salary and remit the proceeds directly to the lending institution .

k. The borrower's employer guarantees the loan.

CHAPTER 3: ANALYZING THE BORROWER'S WILLINGNESS TO PAY

Introduction

A key factor in underwriting an application for a mortgage loan is how the applicant has handled credit in the past. The primary way of establishing willingness to pay is by careful establishment and review of the credit history of the borrower.

Currently, there is no agency that compiles and provides information on credit history of individuals. In the absence of credit reports it is necessary to collect information from sources declared by the borrower on the mortgage loan application form to determine whether a borrower has had a history of meeting obligations according to terms.

This chapter discusses how a credit history can be developed for a borrower and the alternate methods for determining a borrower's willingness to pay.

Determining Creditworthiness

It is the loan officer's responsibility to determine the creditworthiness of a borrower and document it in the mortgage loan file.

From an underwriting point of view, a borrower's repayment habits are a major indicator of his willingness to pay. In the absence of any credit reporting agencies, it is the loan officer's responsibility to develop a credit history of the borrower from information provided by borrower and independently verified by the creditors.

Creating the Credit History

The Residential Mortgage Loan Application must provide a section for a borrower to detail existing obligations and debts fully repaid within the three years prior to the mortgage application. The Residential Mortgage Loan Application requires the borrower to disclose:

Name and Address of Creditor/Obligator
Account Number
Amount of Credit/Obligation
Monthly Payment
Months Remaining
Unpaid Balance
Date Credit Established
Date Credit Repaid
Date of Last Payment
Date of Next Payment

All debts to financing agencies and banks must be disclosed. In addition, taxes, school fees, rent, utility accounts (electricity, water, telephone, etc.) must also be detailed.

Analyzing the Credit History

It is the loan officer's responsibility to verify each account listed by the borrower on the mortgage loan application. This must be done by using a Verification of Credit or other document requesting the same information. Whenever possible, the loan officer must also verify the credit information independently by telephone. All results must be documented in the mortgage loan file.

In all cases of borrowing from a bank or a non-banking finance company pass/account sheets are available with which a credible credit record can be documented. With blanket authorization from the borrower, information regarding accounts mentioned by the borrower can be duly verified.

A borrower's record of paying utilities can be verified from the bills for utilities and details of payment. Credit card agencies can furnish information about a borrower's account. Schools can furnish information about school fees and how such fees are paid.

Derogatory credit information does not always indicate a problem with a borrower's credit. It sometimes reflects complicating factors beyond a borrower's control or indicates a misunderstanding of the terms of the obligation. Therefore, it is very important to call instances of derogatory information to a borrower's attention and to give the borrower the opportunity to provide written explanations of the reasons for the derogatory items.

All derogatory items revealed during a credit investigation must be presented to the borrower. The borrower must provide a written explanation for each occurrence. It is the loan officer's responsibility to obtain and evaluate all explanations for derogatory credit. The loan officer's evaluation must be documented on the Mortgage Loan Underwriting Sheet.

A credit history that includes a late payment or a minor, isolated instance of poor credit can still be considered acceptable as long as: (1) any derogatory information can be satisfactorily explained; and (2) the borrower has an otherwise excellent record of maintaining accounts.

In general, a borrower should not have more than:

> one 30-day late credit within the past 12 months; and
> one 60-day late within the past three years.

All credit information available in the Residential Mortgage Loan Application must be satisfactorily verified by the loan officer via one or more of the following methods:

references

face-to-face interview with borrower

and for listed credit and depository information, by:

Verification of Credit (Opinion of Creditor)

Bank's Opinion Letter

telephone or face-to-face interview with banker or creditor.

Also, the more reserves, or net worth, a borrower has the more cushion he will have for ensuring financial obligations are met in the event of unexpected financial hardship.

Interviewing the Borrower

The loan officer must interview the borrower and document the findings on the Interview Sheet. The sheet may be completed during the course of the interview or as soon as possible after the interview.

The interview is a supplement to the Residential Mortgage Loan Application. It should be conducted in a non-threatening manner and should serve to inform both the loan officer and the borrower.

The interview should be structured to elicit information about the borrower's income, preparedness for the responsibility of home ownership, liabilities and payment habits.

The interviewer should also cover past borrowings for acquisition of consumer durables, automobiles, etc. It should additionally focus on the borrower's record for paying rent, utility charges such as telephone bills, electricity bills, water charges, property taxes, etc. and credit card accounts.

References

The borrower must provide two references on the Residential Mortgage Loan Application. Referees should be persons who have known the borrower from close quarters and who can be reasonably expected to vouch for the commitment of the borrower to meet his obligations. A minimum association of three years is required. A referee should be either a supervisor, colleague, or long-standing friend. A family member may not be a referee.

The lender should seek information from the referee about the borrower's inclination to meet financial obligations; general state of health, including any known disability; and information about the borrower's liabilities. The response from the referee can reveal undisclosed information pertinent to the loan decision. The loan officer should independently confirm and document information obtained from referees.

Banker's Opinion

The following items for all bank accounts listed on the Residential Mortgage Loan Application must be verified:

- Name of Account Holder
- Account Number
- Type of Account
- Date Account Established
- Current Balance
- Average balance (most recent 3 months)
- Any problems with the account (unapproved overdrafts, etc.)
- Reason Account Closed

Bank accounts can be verified with a Banker's Opinion Letter. An opinion letter may also be useful in determining how well a borrower's account is maintained. Accounts should have been open a minimum of six months prior to mortgage application. If the account has been opened more recently, banking activities with the borrower's previous bank must be verified, including reason the account was closed. Banker's Opinion Letters must not be more than 3 months old at the time the mortgage loan is funded.

Additional Security: Reinforcing Willingness to Pay

One of the basic principles of underwriting is to establish and reinforce the borrower's willingness to repay. Despite all precautions, a borrower might still become delinquent. While theoretically foreclosure is possible, in the Indian scenario it is very time consuming, cumbersome and extremely expensive. No HFC prefers to seek the foreclosure remedy. Therefore, every mortgage must be additionally secured either by two guarantors, or by a guarantor and pledge of acceptable additional collateral, either in the form of life insurance policies or securities.

<u>Guarantors</u>

Theoretically, a guarantor's liability crystallizes only when a lender fails to recover dues after the foreclosure of the mortgage, a last resort. However, by the very nature of the relationship with the borrower, a guarantor is capable of bringing about moral pressure and usually succeeds in preventing defaults. In practical terms, a guarantor serves to strengthen the resolve of the borrower to meet his obligations.

A guarantor must be someone who can support the mortgage obligation should it become necessary. Ideally, a guarantor should be of at least equal financial standing to the borrower and must be able to qualify for the mortgage he proposes to guarantee. If such a guarantor is not available, a second guarantor can be added to compensate for the inadequacy.

A guarantor must be underwritten in the same manner as the borrower and must submit the financial portions of the Residential Mortgage Loan Application. Before he can be accepted, a summary view of the guarantor's credit history must be developed and verified, his employment and income details verified, and his net worth calculated.

Normally, a guarantor could be a colleague, a supervisor, or a friend. Guarantors employed in the government, public sector undertakings, banks, and leading public limited companies (i.e., those whose stocks are traded on the major exchanges) are preferred. Only in selective cases should relatives be accepted as guarantors. Reasons for accepting relatives as guarantors must be documented by the loan officer and included in the mortgage file.

Pledge of Securities

A pledge of securities is normally considered to qualify a borrower for a higher loan amount and in selective cases, as a substitute for a guarantor.

Acceptable securities which may be pledged include shares , debentures, term deposits, Indira VIKAS Patra, Kisan Vikas Patra, and National Savings Certificates. In all cases, the collateral pledged must be equal to 150% the incremental difference in the loan amount. (If two lakhs would have been approved, pledge of one and one-half lakhs worth of securities would enable the borrower to take a three lakh loan.) In all cases, the pledged collateral must be retained in the custody of the HFC until the mortgage is repaid in full or the loan balance is paid down to such an extent that the additional collateral is no longer required.

