

CREDIT LOAN AND MANAGEMENT POLICY

➤ Introduction

The purpose of this document is to define the credit policy for the company. This is live document and supposed to be updated on a regular basis.

This document should not be seen in isolation but in conjunction with the other policy documents that define the overall working of the company.

➤ OBJECTIVE-

“A HOUSE FOR EACH INDIVIDUAL UNIT OF FAMILY”

Akme Star Housing Finance Ltd. started operations in the year 2009, since then we are committed for improving the scenario of housing in urban as well in rural areas of UDAIPUR, BANSWARA, DUNGARPUR, CHITTORGARH, RAJSAMAND & PRATAPGARH Districts of Rajasthan. “ROTI, KAPADA AND MAKAN” are three foremost basic needs of human beings, here at AKME we are trying to contribute to some extent for MAKAN for each individual unit of family.

With the passage of time, it is being felt rather it is must to frame a loan policy, so as to maintain uniformity in our working, to smoothly run the organization and also for utmost satisfaction of our valued customers.

➤ Company Philosophy

AKME STAR HOUSING FINANCE LIMITED (ASHFL) believes in managing the business through a solid set of policies including the credit policy.

Considering the importance of credit policy, the top management will be directly involved in the various aspects of credit related issues.

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➤ **Sources of Funds**

A part from company's owned funds that includes equity, the money for the purpose of lending can be borrowed from various sources – viz.

- National Housing Bank (NHB)
- The Banks and other Financial institutions
- Foreign citizens or persons
- Foreign authorities or Foreign Institutions
- Overseas or India based NGOs
- HUDCO
- Credit cooperative societies.
- Shareholders
- Promoters or close relatives of promoters by way of subscription to equity shares or debt in the form of unsecured loans

The refinance money can be borrowed from the banks under the priority sector and by securitization of our assets.

The company makes best efforts to borrow the money at the lowest possible rates in order to provide best value to its borrowers and to maximize the value of various stakeholders.

➤ **Disbursement of Funds**

ASHFL is committed to offer the services in the form of Home loans for

- Purchase of new units
- Construction of New units
- Purchase of plot. and construction of unit/units within 30months from disbursement.
- Purchase of resale units,
- Extension & Renovation (repair)

It allocates major thrust on the needs of the rural & micro-rural customers. Our target customers are spread out in all the South Rajasthan Districts. The main objective of company is to provide house loans to needy and at the same time depending upon the availability of funds the same is to be utilized for giving loans to other segments like loan against mortgage of property, personal loans and business loans as specified under:-

- Loan against property,
- Education loans,
- Personal loans,
- Business Loans,
- Vehicle loans and
- Project loans to Developers

as per the norms specified by the National Housing Bank.

➤ **Delegations of Powers**

The Managing Director and or Promoter Director of the company are jointly and severally responsible for taking financial as well as administrative decisions in respect of all aspects of the company affairs including management of funds, selection of customers, sanctions, loan amount, rate of interest, security aspects, third party guarantee and recovery etc.

➤ **Terms and conditions**

➤ **House Loans**

- Loan Amount :

The loan amount sanctioned to one party can't exceed 15% of the net owned funds of the company.

The Loan amount which a person can borrow is decided by his/her repayment capacity. Repayment capacity takes into consideration factors such as income, age, qualifications, number of dependents, spouse's income, assets, liabilities, stability and continuity of occupation and savings history. Our main concern is to make sure whether the borrower can comfortably repay the loan amount.

- **Interest rate structure & Loan Tenure**

The rate of interest for Housing loans is fixed as under-

Minimum- 9% fixed

Maximum- 16% fixed

- **Other than House Loans**

Minimum- 15 fixed

Maximum- 24% fixed

At present floating rate criteria is not implemented

The minimum tenure of house loan will be twelve months (for Repair & Renovation only)

and maximum period will be up to fifteen years depending upon the quantum of loan and the repayment capacity of the borrower.

The repayment tenure for other loan accounts will be for short term say twelve months. The interest on such loan accounts is to be levied in the month of March every year.

- **Loan Disbursement Process**

1. SELECTION OF CUSTOMERS

We are in the field of finance for more than 20 years now and having a customer base of more than 40000 individuals spread over all the six districts of Udaipur Division. We are well versed with the topography, geographical boundaries as well habit and habitat of the of area. Our presence in the field of finance is felt by masses and they trust us for their financial assistances. Through our staff network we get business & this makes selection of prospective customers easy.

