IMPORTANT GUIDELINES ON HOUSING FINANCE *

Banks deploy their funds under the housing finance allocation in any of the three categories, i.e.

(i) direct finance,
(ii) Indirect finance,
(iii) Investment in bonds of NHB/HUDCO, or combination thereof.

01. DIRECT HOUSING FINANCE

Direct Housing Finance refers to the finance provided by banks to individuals or groups of individuals including co-operative societies for acquisition/construction of accommodation.

Direct Housing Finance includes:

- Bank finance extended to a person who already owns a house in town/village where he resides, for buying/ constructing a second house in the same or other town/ village for the purpose of self occupation.

- Bank finance extended for purchase of a house by a borrower who proposes to let it out on rental basis on account of his posting outside the headquarters or because he has been provided accommodation by his employer.

- Bank finance extended to a person who proposes to buy an old house where he is presently residing as a tenant.

- Bank finance granted only for purchase of a plot, provided a declaration is obtained from the borrower that he intends to construct a house on the said plot, with the help of bank finance or otherwise, within such period as may be laid down by the banks themselves.

- Supplementary finance
  (a) Banks may consider requests for additional finance within the overall ceiling for carrying out alterations/ additions/repairs to the house/flat already financed by them.

  (b) In the case of individuals who might have raised funds for construction/ acquisition of accommodation from other sources and need supplementary finance, banks may extend such finance after obtaining *pari passu* or second mortgage charge over the property mortgaged in favour of other lenders and/or against such other security, as they may deem appropriate.

02. INDIRECT HOUSING FINANCE

Finance provided by way of term loans to housing finance institutions, housing boards, other public housing agencies, etc., primarily for augmenting the supply of serviced land and constructed units. Serviced plots can be sold by these agencies to co-operative societies, professional developers and individuals with a stipulation that the houses should be constructed thereon within a reasonable time, not exceeding three years.

2.1. Lending to Housing Intermediary Agencies

2.1.1. Lending to Housing Finance Institutions

- Banks may grant term loans to housing finance institutions taking into account (long-term) debt-equity ratio, track record, recovery performance and other relevant factors.
- It should be ensured that the housing finance companies' total borrowings, including deposits/debentures/bonds raised, loans and advances from banks or from financial institutions including any loans obtained from NHB, should not exceed 16 times of their net owned funds (i.e. paid-up capital and free reserves less accumulated balance of loss, deferred revenue expenditure and intangible assets), as per NHB guidelines.

2.1.2. Lending to Housing Boards and Other Agencies

- Banks, while extending term loans to state level housing boards and other public agencies, evaluate the past performance of these agencies in the matter of recovery from the beneficiaries and may stipulate that the Boards will ensure prompt and regular recovery of loan instalments from the beneficiaries.

2.1.3. Financing of Land Acquisition

- Banks may provide finance by way of term loans to public agencies and not private builders for acquisition and development of land provided it is a part of the complete project, including development of infrastructure such as water systems, drainage, roads, provision of electricity, etc.. The project should be completed as early as possible and, in any case, within three years, so as to ensure quick re-cycling of bank funds for optimum results.
- Wherever land is accepted as collateral, valuation of such land should be at the current market price only.

2.1.4. Terms and Conditions for Lending to Housing Intermediary Agencies

- Term loans may be granted by banks to housing intermediary agencies against the direct loans sanctioned/ proposed to be sanctioned by the latter, irrespective of the per borrower size of the loan extended by these agencies.
- Banks can grant term loans to housing intermediary agencies (who are authorized to provide finance to NRIs by RBI) against the direct loans sanctioned/proposed to be sanctioned by them to Non-Resident Indians also.
- All categories of loans will be priced with reference to Base Rate which is the minimum interest rate for all loans w.e.f. 01.07.2010.

2.1.5 Term Loans to Private Builders

- Banks may extend credit to private builders on commercial terms by way of loans linked to each specific project. However, the banks are not permitted to extend any credit facilities to private builders for acquisition of land even as part of a housing project.
- Bank granting finance to housing / development projects should insist, being part of terms & conditions, on disclosure of the charge / or any other liability on the plot, in the brochure, pamphlets etc., which may be published by developer / owner inviting public at large to purchase flats and properties.

2.1.6. RBI REFINANCE

- Finance provided by the banks would not be eligible for refinance from Reserve Bank.

03. CONSTRUCTION ACTIVITIES ELIGIBLE FOR BANK CREDIT AS HOUSING FINANCE

- Loans to individuals for purchase/construction of dwelling unit per family and loans given for repairs to the damaged dwelling units of families;
- Finance provided for construction of residential houses to be constructed by public housing agencies like HUDCO, Housing Boards, local bodies, individuals, co-operative societies, employers. Priority being accorded for financing construction of houses meant for economically weaker sections, low income group and middle income group;
- Finance for construction of educational, health, social, cultural or other institutions/centers, which are part of a housing project and which are necessary for the development of settlements or townships;
- Finance for shopping complexes, markets and such other centers catering to the day to day needs of the residents of the housing colonies and forming part of a housing project;
- Finance for construction meant for improving the conditions in slum areas for which credit may be extended directly to the slum-dwellers on the guarantee of the Government, or indirectly to them through the State Governments;
- Bank credit given for slum improvement schemes to be implemented by Slum Clearance Boards and other public agencies;
- Finance provided to –

  (a) the bodies constituted for undertaking repairs to houses, and
  (b) the owners of building/house/flat, whether occupied by themselves or by tenants, to meet the need-based requirements for their repairs/additions, after satisfying themselves regarding the estimated cost (for which requisite certificate should be obtained from an Engineer/Architect, wherever necessary) and obtaining such security as deemed appropriate;
- Housing finance provided by banks for which refinance is availed of from National Housing Bank (NHB);
- Investment in the guarantee/non-guaranteed bonds and debentures of NHB/HUDCO in the primary market, provided investment in non-guaranteed bonds is made only if guaranteed bonds are not available.