CHAPTER 4: TECHNICAL PROPERTY APPRAISAL

Introduction

Analyzing the value of the mortgaged property is essential to the overall underwriting of the loan, because the property serves as collateral for the loan. The value of the property must constitute adequate security for the mortgage loan. Even in the current scenario where foreclosure is extremely slow to execute, the fact remains that the borrower's legal pledge of adequate security substantially increases his ultimate willingness to repay the loan. Thus, the appraisal is a basic document of the loan file.

Maximum Loan-to-Value

In general, the mortgage loan should not exceed 75% of the lower of: purchase price, the cost of construction, or the appraised market value. Larger loan amounts may be considered only if there are documented compensating factors.

Qualifying Property Valuers

All technical appraisals must be carried out by approved property appraisers. Appraisers must be empaneled valuers familiar with valuating properties similar to the subject property and in the same market area. All technical appraisals must be signed and dated by the valuer.

The loan officer is responsible for recommending valuers for approval to the lender. To be considered for approval, the valuer must submit three recent sample appraisals covering property types similar to those he will be appraising for the lender and a resume or curriculum vitae which includes educational background, experience in appraising residential property, professional affiliations, and references from organizations or businesses for whom he has worked in the appraisal field.

For any given appraisal, a property valuer should have previous experience in valuing the particular type of property and should be knowledgeable about other properties of the same kind in the geographical area.

Technical Appraisal

Technical appraisal is an important constituent of property underwriting. The property being underwritten must meet the zoning requirements, and requirements of building bye-laws. The quality of construction should meet the accepted standards and the economic life of the property should stretch beyond the mortgage period. The utilities available must meet prevailing standards and the property owner must have access to them. There must be arrangements to maintain the utilities. The objective of the technical appraisal is to determine whether the prevailing conditions will have favorable or adverse effect on the would be continued marketability and the value of the property.

Analyzing the Description of the Property

The information about the neighborhood, the site and the construction and the nature of property rights (whether free-hold or lease-hold) should be analyzed to ensure that the property being underwritten constitutes adequate security in terms of value and marketability for the mortgage. Property taxes/ground rents of the property underwritten must be verified and documented.

The residential property being considered for underwriting should normally meet zoning requirements. The property can be located in a metropolitan area, urban area, semi-urban area and even in a rural area. The property should be easily accessible by road that meets local standards; should have adequate utilities; and should be suitable for year-round occupation., ct of the property being underwritten must be verified and documented.

As per the zoning requirements the property should be located in a residential area. The residential property being underwritten can be located in a metropolitan area, urban area, semi-urban area and even in a rural area. The property being underwritten must be readily accessible by road that meet local standards, have adequate utilities and be suitable for year-round occupation.

Description of Construction

This should include specific information about the roof surface, number of stories, layout, floor plan, amenities, super area, carpet area and economic life of the property.

Flats in a Group Housing Society

Group housing societies operate on a self-help basis and are run on the principle of no-profit-no-loss. The society may be allotted land by the local development authority or alternatively it may purchase land on its own and apply for permission to zoning authorities for developing a housing complex. The cost of construction and award of contract is decided by the general body. The cost is worked out in detail and specifications are also listed.

The society furnishes cost details for the project as a whole and cost for individual flats are apportioned on the basis of size of the units. In the case of group housing flats therefore the cost furnished by the society can usually be taken for granted. However the technical officer should run through the details of cost and specifications and satisfy himself that the specifications are of accepted standards and can be provided at the cost proposed. The satisfaction of the technical officer in this regard must be recorded and made part of the mortgage file.

Periodical monitoring and physical verification of the construction must be done by a technically qualified officer to ensure that the construction is conforming to the specification indicated.

All relevant documents and permissions issued by the local development authority including the sanctioned plan must be scrutinised and copies retained in the mortgage file.

Flats in Housing Complex Developed by a Private Developer

As different from group housing societies, where a residential flat is offered by a private developer there is little to scrutinise in terms of cost of construction. The verification will however, relate to approval of the project by the zoning authorities, sanction of plans by the local development authority and physical verification of construction to see that the specifications provided meets the generally prevailing standards.

Copies of approval granted by the zoning authorities, sanctioned plan, specifications used must be made part of the mortgage file.

The technical officer must record his satisfaction about the progress in construction which should form part of the mortgage file.

Self-Construction of New Housing Unit

This will call for a great deal of verification. Along with the application, in the case of construction of a dwelling unit, the borrower is expected to provide an estimate for construction drawn up by a qualified architect or a construction contractor.

The estimate provided by the borrower must be closely scrutinised to ensure that the specifications proposed justify the cost indicated.

Periodical inspection of construction must be carried out to verify that the construction meets the specifications proposed. An inspection report should be made out by a technically qualified official and the report should be made part of the mortgage file.

The following documents should be obtained and made part of the mortgage file:

a. Lay out plan showing the location of the plot or housing complex.
b. Approval of the zoning authorities where necessary.
c. Building plan and approval letter from the concerned authorities.
d. Details of specifications.
e. Completion certificate.

Technical Appraisal Standards

The technical appraisal is the primary document for determining the market value of the collateral. Together with the purchase contract/sales agreement, it allows the loan officer to determine if the property will provide adequate collateral for the mortgage loan.

Appraised value is defined as "the current market value as estimated by a certified valuer who has personally inspected the property in and out and who has no present or contemplated future interest in the property appraised."

Definitions

Appraised value is defined as "the current market value as estimated by a certified valuer who has personally inspected the property in and out, and who has no present or contemplated future interest in the property appraised."

Market value is defined as "the price at which a property is most likely to sell in a competitive and open market under all conditions requisite to a fair sale. In such a transaction the buyer and seller are each acting prudently, knowledgeable, and without undue stimulus."

Implicit in this definition is the consummation of a sale on a specified date, and the passing of title from seller to buyer under conditions whereby:

(1) buyers and sellers are motivated to maximize their economic benefit;

(2) both parties are well informed or well advised, and each is acting in what he considers his own best interest;

(3) a reasonable time is allowed for exposure in the open market;

(4) payment is made in Indian rupees or by financial arrangement comparable thereto; and

(5) the price represents the normal consideration for the property sold unaffected by special or creative financing, or by sales concessions granted by anyone associated with the sale.

The appraiser/valuer must identify the subject property by its complete property address and legal description. The appraiser should indicate the nearest intersection if a house number is not available. If the legal description is lengthy, the appraiser may attach the full description as an addendum to the appraisal report or simply refer to its location in the public records.

The appraiser must identify the property rights being appraised as either freehold or leasehold. In addition, if the property is located in a multifamily development, the appraiser must indicate if the property is a cooperative or a condominium.

The appraiser must indicate the total value of any concessions or charges being paid by the seller or any other party with a financial interest in the sale or financing of the property. He must provide a brief description of such concessions in the appraisal.

The appraisal assignment should be made in writing, instructing the valuer to prepare a written report within a specified time, indicating the estimate of value. Appraisals must be no more than 90 days old at the time of loan closing. If an appraisal is more than 90 days old at the time of disbursement, a recertification of value must be obtained from the appraiser.

The following information is required to establish the estimate of value.