The following aspects are given attention for selection of a prospective customer

1. his/her social, family, religious, political background and genuineness of requirement.
2. His /her source of income &repaying capacity.
3. His/ her track record of taking loans from Banks, financial institutes and adherence to repayment schedule.

4. his/her confidential report through our source or independent agencies.
5. Age of the customer should not be more than sixty years so as to ensure the repayment schedule to be fixed keeping in view the average age criteria of the geographical region.

Selection of a right customer is the most important aspect of any financial activity hence all prudent safe guards are to be adopted.

Loan Appraisal

The client visits our office with his requirements and personal details. He is then explained the complete procedure for availing home loan & all the necessary documents are called for.

At this stage, we want to determine that the prospective borrower can afford the loan repayments. Our credit team will conduct income verification and validate the accuracy of the information he/ she has provided.

Credit check will then be carried out to reveal his/ her credit history; in this case we as a lender will obtain a credit report that will show the following details:

Personal details such as: Name, Residential Addresses, Date of Birth and PAN card number Records of some recent credit accounts (if any).

As credit history plays an important part in the home loan application process, it is always advisable to clarify and resolve any credit related issues before accepting your loan application.

Security Evaluation

A) Technical Evaluation

A qualified technical officer which is appointed by company who will conduct a valuation on the property intended to purchase and any property that will be used as security.

We have appointed a Field Investigation officer for checking correctness of all the personal information provided by the client such as – number of earning/ non earning members in family, relationship with the neighbors,

number of years at the current residence, nature of construction of house property, living standard of the family, affiliation with any political party, occupation of all earning members, name of their employer, name of their organization, time since working with the current employer, details of any existing loan facility availed with any other bank or individual & repayment track record of the same, his pass book for saving bank account, his identity proof and property documents.

The FI officer then prepares a detailed report of its observations & if found positive then Search and Valuation reports are being called for.

B) Legal Evaluation

A qualified lawyer will examine the property documents i.e. chain of agreements/title etc to determine if the property documents provided are conducive for lending and provide us a search Report for the same.

If there is any contradiction between any of the above 3 reports then an executive from our office gives a personal visit for verification of the correctness of the same.

Step 3 - Loan Sanction

Considering there are no major issues with income verification and credit checks, company will provide sanction for loan.

A guarantor, who should be a person known to the company or a government employee, is also asked to be a party to the contract & liable to the company in case of any default in repayment of loan installment by the borrower, jointly with the borrower or severally.

We recommend all applicants read this document carefully, sign and return it to us, making sure the information is correct and that everyone understands all the terms and conditions. Home loan executive will be there to guide the prospective borrower through this step and assist in compiling documents should he/ she require any further information.

The maximum loan amount sanctioned in any case shall not exceed 85% of the value of property as assessed by the Valuation Report prepared by approved valuers. If the loan amount exceeds his capacity, then a co-borrower is being asked for, who should be a spouse of the borrower or in

first blood relation, viz-son, daughter, brother sister (if they are the joint owners of the property)

Documentation :

Loan application and Loan agreement along with equitable mortgage documents are to be executed by the borrower & guarantor as required for house loans. For non house loans an agreement has to be executed between the borrower and the company which must be properly stamped and notarized and should contain all the major terms and conditions of the loan.

Disbursement of Loan:-

After sanction & completing of all the terms & conditions disbursement is to be done in a phased manner as per procedure laid down –

(A) For new construction

- (i) 20 % of sanction limit to start the work
- (ii) 20 % of sanction limit after plinth level work is completed
- (iii) 20% of sanction limit at the time of laying of roof
- (iv) 30% of sanction limit at the time of plaster, flooring and wood work
- (v) 10% of sanction limit at the time of electrification and sanitary fitting etc.

For all such purposes account pay cheques are to be issued in the name of borrower prior to each disbursement spot verification is required to be done by an official of the company. On his report amount is to be released. At each disbursement borrower should have invested margin money from his own funds.

- (vi) The whole project must be completed within a fixed time period.

(B) For purchase of Ready built house/ flat:-

In this case payment is made on the strength of sale agreement if otherwise all other formalities are in order.(such as title of property . advocate report and if required valuation report) the payment cheque should be in the name of seller for the full amount less advance paid if any .

(C) For Repair / Renovation/Addition and Alteration

For this purpose also disbursement procedure is to be adopted as mentioned in para A above. In this case time period for completion must be less.

