

RBI No /2004-05 /151

UBD. No. BPD. 15 /12.05.01 /2004-05

September 1, 2004

The Chief Executive Officers of all primary (Urban) Co-operative Banks

Dear Sir,

**Frauds in the area of Housing Finance**

We advise that a Group headed by General Manager, Central Bank of India constituted by Reserve Bank of India examined the causes for growing incidence of frauds in Housing Finance and submitted its report indicating remedial measures. We forward herewith a copy of the report containing the remedial measures suggested by the Group for your information and necessary action.

Please acknowledge receipt to our Regional Office concerned.

Yours faithfully,

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(N.S.Vishwanathan)  
Chief General Manager

Encl: 5 sheets

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**ANNEXURE**

**REPORT OF THE COMMITTEE ON FRAUDS IN HOUSING FINANCE**

Point No. 1

Type of Frauds	Fabrication of Income Documents like Income-tax Return / Salary Slip / Balance Sheet etc.
Severity of fraud	LOW
Modus Operandi	Committed generally by borrowers in connivance with Direct Selling Agent / Estate Agent / Builders
Mitigating factors / Suggestions for Preventive cures	<ol style="list-style-type: none"><li>1. Verification of salary slips with employer</li><li>2. Income Tax Department should upload on their website the list of Income Tax payers and defaulters.</li><li>3. Salary amount should be compared with Bank</li></ol>

	<p>Statement.</p> <p>4. Cross verification of balance sheet.</p> <p>5. Personal interview of the borrower plays very important role.</p>
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### Point No.2

Type of frauds	Loan amount disbursed by way of cheque / Demand drafts are encashed by third party / agents etc.
Severity of fraud	MEDIUM
Modus Operandi	Disbursed amount cheques are collected by the Agents / third parties from the borrower's bank and deposited in fictitious account opened for this purpose and amounts are withdrawn from such bogus account.
Mitigating factors / Suggestions for preventive cures	<ol style="list-style-type: none"> <li>1. Cheques should be issued in the name of bankers to the Builders with the bank account number on it.</li> <li>2. Cheque should not be handed over to the borrower / agent / seller. Bank's Marketing Officials can be sent for delivery of cheque to the builders / sellers of property at the registered address mentioned in the title deeds.</li> </ol>

### Point No. 3

Type of fraud	Title documents being forged - Stamped documents forged by Borrower customer / Builder
Severity of fraud	HIGH
Modus Operandi	Coloured Xerox copy of various documents are produced including encumbrance certificate, fake stamp papers etc. which are difficult to identify / distinguish from the original one.
Mitigating factors / suggestions for preventive cures	<ol style="list-style-type: none"> <li>1. Tracking and sharing of all information among the Banks &amp; Housing Finance Companies about names of blacklisted builders &amp; developers.</li> <li>2. Agreement for sale /document of title should be in DEMAT form.</li> <li>3. In case of large value loans. bank can approach the Sub-Registrar's Office to verify the genuineness of the stamp paper / documents / registration receipts, etc.</li> </ol>

Point No. 4

Type of Frauds	Over valuation of the property
Severity of fraud	MEDIUM
Modus Operandi	These frauds are committed to draw higher loan amount by the borrower in connivance with the Builders/ valuers. The value of the property are inflated by including various expenditure and additional amenities, fixtures, legal charges, society advance, maintenance charges, etc. which are non-existing.
Mitigating Factors / Suggestions for preventive cures	<ol style="list-style-type: none"> <li>1. For valuation over Rs. 25 lacs, valuation should be done by two independent valuers.</li> <li>2. Govt. should introduce certification course for the approved valuers.</li> <li>3. Banks should develop in house expertise for valuation of properties.</li> </ol>

Point No. 5

Type of Frauds	Multiple financing
Severity of fraud	HIGH
Modus Operandi	These frauds are extension of the fake documents that are produced to different banks / Housing Finance Agencies
Mitigating Factors / Suggestions for preventive cures	<ol style="list-style-type: none"> <li>1. Tracking &amp; sharing of information among the Banks &amp; HFCs about names of black listed Builders &amp; developers selling same properties to more than one buyer.</li> <li>2. Agreement for sale / document of title should be in DEMAT form.</li> <li>3. Bank / Housing Finance Agencies should insist on the original title deeds of the landed property on which structure is built.</li> </ol>

Point No. 6

Type of Frauds	1. Cancellation of booking of flats / property i.e. collusion between customer and builder.
Severity of fraud	MEDIUM
Modus Operandi	In this case after availing the initial loan amount, the booking is cancelled and the borrower directly take the refund from the builders.
Mitigating Factors / Suggestions for Preventive cures	Registration receipt issued by Registrar of stamps office should bear hypothecation Clause as in case of certificate of Registration has in case of Auto Loan.

Point No. 7

Type of Frauds	Sale of property by loanee without clearing existing loan
Severity of fraud	MEDIUM
Modus Operandi	Property is sold through duplicate / fake title deeds even though the legal title is with the bank / Housing Finance Agencies.
Mitigating Factors / Suggestions for Preventive cures	<ol style="list-style-type: none"> <li>1. Equitable Mortgage should be created at Registrar's office by deposit of title deeds. For this purpose all banks should represent to Central &amp; State Government through I.B.A &amp; R.B.I for enactment of necessary provisions.</li> <li>2. Internal due diligence plays important role to prevent this type of frauds.</li> </ol>

Point No. 8

Type of Frauds	Mis-representation of end use of loan
Severity of fraud	LOW
Modus Operandi	Loan taken for Residential Housing Property. However, Commercial property is purchased by availing such loan.

Mitigating Factors / Suggestions for Preventive cures	In order to ensure end use of loan, bank should depute Officer for inspection / verification of property, whether it is Residential Housing Property or Commercial Property.
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Point No.9

Type of Frauds	Sale of property by builder without clearing / repaying Construction Funding Loan availed by them from banks / Housing Finance Companies.
Severity of Fraud	MEDIUM
Modus Operandi	Builders / property developers after taking Construction loan from banks / Housing Finance Agencies are selling developed ready flats / Galas / developed plots, etc. without knowledge of their financiers & without repaying construction Funding loan to them.
Mitigating Factors / Suggestions for Preventive cures	<ol style="list-style-type: none"> <li>1. This aspect of construction Funding Loan whether availed by the developer / builder or not, should be verified at Project clearance level by Banks/Housing Finance Companies.</li> <li>2. Original documents should be called for verifications at the time of appraisals of any Housing Loans.</li> </ol>