1. Property
   * Common and legal description
   * Site information
     - zoning
     - topography (size, shape,& soil condition)
     - utilities (electric, gas, water, & sewer)
     - access to the property (sidewalks and streets)
   * Improvements (detached, cooperative, condominium, row house, etc.)
     - description of exterior (stone cladding, grid wash, etc.)
     - description of construction (roof surface, number of stories, layout, floor plan, amenities, super area, carpet area)
     - description of interior including room sizes and computation of total living area.
     - age of the property/construction.
     - condition of the property
     - house tax/ground rent assessment
     - certify that home has been built according to plans and specification approved by HFC/bank
   * Negative conditions

Comments concerning any condition which may reduce the value of the property such as:

- possible toxic materials
- noxious fumes
- proximity to power facilities

2. Community

* Whether the property comes under a municipality?
* Commentary about the area within a two kilometer mile radius of the subject
  - access (highways & public transportation)
  - convenience factors (shopping, schools, medical facilities, etc.)
  - predominant occupancy (residential, business, retail, industrial, farms, etc.)
* Sales of vacant land and of homes during the preceding year.
* Plans for future development in the area.
* Demographic information on the city/town, where the project is located:
  - number of inhabitants, including professionally active,
  - number of households, their average size
* Information on the status of housing construction:
  - number and structure of housing units (by size)
  - standard of the stock (age, utilities, size of buildings)
  - scale of housing construction activity over the last three years
* Description of similar projects currently under construction in this area

Estimate of Value

To derive the value of the property, the valuer must use each of the following methods. Each must be fully substantiated.

Sales comparison: The valuer should select at least (3) properties which are similar to the subject which have been sold during the previous year. After making adjustments for location, condition, and other physical features a value should be indicated for the subject.

Cost estimate: An estimate of the current cost to build on exact replica of the improvements less depreciation and plus the cost of the land.

If the loan is for new construction or upgradation, the cost of the improvements is generally used as a close approximation of value. Copies of the detailed construction estimate, plans, materials list and all relevant permits must be examined and included in the loan file.

Having employed both approaches the valuer must reconcile the results. Estimates produced by each approach may differ. The final estimate of market value must be substantiated indicating the basis of the valuer's conclusion. The appraisal must be dated and signed by the valuer. To the extent available, the following
exhibits should be included with the appraisal:

- site plan
- location map
- photographs (exterior and interior)
- floor plans indicating dimension by room with computation showing total living area.
- photographs of each property used as a comparable in the sales comparison approach.

The technical officer or the loan officer should identify the property through a field visit and his satisfaction with the findings of the Technical Appraisal Report from the appraiser/valuer should be recorded.

CHAPTER 5: LOAN DECISION

Documenting the Decision

Once the information provided by the borrower has been verified and analyzed by the loan officer, a decision may be made on the loan request.

The decision and the reasons for the decision, must be documented by the loan officer on the Loan Evaluation Sheet. Only verified information may be considered in the evaluation. The evaluation summary must indicate which, if any, compensating factors were considered by the loan officer in making the decision. All field credit investigation reports must be attached to the Loan Evaluation Sheet as supporting evidence for the loan decision.

Communicating the Decision

All loan decisions must be communicated to the borrower/applicant using the prescribed Loan Approval Letter or Loan Denial Letter, as appropriate. Copies of the communication and evidence of mailing must be retained in the loan file.

The loan officer must indicate the reason(s) for loan denial in the Loan Denial Letter which is sent to the borrower/applicant. The borrower/applicant will have 30 days from date of receipt of the denial letter to appeal the decision and submit additional information for the loan officer's consideration.

The borrower must reply, in writing, to a Loan Approval Letter within 30 days of the date of approval. If no reply is received, the sanction will automatically lapse.

File Retention Guidelines

For each loan disbursed, a complete and accurate loan file should be maintained in a secure place until three years after mortgage loan payoff.

The lender must retain loan application files for all commitments extended but not accepted for one year from the date of approval.

After loan denial, the loan file must be retained for one year from the date of decision.

CHAPTER 6: LEGAL APPRAISAL

Introduction and Disclaimer

The following is intended as a general overview for operations personnel of basic legal matters related to mortgage loan underwriting. It is not to be construed as a substitute for legal counsel from a qualified advocate.

Legal appraisal of the subject property should confirm the borrower's right to title of the property. The borrower must establish conclusively that title to the property is clear, marketable and free from encumbrances.

Legal appraisals must include a search for encumbrances on the property over the past thirteen years, or since the local Development Authority first issued an ownership certificate, whichever occurred first.

Short-listing Advocates

Legal appraisals must be prepared by lawyers approved by the lending institution. The empaneled lawyer must be familiar with title searches and must have a proven record in the area.

Abstract of Title

The lawyer's Abstract of Title report must contain a brief summary of the title deeds and other relevant documents in chronological order stating encumbrances; charges; and satisfactions of encumbrances. Acceptable documents of title include a sale deed, partition deed, gift deed, arbitration award conferring title, certificate of sale granted by a civil court, deed of transfer, probate of a will, or a lease deed. The lawyer must inspect all documents contained in the abstract of title and include his findings in the legal appraisal report submitted to the loan officer.

Inspection of Records

The lawyer must make a search of records maintained in the Registrar's Office to determine whether the property is encumbered. The title to the property must be searched for encumbrances for the preceding thirteen years. Findings must be detailed in the legal appraisal.

Search Report and Certificate of Non-Encumbrance

The Search Report must contain a statement of inspection of records in the Registrar's Office and provide proof thereof. The report must contain the history of title, how title was derived, and whether there are encumbrances on the property.

The report must also list the documents which must be lodged with the lender in order to perfect a Mortgage by Deposit of Title Deeds. The report must indicate whether the property is freehold or leasehold. The report must also identify what, if any, permits must be obtained and from which competent authorities in order to perfect the mortgage on leasehold property.

Age of Legal Appraisal

The non-encumbrance certificate must be issued prior to loan approval, but in no case can it be more than 30 days old at the time of loan closing. A supplementary certificate must be obtained for the period from the date of the non-encumbrance certificate up to the date of the mortgage.

Effecting a Mortgage by Deposit of Title Deeds

A mortgage is defined as the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced or being advanced by way of a loan. A home mortgage must normally be effected by registered instrument; however, registration is often very expensive and can be legally circumvented. Under the Transfer of Property Act, a mortgage lien need not be registered if the title deeds are deposited with the lender and are accompanied by a written statement confirming the borrower's intent to create a mortgage on the property by depositing the title deeds. This is the most common form of mortgage in the Indian context and is called the mortgage by deposit of title deeds. The popularity of the mortgage by deposit of title deeds is due in large part to the high costs associated with registering legal instruments.

The following are required for effecting a mortgage by deposit of title deeds:

a. there must be an existing debt or a future debt;
b. the deposit of title deeds must be made only in notified towns or cities;
c. the deposit of title deeds must be made by the borrower or his agent;
d. the deposit of title deeds must be made by the creditor or his agent;
e. the deposit must be made of all deeds which are material evidence of the title;
f. the deposit of the title deeds must be made with the intent to create a security interest in an immovable object;
g. possession is not delivered;
h. Written confirmation from the borrower clearly stating the purpose of deposit of deeds must be obtained.

In the case of a group housing society and in a group housing project by a private developer, the title to property becomes available only after the project is complete and full payment for the flat is made. In such cases mortgage is technically possible only when the flat is built and becomes identifiable. Mortgage of superstructure with undivided share in the land underneath becomes a valid mortgage.

Till the flat comes into existence and becomes mortgageable, a tripartite agreement among the lender, the borrower and the developer/society must be obtained to provide security. Ostensibly, this agreement should be backed by the mortgage of the project land with the housing finance company.

CHAPTER 7: LOAN DISBURSEMENT PROCEDURES

Introduction

A mortgage loan is secured by a primary interest in the property being purchased by the borrower. Therefore, no monies can be released until all proper steps are taken to ensure the lender's security interest in the property can be established and protected.

Document Preparation

The loan officer must complete the Loan Document Disbursement Checklist to ensure that all required documents are present in the loan file and/or ready for execution by the borrower prior to funds disbursement.

To ensure accuracy, documents must be proof-read by someone other than the document preparer. Both the document preparer and proof-reader must certify the correctness of the documents executed by the borrower in a separate memorandum of certificate.