Post Disbursement inspection

1. Completion certificate along with photo of unit to be obtained from the architect /engineer
2. Company executive must also submit his visit report to verify the facts

➤ CREATION OF EQUITABLE MORTGAGE—

A valid equitable mortgage be created of the property mortgaged to the company .For this purpose property documents are to be arranged as per advice of advocate. The process to be followed is—

- (i) . The borrower will hand over all documents of property to authorized person as per list along with consent letter signed and dated by him for creation of equitable mortgage.
- (ii). After examination of documents by an officer of company he will ask the borrower to come next day to confirm the delivery of required property documents. The borrower is required to confirm on this day the delivery of papers on previous day in writing.
- (iii). Now the officer of the company will complete the formalities of E.M. register by filling all the columns in a legible hand writing. All folios of register are serialized and no folio is to be left blank so as to maintain the order.

Know Your Customer (KYC)

The KYC guidelines are followed precariously at the company.

One of the following documents is taken as the identity proof –

- PAN card
- Driving licence
- Voter's ID

- Company identity card
- Bank passbook carrying photo
- Passport
- Aadhar Card

The residence proof is established through a utility bill (electric / water / telephone) and/or ration card.

Two latest coloured photographs are collected.

For establishing his/her credentials, the customer is required to submit -

- IT returns (Saral /Form 16)
- Bank statement for 6 months
- Salary certificate for last 3 consecutive months
- Savings details (Bank, FD, Shares, MF, PPF & Insurance policies (Life cover / property cover / medical insurance))
- Other immovable property details (house, plots)

The customer also needs to submit the details of the co-borrower and guarantor.

For the Valuation of the property, legal documents like Sale Deed, approved map from the local authority, Corporation tax receipt , Deed of Declaration (between owner & Builder), Building Permit (covering letter of the sanctioned map), Property card (Akhiv Patrika or City Survey), Cost Estimate (Renovation / Extension) and Mutation (from the owner of the property). For NIT Plot / Nazul plot – valid Lease deed & up-to-date ground rent receipt need to be submitted.

The Valuation report is to be submitted by the borrower duly certified by a registered valuer , the valuer appointed by the company or by officer of company.

The KYC Compliances & address verification is undertaken by the company official who has been trained for this purpose.

Exceptions

There are certain exceptions defined to make the process smoother for the borrower while ensuring that the overall risk exposure of the company is only marginally impacted.

The exceptions are -

1. If the loan value is less than Rs. 2,00,000, submission of the valuation report and search report is not mandatory.
2. If the loan value is less than Rs. 5,00,000 and the Loan to Value (LTV) ratio is less than 70%, submission of valuation report and search report is not mandatory.

➤ **Loan Repayment / Collection Process**

1. The EMI is established and communicated to the borrower during the loan disbursement process.
2. The date of payment of EMI is agreed upon while disbursing the loan.
3. The borrower is reminded a week before the due date.
4. Unless instructed otherwise by the borrower, the PDC is submitted to the bank for the collection on its date.
5. The Loan System is updated is day to day basis.
6. At the end of the loan repayment period (i.e. once all the EMIs are paid), the loan account is closed and all the originals are returned back to the borrower.

➤ **Delinquency Management**

Despite of the best loan appraisal policy and best collection mechanism, there is always a possibility of delinquency. We have a well-defined process for managing delinquency.

Following are the steps taken to mitigate and manage delinquency –

1. A reminder is given a week in advance to remind the client to have enough credit in the bank so that the PDC does not bounce.
2. If there is a delay of over 15 days in the payment despite of PDCs and follow-ups, penal charges are applied.
3. Any delay in payment above 30 days is flagged to the senior management which actively looks into the issue.
4. If there is a delay beyond 90 days, a legal action is initiated leveraging the collateral.
5. Loans with non-payment for more than 90 days are declared NPA and written off and the borrower is black-listed.
6. The loan System is updated.

➤ **Analyzing the changing needs of the markets**

There is a continuous market study regarding the ticket size of the housing loans, prevailing Rate of Interest charged by the competitors, available number of customers, service levels to cater to the needs of the customers and availability of loans from various sources.

➤ **Submission of NHB returns and NHB correspondence:-**

National Housing Bank is the apex body controlling the activities of all N.B.F.C. Housing Finance companies in the country. Instructions and guidelines are issued by NHB to such companies from time to time and the companies are supposed to follow and comply those instructions. Submission of NHB returns well in time as per schedule is very important and should be submitted as required to save the penalties.