04. CONSTRUCTION ACTIVITIES NOT ELIGIBLE FOR BANK CREDIT

- Construction of buildings meant purely for Government/Semi-Government offices, including Municipal and Panchayat offices other than for activities, which will be refinanced by institutions like NABARD.
- Projects undertaken by public sector entities which are not corporate bodies.

- Construction of residential quarters for allotment to employees by corporations like State Police Housing Corporation where the loans were envisaged to be repaid out of budgetary allocations.

05. REPORTING

- Banks should compile the data relating to Housing Finance at half-yearly intervals in the prescribed format and keep it ready for being made available to the bank's internal inspectors/RBI's inspectors.

06. HOME LOAN ACCOUNT SCHEME (HLAS) OF NHB

6.1 Foreclosure of Loans Obtained from Other Sources

- A member of HLAS who does not own a house or a flat is eligible for a Bank loan after subscription to the scheme for a minimum period of 5 years to repay the loan(s) raised earlier from other sources for acquiring house or a flat from a public agency/co-operative/ private builder. There is no objection to bank loans under HLAS being utilized for foreclosing loans secured earlier from other sources.

6.2 Classification of Deposits/Loans under HLAS

- Under HLAS, the participating bank is required to accept deposits on behalf of NHB and make use of these deposits by way of refinance under any scheme approved by NHB from time to time. The surplus funds, if any, not so utilized (i.e. excess of deposits over refinance) can either be remitted by the participating bank to NHB or retained by it, subject to compliance with the statutory reserve requirements under Section 42(1) of the Reserve Bank of India Act, 1934 as also under Section 24 of the Banking Regulation Act, 1949.

07. BANK'S EXPOSURE TO REAL ESTATE SECTOR

- Banks should ensure while providing finance to real estate sector that the borrowers should have obtained prior permission from government/local governments/other statutory authorities for the project, wherever required.

08. Loan to Value (LTV) Ratio

- In order to prevent excessive leveraging, the LTV ratio in respect of housing loans should not exceed 80 per cent. However, for small value housing loans i.e. housing loans up to Rs. 20 lakh (which get categorized as priority sector advances), the LTV ratio should not exceed 90 per cent. While reckoning the LTV, the components such as stamp duty, registration and other documentation charges may be excluded as these charges are not realizable and consequently the margin/effectiveness of LTV norm get diluted.

09. DELHI HIGH COURT ORDER ON UNAUTHORISED CONSTRUCTION

Banks/Financial Institutions are required to comply with the directions of the Monitoring Committee constituted by the Hon'ble High Court of Delhi regarding Unauthorised Construction, Misuse of Properties and Encroachment on Public Land, as under:-

A. Housing Loan for building construction

- Before sanctioning home loan by the Banks/FIs to an applicant, who owns a plot/land for construction of a house, must provide a copy of the sanctioned plan by competent authority in favour of the applicant.
- An affidavit-cum-undertaking must be obtained from the applicant of home loan that he shall not violate the sanctioned plan, construction shall be strictly as per the sanctioned plan and it shall be the sole responsibility of the applicant to obtain completion certificate within 3 months of completion of construction, failing which the bank shall have the power and the authority to recall the entire loan with interest, costs and other usual bank charges.
- An Architect appointed by the bank must also certify at various stages of construction of building that the construction of the building is strictly as per sanctioned plan and shall also certify at a particular point of time that the completion certificate of the building issued by the competent authority has been obtained.

B. <u>Housing Loan for purchase of constructed property/ built up property</u>

- In cases where the applicant approaches the bank/FIs for a credit facility to purchase the built up house/flat, it should be mandatory for him to declare by way of an affidavit-cum-undertaking that the built up property has been constructed as per the sanctioned plan and/or building bye-laws and as far as possible has a completion certificate also.
- An Architect appointed by the bank must also certify before disbursement of the loan that the built up property is strictly as per sanctioned plan and/or building bye-laws.

C. <u>Unauthorized colonies</u>

- No loan should be given in respect of those properties which fall in the category of unauthorized colonies unless and until they have been regularized and development and other charges paid.

D. <u>Commercial Property</u>

- No loan should also be given in respect of properties meant for residential use but which the applicant intends to use for commercial purposes and declares so while applying for loan.

(* SOURCE : RBI M. CIRCULAR – updated upto 02.02.2012)

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This overstates the realisable value of the property as stamp duty, registration and other documentation charges are not realisable and consequently the margin stipulated gets diluted. Accordingly, banks should not include these charges in the cost of the housing property they finance so that the effectiveness of LTV norms is not diluted.