Documents Required for Borrower Execution

The following documents must be obtained before the disbursement of loan:

a. a typed Residential Mortgage Loan Application form, prepared using information which has been properly verified in the underwriting process and containing no strikeouts, typeovers or correcting fluid;
b. loan acceptance note;
c. housing loan agreement;
d. appropriate title deeds and mortgage papers;
e. letter evidencing deposit of title deeds;
f. search report and non-encumbrance certificate;

g. no objection certificate and permission for creating mortgage from the appropriate authority in case of a lease hold property;

h. guarantee agreement;

I. assignment of life insurance policy where applicable.

j. letter of pledge for securities pledged as collateral for the loan, where applicable; and

k. additional documents in each case depending upon the requirement in each case.

Loan Disbursement

On completion of documentation, a formal inspection of the property must be carried preferably by a technical officer and furnish an inspection report before disbursement takes place. Among other things this report should include, the present state of the property, extent of construction already carried out, conformity to the sanctioned plan, confirmation with regard to investment of margin or differential amount. In the case of construction of a new unit, the report should include recommendation with regard to instalment amount to be released.

In the case of ready built house/flat upon receipt of the report disbursement can be made directly to the seller in one lump sum to coincide with registration of the sale deed. All original documents of title to the property must be obtained along with the receipt issued by the Sub-Registrar for having accepted the documents for registration.

In the case of new construction, loan disbursement should usually be made in stages. The disbursement should start only after the HFC is satisfied that the proposed margin has been invested by the borrower. The disbursement can be made in three or four tranches. The first tranche may coincide with the completion of the plinth area and the second tranche can be released when the roof is laid. The final tranche should be released when the house is completed so that any escalation in cost on account of additional specifications or fixtures should be met by the borrower from his resources.

For every release a written request from the borrower must be obtained. Before each release, site inspection is mandatory.

Loan Closing

Loan documents must be executed on the premises of the HFC/bank. All documents must be executed in one sitting. If a borrower cannot be present, he must submit a properly executed Power of Attorney, designating a nominee to sign on their behalf.

All documents must be executed on stamped paper of adequate value.

Any erasures or overstrikes must be authenticated and dated by the borrower and an authorized representative of the HFC/bank.

All documents which must be registered with municipal or other authorities must be so registered and evidence of such registration must be in the loan file before the proceeds of the loan can be disbursed.

Filling up of the loan papers and checking of loan papers and documents must be done by different individuals.

A loan officer must verify all loan papers and documents and record correctness of loan papers and documents and adequacy of stamp duty.
Periodical payment of property tax must be ensured in respect of property mortgaged. Borrowers must be asked to furnish copies of tax payment receipts.

Appendix A

Check List of Pre-Sanction and Post-Sanction Activities

I. Documents to be collected from the borrower(s)

1 Residential Mortgage Loan Application form complete in all respects

2. Demand draft/cheque towards the payment of processing fee

3. In the case of employed person salary certificate from the employer

4. In the case of self-employed profit and loss accounts and balance sheets for the last three financial years and year-to-date profit and loss statement

5. Income Tax Returns/Assessment Order for the last three financial years

6. Copy of the agreement to sell/allotment letter in respect of property proposed to be purchased

7. Conveyance deed in respect of serviced plot already acquired

8. Society's membership (share) certificate

9. Sanctioned building plan and completion certificate where a ready built property is proposed to be acquired

10. Sanctioned building plan and estimate of construction cost from a chartered engineer in case of construction of a new housing unit
11. Sanctioned building plan and estimate of construction cost in case of flat in a group housing society/housing complex developed by a private developer
12. In case of lease hold property obtain a no objection letter from local area authority
13. Blanket authorization letter for verification purposes

II Activities in Processing of Application

1. Interview borrower and prepare interview report
2. Send out letter (s) and verify employment and income in the case of salaried borrower
3. Send out letters to referees and obtain their opinions
4. Obtain opinion letter from banker
5. Verify deposits in bank/NBFC/companies etc.
6. Verify borrowings from bank/NBFC and revolving credits
7. Verify utility payments where necessary
8. Carry out physical inspection of the property
9. Carry out physical inspection of the place of business of the self-employed
10. Obtain property appraisal report from an empaneled appraiser

11. Obtain search report and certificate of non-encumbrance from an empaneled lawyer

12. Prepare Credit History Evaluation Sheet

13. Carry out Self-employed Income and Comparative Income Analysis

14. Prepare Evaluation Sheet

III. Post-Sanction Activities

1. Issue sanction letter

2. Obtain Acceptance Letter from the borrower

3. Obtain demand draft/cheque towards administrative fee

4. Obtain all original documents of the property for creating mortgage

5. Obtain a non-encumbrance certificate for the intervening period

6. In the case of lease-hold property send a letter to the local area authority confirming creation of mortgage

7. Complete documentation covering the following:

   - Execution of Demand Promissory Note
   - Execution of Standard Loan Agreement
   - Execution of Guarantee Agreement(s)

- Any other agreement/document(s) specific to the case

8. Fill out a fresh Residential Mortgage Loan Application form with verified information and get it authenticated by the borrower(s)

9. Carry out inspection of the property and prepare inspection report for disbursement

10. File the documents and lodge the file in fire resistant safe

APPENDIX B: EMPLOYMENT AND INCOME -- SELF-EMPLOYED BORROWERS

REQUIRED DOCUMENTATION

An individual having at least 25% ownership interest in a business and deriving at least 50% of his income from the business may be considered as self-employed. Business is defined to include the practices of professionals, manufacturing activity, retail trade, and services.

A self-employed borrower must provide the following documentation in addition to the loan application form:

> copies of the most recent three years tax returns;
>
> copies of audited financial statements for the most recent three years; and
>
> provisional income statement as of the last date of the month preceding the date of application.

REQUIRED ANALYSIS

The loan officer must scrutinize the borrower's financial statements.

The Comparative Analysis of Business Income and the Self-Employed Income Analysis and are used for this analysis. The completed forms must be signed by the loan officer and retained in the loan file.

Employment Stability: Self-employed

There are three main indicators of employment stability for a self-employed borrower:

a. length of self-employment;

b. type of business structure; and

c. viability of the business.

a. Length of Self-Employment

The employment of a self-employed borrower may be considered stable if the borrower has been self-employed in the same line of work for at least three years. Where a borrower has been self-employed less than three years, there must be documented evidence of at least two prior years of employment in the same or similar trade or field, or there must be strong compensating factors. For example, the borrower might have been completing professional or graduate studies directly related to their current line of business. Such factors must be documented by the loan officer and included in the loan file.

b. Type of Business Structure

There are three main types of business structure: a sole proprietorship, a partnership and a limited company. Each type of structure has advantages and disadvantages which must be considered in loan underwriting.

1. Sole Proprietorship

A sole proprietorship is a business owned by a single individual. In this case no distinction is made between the assets of the business and personal assets. Business liabilities are secured by both business and personal assets. It is important to determine and document which are the personal debts and which are business debts.

As long as business debts are serviced from business receipts and treated as business expenses, they need not be considered in calculating the total obligations -to-income ratio.

2. Partnership

A partnership is a business jointly owned by two or more individuals. The partners are liable jointly and severally for business liabilities. The liability continues even after the partnership dissolves. Individual partners pay taxes on their proportionate share of business income. Where business debts are paid out of business incomes, they need not be considered in calculating the total obligations-to-income ratio.

3. Limited Company

A limited company is an association of persons registered under the Companies Act with limited liability and formed with the objective of carrying on business. It exists independently of its owners and the activities are much more regulated than those of a partnership or a sole proprietorship firm. Shareholders of a company are liable for the company's liabilities only to the extent of their equity in the company. The company files a separate tax return.

A distinction is made between a private limited company and a public limited company. A private limited company has a limited number of shareholders and is normally closely held. Shareholders are usually relatives or friends. Additionally, there are restrictions on share transfer. A listed public limited company has a large shareholder base and shares are listed on the stock exchange for open trading.

A borrower who is a director in a company may derive his income from the company in two ways: from his salary and from dividend income on his share holdings. While salary income may be stable, the dividend income may vary from year to year. In cases where salary constitutes more than 50% of a borrower's income, he may be qualified as a salaried borrower. However, in cases where it does not, he must be qualified as a self-employed borrower.

c. Viability of the Business

Once the nature of the business is determined and the extent of personal liability of the borrower is understood, the viability of the business must be examined and the likelihood o f the business providing the borrower with a stable income must be assessed. To examine viability, financial information must be used. This can be supplemented with findings of a field credit investigation.

Analyzing Financial Statements

Financial statements are required for evaluating the viability of a business. Financial statements are defined as: a balance sheet, an income statement and tax returns. A minimum of the most recent three years' financial statements are required to provide an historical perspective.

BALANCE SHEET

The balance sheet provides a financial picture of a business at a given point of time. It lists assets, liabilities and capital employed. A business' assets are financed by the owner's equity, borrowings and other liabilities.

a. Assets

Assets are things of value that a business owns. They are broadly classified as current assets and fixed assets.

Current assets include items that may be quickly encashed. Inventory, accounts receivables and cash are the major components of current assets.

These assets are constantly changed into cash to pay for business expenses and debts. They are essentially short term in nature.

Fixed assets are the assets used by the business for its operations and are relatively permanent in nature. Fixed assets include land, building, plant and machinery, etc.

b. Liabilities

Liabilities represent the borrowings and debts incurred by the business for goods and services necessary to the operation of the business. Liabilities are typically classified into current liabilities and long-term liabilities.

Current liabilities are liabilities required to be paid within 12 months. This includes those portions of long-term liabilities which will fall due within the next 12 month period. Long-term liabilities are those liabilities that do not become due for payment within the current 12 month period.

c. Capital (Net Worth)

Capital represents equity invested in the business. Profits retained in the business represents reserves which usually form part of the capital. Generally, capital can be determined by subtracting total liabilities from total assets.

PROFIT AND LOSS ACCOUNT

The Profit and Loss Account is a statement of income and expenditures of the business during a specific period of time, generally, one financial year. A business may be considered profitable when income exceeds expenditures incurred. The Profit and Loss Account is an important tool for evaluating a business' long-term viability.

a. Income

Sales are generally the largest single component of gross income. Other sources of income might include interest and dividends and any other income, such as capital gains, not related to the business.

b. Expenditures

The largest components of expenditures are costs of raw materials (or cost of goods sold), labor and other costs directly related to the operation of a business. Other expenses which are included in this portion of the Profit and Loss Account include:

commissions paid, publicity costs, travel and tour expenses, general administrative expenses, office supplies, interest payments, depreciation and income tax.

The residual income (total income less total expenditures) constitutes net profit.

Tracing the trend in net profit over a period of three years provides the basis for assessing the future profitability (or viability) of a business.

COMPARATIVE ANALYSIS OF BUSINESS INCOME

A comparative analysis of a business' income traces the trends in a business' gross income, expenses and net profits. This is done by calculating the percent change in each from year to year. It also provides important information about the continued viability of the business.

The analysis should be based on the three most recent years' financial statements. If other years are used, the loan officer must document the reason for doing so. The analysis should be carried out by completing the Comparative Analysis of Business Income form, or a form containing the same information.

The Comparative Analysis of Business Income focuses on the following:

analyzing the component elements of each broad category: income, expenses and net income; and the percentage of change in each from year-to-year.

Components of gross income should be carefully analyzed. An increasing trend in gross income may not necessarily be the result of an increase in volume of the business' primary activity (e.g., sales). It may be a result of liquidating assets or some other reason and, business volume may, in fact be falling.

Only income from the principal activity of the business should be considered in the comparative analysis. If other is income is used there must be compelling reasons (e.g., the business in the midst of diversifying into another, proven business line). This must be verified and documented by the loan officer in the analysis.

INTERPRETING THE RESULTS

The percentage changes from year-to-year need to be interpreted carefully and documented by the loan officer as part of the underwriting decision.

Gross income that is increasing or staying constant is acceptable. Declining income may call for additional scrutiny. An additional year's income statements may be required or other appropriate documentation which will assist the loan officer in making a prudent credit decision.

Annual expenses that are declining or remaining constant are acceptable. Expenses that are growing may also be acceptable if gross income is growing at a faster rate than expenses.

Expenses that are growing while gross income remains constant or is declining are a matter for further scrutiny.

Net income that is level or growing is acceptable. Declining net income may be a matter requiring further analysis and even discussion with the borrower. A continuing drop in net income over the years may be considered sufficient reason for declining a loan.

The analysis and conclusions of the loan officer must be adequately documented and retained in the borrower's file.

ANALYSIS OF THE SELF-EMPLOYED BORROWER'S INCOME

The Self-Employed Income Analysis form, or other form requiring the same information, must be used to determine the income of each self-employed borrower. The loan officer must determine an average monthly income based on the financial information and tax returns provided by the borrower. If the loan officer uses something other than an average monthly income for qualifying the borrower, there must be compensating factors or compelling reasons, both of which must be documented and made part of the loan file.

A field credit investigation, or physical inspection, of the business facilities is required for all loans to self-employed borrowers unless there are compelling reasons. In such cases, the loan officer must document the reason and waiver must be approved by the branch manager. A physical inspection reveals the condition of the premises, desirability of its location, number of persons employed, infrastructure available, inventory on hand, volume of business, books of the business, trade creditors and debtors, etc. The loan officer must record the findings in the Field Credit Investigation Appraisal, which must be included in the loan file.

Compensating Factors

Year-to-date income from a business may be used in determining the borrower's monthly income for mortgage qualification purposes if the financial statements are audited and signed under penalty of perjury, and if the income is in line with previous years' income from the business.

Maximum financing terms may be considered if there are discernible upward trends in income and the likelihood of their continuing can be verified and documented by the loan officer.

EVALUATING INDIVIDUAL INCOME TAX RETURNS

All tax returns must have been filed in their respective assessment years. If they have not been filed in the proper assessment year, there must be a compelling reason which must be verified and documented by the loan officer.

The information contained in the tax returns must corroborate the information provided in the financial statements (balance sheet and profit and loss account). If there is a discrepancy, the loan officer must investigate and document the reason for the difference. In all cases where the application process continues to a decision after the discrepancy is investigated, the lower income numbers must be used to qualify the borrower.

Forms

1. Individual Loan Application Form
2. Evaluation Summary
3. Request for Information Regarding the Regularity of Credit Repayment
4. Request for Verification of Employment
5. Request for Verification of Deposits
6. Property Description and Analysis
7. Certification and Statement of Limiting Conditions.
8. Self-Employed Income Analysis
9. Comparative Income Analysis

INDIVIDUAL LOAN APPLICATION FORM

Loan file No.	Photograph of applicant	Photograph of co-applicant

I. PERSONAL INFORMATION OF APPLICANT(S)

Applicant

Name

Father's/Husband's Name

Date of Birth — Status : Resident/Non-resident

Age of Retirement — Marital Status : Single/Married/ others

Educational/Professional Qualification

Number of Dependents (not listed by co-applicant) — Children : No. Ages; Others : No. Ages

Present Address (street, city, state, PIN code No.)

Telephone No.

Present Accommodation — Owned — Rented — Company — Family

No. of years in the present accommodation

If rented, monthly rent being paid

If residing at present address for less than three years, provide the following details:

Former Address(es) (street, city, state, PIN code No.)

No. of years in the
former accommodation(s)

Whether | Owned | Rented | Company | Family

If rented, monthly rent paid

Co-applicant

Name

Father's/Husband's Name

Date of Birth — Status : Resident/Non-resident

Age of Retirement — Marital Status : Single/Married/others

Educational/Professional
Qualification

Number of Dependents (not listed by applicant) — Children : No. Ages; Others : No. Ages

Present Address
(street, city, state, PIN code No.)

Telephone No.

Present Accommodation | Owned | Rented | Company | Family

No. of years in the
present accommodation

If rented, monthly rent being paid

If residing at present address for less than three years, provide the following details:

Former Address(es)
(street, city, state, PIN code No.)

No. of years in the
former accommodation(s)

Whether | Owned | Rented | Company | Family

If rented, monthly rent paid

Relationship to the Applicant

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2. EMPLOYMENT INFORMATION

Applicant

Occupation	Salaried	Self-employed

Name of the Employer/Business Name and Address

Phone No.

Employee Number

Designation

No. of years in the Present Employment

Whether confirmed yes/no

Number of years in this line of work/profession

Age of Retirement

Gross Monthly Salary/ Income from Business

Interest Subsidy, if any

If employed in current position for less than two years provide the following information:

Name and address of the former employer(s)	Date of joining	Date of leaving	Last pay drawn	Reasons for leaving

If previously self-employed

Business Name and Address	Reasons for closing

Name and address of the bank	Account No.

Co-applicant

Occupation Salaried Self-employed

Name of the
Employer/Business Name
and Address
Phone No.

Employee Number

Designation

No. of years in the
Present Employment

Whether confirmed yes/no

Number of years in this
line of work/profession

Age of Retirement

Gross Monthly Salary/
Income from Business

Interest Subsidy, if any

If employed in current position for less than two years provide the following information:

Name and address of the former employer(s)	Date of joining	Date of leaving	Last pay drawn	Reasons for leaving

If previously self-employed

Business Name and Address	Reasons for closing

Name and address of the bank	Account No.

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3. INCOME DETAILS

Gross Monthly Income	Applicant	Co-applicant	Total
Gross Salary/ Income from Business			
Pension			
Overtime			
Bonus			
Productivity Incentive			
Commission			
Interest/Dividend			
Rental Income			
Others (Specify)			
Total			

4. ASSETS AND LIABILITIES

Assets

Particulars	Applicant	Co-applicant
Savings in bank (including fixed deposits)		
Current Balance in Provident Fund (including Public Provident Fund)		
Savings in National Savings Certificates, Government Bonds/Securities (to be separately listed)		
Market value of investments in shares/debentures (to be separately listed)		
Market value of Immovable Property (details to be provided)		

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Surrender value of Life Insurance Policy(ies) (to be separately listed)

Other movable assets (specify)

Total Assets

Liabilities (loans proposed/taken)

Please indicate below all outstanding/proposed loans from employer, provident fund, finance company, bank etc. and instalments payable per month including interest against each loan and outstanding term.

Source of Loan	Purpose	Outstanding balance (Rs.)	Monthly Instalment (Rs.)	Balance term (Months)
Applicant				
Employer				
Finance Company (Name & Address of the Company(ies)				
Bank (Name & Address of the bank(s)				
Credit & Thrift Society (Name & Address of the Society(ies)				
Others (specify)				
Total Liability				
Co-applicant				
Employer				
Finance Company (Name & Address of the Company(ies)				
Bank				

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(Name & Address of
the bank(s)

Credit & Thrift
Society
(Name & Address of
the Society(ies)

Others
(specify)

Total Liability

Net Worth of Applicant

Net Worth of Co-applicant

5. DETAILS OF BANK ACCOUNTS

Name of the Bank and Address	Name of the Account	Current/Savings Accout	Account Number
Applicant			
Co-applicant			

6. DETAILS OF PROPERTY

Address of the Property
(street, city, state, PIN code No.)

Location of Property Metro/Urban/Semi-urban/Rural

Property Type Bunglow/Row House/Apartment/Others

Area of land sq.yds/sq.mts. Built Area sq. ft.

Stage of construction

7. LOAN DETAILS

Purpose of Loan — Construction/Purchase/Upgradation/Others

Estimated Cost — (Amount in Rs.)

Cost of land
Cost of construction/ purchase price
Registration cost
Incidental expenses
Contingency

Total Cost

Estimated Availability of Funds

Sources of down payment (including amount already spent)

Savings from Bank
Disposal of investments
Borrowings from Provident Fund/Employer
Gifts (details to be attached)
Others (specify)

Loan requested for

Total Availability of Funds

Estimated Market Value of the Property — Rs.

Terms of Repayment Proposed — Yrs.

Note: Estimates of cost which is the total cost to be incurred should equal estimates of availability of funds.

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8. REFERENCES (names, addresses and telephone number of two referees not related to applicant/co-applicant)

1. 2.

Note: The company may make such enquiries from the referees as it may deem necessary

9. DECLARATION

	Applicant		Co-applicant	
	Yes	No	Yes	No
a. Are there any outstanding claims against you?				
b. Have there been any insolvency proceeding?				
c. Are you a party to a law suit?				
d. Have you guaranteed any loan? (if yes, please provide details)				
e. Are you presently delinquent or in default on tax payment, instalment loans, etc.? (if yes, please provide details)				
f. Is any part of the down-payment borrowed (if yes, provide details)?				

g. Other mortgages Property address

Mortgaged with	Original Balance	Current Balance

Monthly Payment

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10. ACKNOWLEDGEMENT AND AGREEMENT

The undersigned specifically acknowledge(s) and agree(s) that:

a. the loan requested by this application will be secured by a first mortgage on the property described herein;

b. the property will not be used for any illegal or prohibited purpose or use;

c. all statements made in this application are made for the purpose of obtaining the loan indicated herein;

d. occupation of the property will be as indicated above;

e. verification or reverification of any information contained in the application may be made at any time by the company or its agents, successors and assigns, either directly or through a credit reporting agency, from any source named in the application and the original copy of the application will be retained by the company, even if the loan is not approved by the company;

f. the company, its agents, successors and assigns will rely on the information contained in the application and I/we have a continuing obligation to amend and/or supplement the information provided in the application if any of the material facts which I/we have represented herein should change prior to disbursement;

g. in the event of my/our payments on the loan indicated in this application become delinquent, the company, its agents, successors, assigns, may, in addition to all their other rights and remedies, report my/our name(s) and account information to a credit reporting agency;

h. ownership of the loan may be transferred to successor or assign of the company without notice to me/us and/or the administration of the loan account may be transferred to an agent, successor or assign of the company with prior notice to me/us;

i. the company, its agents, successors and assigns make no representations or warranties, express or implied, to the borrower(s) regarding the property, the condition of the property, or the value of the property;

j. confirm that I/we have read the brochure and have understood the contents.

k. I am/We are aware that the equated monthly instalment comprising of principal and interest is calculated on the basis of annual rests.

l. agree that the loan shall be governed by rules of the company which may be in force from time to time.

11.CERTIFICATION

I/We certify that the information provided in this application is true and correct as on the date set forth opposite my/our signature(s) on this application and acknowledge my/our understanding that any intentional or negligent misrepresntation(s) of the information contained in this application may result in civil liability and/or criminal liability and liability for monetary loss/damages to the company, its agents, successors and assigns, insurer or any other person who may suffer any loss due to reliance upon any misrepresentation which I/we have made on this application.

Signature of the applicant	Date	Signature of the co-applicant	Date

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EVALUATION SUMMARY

(This sheet must be filled with verified information)

1. Loan File No. Accepted on
2. Loan amount requested
3. Processing Fee Amount Rs. Date of payment
4. Location of the property Rural/Semi-urban/Urban/Metro
5. Field Credit Investigation carried out by:
6. Applicant(s) interviewed by:
7. Property appraised by:
8. Appraised value of the property
9. Purchase price

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10. Loan Details

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a. Loan amount recommended Rs. b. Term yrs.

c. Rate of Interest %

d. Equated Monthly Instalment Rs.

e. Total obligations (d + 11 above) Rs.

f. Instalment to Income Ratio (IIR) %

g. Total Obligations-to-Income Ratio (TOIR) %

h. Loan-to-Cost Ratio %

i. Loan-to-Value Ratio %

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11. Particulars of Applicant/Co-applicant

	Applicant	Co-applicant
a. Name		

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b. Age

c. Educational/Professional qualification

d. Designation

e. Name of the Employer

f. Applicant's relationship with Co-applicant

12. Employment History (for the last 5 years)

Applicant

Name of the Employer	Designation	From	To	Last pay drawn

Co-applicant

Name of the Employer	Designation	From	To	Last pay drawn

Brief profile of the employer in case the applicant is employed with a small company or a firm.

Any field credit investigation undertaken, if so, gist of the report.

In the case of self-employed applicant(s) give a brief description of the business and future prospects, incorporating the comments of the Loan Officer.

13. Income Details

	Applicant	Co-applicant

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Gross Salary/
Income from business
Overtime
Bonus
Productivity Incentives
Reimbursement of Expenses
Pension
Commission
Interest/Dividend
Interest Subsidy
Rental income
Others (specify)

Total

---

14. Credit History (to cover all borrowings over the previous 24 months)

Source (Name)	Date	Loan Amount	Monthly Payment	Balance outstand ing	Payments 30 days past due

	Payments 60 days past due	Most recent 30 days late payment	Most recent 60 days late payment

Payment for Utilities	Regular	Irregular
Telephone bills		
Electricity Charges		
Water Charges		

Payment for revolving credits	Regular	Irregular

Banker's opinion

Any adverse feature reported by Finance Company/Bank/Thrift Society

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Observations/comments of the Interviewing Officer

Comments of the referees, if any

Comments of the Loan Officer

15. Details of Current Debts (with more than 12 instalments outstanding)

Source of Loan	Outstanding balance	Monthly instalment	Balance term
a.			
b.			
c.			

Total Monthly Instalment

16. Dependents

Name	Relationship	Age	Occupation	Income, if any.

17. Property Details

Address of the Property (street, city, state, PIN code no.)

Property Type Bunglow/Row House/Apartment/Others

Nature of the Free hold/Lease hold

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Property

Area of land sq.yds/sq.mts. Built Area sq.ft.

Stage of construction

Estimated market value of the property Rs.

If the property proposed to be purchased is a ready built flat or house	Age of the building	yrs.
	Life expectancy	yrs.

Whether the property is in a serviced lay out?	yes/no
Whether the property conforms to the zoning requirement?	yes/no
Whether building plan has been duly sanctioned by the competent authority?	yes/no
Whether utilities as per the prevailing standards available?	yes/no

Findings of the inspecting Officer

18. Cost and Means of Finance

Purpose of loan Construction/Purchase/Upgradation/Others

Estimated cost (Amount in Rs.)

Cost of land
Cost of construction/ upgradation
Purchase price - flat/house
Registration Cost
Incidental Expenses
Contingency

Total Cost

Estimated Availability of Funds (Amount in Rs.)

Down payment
(including amount already spent)

Savings from banks
Disposal of investments
Borrowings from Provident Fund/Employer
Gifts
Others (specify)

Loan requested for ____________

Total availability of funds ____________

19. Guarantors

	1	2
Name		
Age		
Occupation		
Monthly Income		
Net Worth		

20. Security

a. Whether the title of the property has been traced?	yes/no
b. Whether legal scrutiny report obtained?	yes/no
c. Whether clear, marketable and un-encumbered title available?	yes/no
d. If the property is a lease hold property whether permission to mortgage obtained from the competent authority?	yes/no
e. In case of a flat/apartment whether the property is already mortgaged by the developer with any institution as collateral for raising construction finance?	yes/no

21. Compensating Factors Considered

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a. Pledege of securities

Security details | Face Value | Market Value

b. Assignment of LIC Policy

Policy details | Face Value | Surrender Value

c.

Comments of the Loan Officer

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22. Certification

All information/particulars furnished in this Summary have been duly verified.

A loan of Rs. is recommended for santion.

Signature of the Loan Officer

Signature of the Sanctioning Authority

Date

REQUEST FOR INFORMATION REGARDING THE REGULARITY OF CREDIT REPAYMENT

DATE: ___________

ADDRESSEE: ______________________________

____

____

Borrower: ______________________________

Address of Borrower: ______________________________

____

Number of account/agreement: ______________________________

The above named borrower has applied to the Bank for a mortgage credit. The information, which we request is indispensable for us to verify the application. We ask you for a quick reply.

This is a request for information on the regularity of credit payments. Please complete the appropriate information and send the form to us in a sealed envelope. Thank you for your cooperation.

____
Authorized signatory of mortgage lender

I/We consent to the provision of the above information.

______________________________ ______________________________
Signature of Borrower #1 Signature of Borrower #2

CREDIT INFORMATION

Type of credit:	Original amount of credit:
Original date credit opened:	Current credit balance:
Interest rate: %	Monthly repayment of principal and interest:
Credit period (months, years) circle as appropriate	The next payment date is:
History of payments during the past 12 months: Pays REGULARLY IRREGULARLY (circle appropriate response)	Times late in the past 12 months:

I hereby state that the information contained here is correct and true. I understand that the Bank will use it to make its decision on granting mortgage credit to the above named applicant. Any misleading or incorrect presentation of the information may cause the Bank financial loss, therefore such actions can lead to the undertaking of appropriate procedures

Signature of authorized employee: ______________________________ Date: ______________

Request for Verification of Employment   Loan File NO.

Instructions: Lender: Complete items 1 through 6. Have applicant complete item 7. Forward directly to the employer in item 1.

Employer: Please complete either Part II or Part III as applicable. Complete Part IV and return directly to Lender named in item 2.

The form is to be directly transmitted to the lender and is not to be transmitted through the applicant or any other party.

Part I - Request

1. To (Name and address of employer)	2. From (Name and address of Lender)

I certify that this verification has been sent directly to the employer and has not passed through the hands of the applicant or any other interested party.

3. Signature of Lender	4. Designation	5. Date

I have applied for a housing loan and stated that I am now or was formerly employed in your organisation. My signature below authorises verification of the information.

6. Name and Address of the Applicant and Employee Number	7. Signature of applicant

Part II - Verification of Present Employment

8. Applicant's Date of Employment	9. Present Position	10. Probability of Continued Employment

11A. Monthly Pay and Allowances (Current Year-to-Date (Date))	11B. Deduction.	11C. Monthly Pay and Allowances (Previous Year)	11D. Deduction
Basic Pay	Provident Fund	Basic Pay	Provident Fund
Dearness Allowance	Insurance	Dearness Allowance	Insurance
House Rent Allowance	Income Tax	House Rent Allowance	Income Tax
Conveyance Allowance	Repayment of Loans	Conveyance Allowance	Repayment of Loans
Other Allowances	a.	Other Allowances	a.
a.	b.	a.	b.
b.	c.	b.	c.
c.		c.	
GROSS MONTHLY SALARY		GROSS MONTHLY SALARY	

12. If overtime or bonus applicable, is its continuance likely

Overtime yes/no Bonus yes/no

13. Date of applicant's next pay increase

14. Projected amount of next pay increase

15. Date of applicant's last pay increase

16. Amount of last pay increase

17. a. Is interest subsidy available, if so the percentage of subsidy?
b. Is the applicant occupying accommodation provided by the company? If yes,
c. Will the benefit continue after the applicant acquires his own accommodation?

18. Remarks (if employee was on leave for any length of time, please indicate time and reasons)

Part - III Verification of Previous Employment

19. Date of Employment	20. Date of Leaving	21 Last gross pay drawn
22. Position Held	23. Reasons for Leaving	

Part IV - Signature

24. Signature of Employer Date:	25. Designation	26. Phone

Request for Verification of Deposits | Loan File No.

Instructions: Lender — Complete Items 1 through 8. Have applicant complete Item 9. Forward directly to the bank/company.

Bank/Company — Please complete items 10 through 16 and return directly to lender named in Item 2.

The form is to be transmitted directly to the lender and is not to be transmitted through the applicant or any other party.

Part I - Request

1. To (Name and address of the bank/company)	2. From (Name and address of the lender)

I certify that this verification has been sent directly to the bank/company and has not passed through the hands of the applicant or any other party.

3. Signature of lender	4. Designation	5. Date

6. Information to be verified

Type of Account	Account in name of	Account Number	Balance

7. Details of loan(s) outstanding

I have applied for a housing loan and stated in my financial statement that the balance in the deposit(s) with you is as shown above. I have also given the particulars of all facilities availed from you. You are authorised to verify the information and to supply the lender identified above with the information requested in items 10 through 16. Your response is solely a matter of courtesy for which no responsibility is attached to your institution or any of your officers.

8. Name and Address of Applicant	9. Signature of Applicant

Part II - Verification

10. Deposit Accounts of Applicant

Type of Account	Account Nuumber	Current Balance	Average Balance previous 3 months	Date of opening

11. Loans to Applicant (Please include information even on loans paid in full in previous 24 months)

Loan Number	Type	Date	Original Amount	Current Balance	Instalment monthly/qrly	Security	Number of late payment past due 3ms 6ms

12. Please include any additional information which may be of assistance in determination of credit worthiness.

13. If the name (s) on the account(s) differ(s) from those listed in item 7 please supply the name(s) on the account(s) as reflected in your records.

Part III - Signature

14. Signature of Power of Attorney Holder (use official seal)	15. Designation	16. Date

Property Description and Analysis

Subject

Property address(street, city, state and PIN code)		Lender's Use Sale Price Date of Loan Loan Amount Down Payment amount
Owner Occupied Yes/no	Annual Tax	
Property Rights Free Hold/Lease Hold		

Name of the Borrower	Name of Appraiser

Neighbourhood

				Neighbourhood Analysis	
Location	Metro	Urban	Rural	Conveniences	
Occupancy	Over 75%	Over 50%	Under 50%	Shopping	y/n
Growth rate	Rapid	Stable	Slow	Schooling	y/n
Property Value	Increasing	Stable	Declining	Public transport	y/n
Demand/Supply	Shortage	In balance	Over supply	Adequacy of Utilities	y/n
Selling Time	Under 3ms	3 - 6 ms	over 6ms	Typical rents Rs.	
No. of Stories		Number of Units		Incresing/stable/ decreasing	
Age		General Condition			

Description of factors favourable or otherwise that affect marketability.

Site

Dimensions　　Site Area　　Corner Plot yes/no

Zoning Compliance

Utilities　　Electricity　　Water　　Sanitary Sewer

Storm Water Drain

Off-site Improvement　　Road　　Sidewalk

Street Lights

Comparable Sales Information

Item	Subject	Comparable 1	Comparable 2
Address			
Proximity to Subject			
Sales Price			
Price/gross living area			

Value Adjustment	Description	Description	Description
Date of sale/time			
Location			
Site/View			
Design and Appeal			
Quality of Construction			
Age			
Condition			
Number of rooms			
Gross Living Area			
Garage			
Net Adjustment			
Indicated Value			

Comments of the Appraiser

Signature of the Appraiser	Date

CERTIFICATION AND STATEMENT OF LIMITING CONDITIONS

CERTIFICATION: The Appraiser certifies and agrees that:

1. The Appraiser has no present or contemplated future interest in the property appraised; and neither the employment to make the appraisal, nor the compensation for it, is contingent upon the appraised value of the property.

2. The Appraiser has no personal interest in or bias with respect to the subject matter of the appraisal report or the participants to the sale. The "Estimate of Market Value" in the appraisal report is not based in whole or in part upon the race, color, or national origin of the prospective owners or occupants of the property appraised, or upon the race, color or national origin of the present owners or occupants of the properties in the vicinity of the property appraised.

3. The Appraiser has personally inspected the property, both inside and out, and has made an exterior inspection of all comparable sales listed in the report. To the best of the Appraiser's knowledge and belief, all statements and information in this report are true and correct, and the Appraiser has not knowingly withheld any significant information.

4. All contingent and limiting conditions are contained herein (imposed by the terms of the assignment or by the undersigned affecting the analyses, opinions, and conclusions contained in the report).

5. This appraisal report has been made in conformity with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the appraisal organizations with which the Appraiser is affiliated.

6. All conclusions and opinions concerning the real estate that are set forth in the appraisal report were prepared by the Appraiser whose signature appears on the appraisal report, unless indicated as "Review Appraiser." No change of any item in the appraisal report shall be made by anyone other than the Appraiser, and the Appraiser shall have no responsibility for any such unauthorized change.

CONTINGENT AND LIMITING CONDITIONS: The certification of the Appraiser appearing in the appraisal report is subject to the following conditions and to such other specific and limiting conditions as are set forth by the Appraiser in the report.

1. The Appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the Appraiser render any opinion as to the title, which is assumed to be good and marketable. The property is appraised as though under responsible ownership.

2. Any sketch in the report may show approximate dimensions and is included to assist the reader in visualizing the property. The Appraiser has made no survey of the property.

3. The Appraiser is not required to give testimony or appear in court because of having made the appraisal with reference to the property in question, unless arrangements have been previously made therefor.

4. Any distribution of the valuation in the report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.

5. The Appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The Appraiser assumes no responsibility for such conditions, or for engineering which might be required to discover such factors.

6. Information, estimates, and opinions furnished to the Appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy of such items furnished the Appraiser can be assumed by the Appraiser.

7. Disclosure of the contents of the appraisal report is governed by the Bylaws and Regulations of the professional appraisal organizations with which the Appraiser is affiliated.

8. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to the property value, the identity of the Appraiser, professional designations, reference to any professional appraisal organizations, or the firm with which the Appraiser is connected), shall be used for any purposes by anyone but the client specified in the report, the borrower if appraisal fee paid by same, the mortgagee or its successors and assigns, mortgage insurers, consultants, professional appraisal organizations, any state or federally approved financial institution, any department, agency, or instrumentality of the United States or any state or the District of Columbia, without the previous written consent of the Appraiser; nor shall it be conveyed by anyone to the public through advertising, public relations, news, sales, or other media, without the written consent and approval of the Appraiser.

9. On all appraisals, subject to satisfactory completion, repairs, or alterations, the appraisal report and value conclusion are contingent upon completion of the improvements in a workmanlike manner.

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Self-Employed Income Analysis

Borrower's Name

	199 -9	199 -9	199 -9
A. Self-employed Tax Return Form			
1. Profits and Gains of Business or Profession (item C 15 of IT Return Form No. 2)			
2. Salaries (Item A 8)			
3. Income from House Property (Item B 7)			
4. Recurring Capital Gains			
Short Term (Item D 25 (i))			
Long Term (Item D 25 (ii))			
5. Income from Other Sources (Item E 6)			
6. Total Income (Total of 1 to 5)			
Add:			
7. Non-cash Items			
a. Depreciation			
b.			
c.			
8. Gross Total Income			

B. Year-to-Date Profit and Loss

Year-to-date income to qualify the borrower will be considered only if the income is in line with the previous years' earnings and if audited financial statements are provided.

1. Share of net profits as per Profit and Loss Account :
2. Salary drawn :
3. Total :

Comments of the loan officer

Signature of Loan Officer Date

This form is only a reference to help organise information from the tax returns. For underwriting requirements on the self-employed see mortgage underwriting guidelines.

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