

**OPERATIONS MANUAL**

**India Home Loan Ltd.**

DRAFT

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## 1. Introduction

India Home Loan Ltd. (IHLL) offers, among others, retail home loan products for affordable housing segment to the people belonging to weaker section and lower income group. Under this product loans are offered to the customers for Purchase of home, home improvement, home extension and for construction of a dwelling unit on an owned plot of land. This operations manual provides an overview of the Target Group (TG) of customers, the risks in lending to the TG and the approach to underwriting loans to this segment. It also contains the product policy, processes and formats to be applied for the home loans offered by IHLL.

The purpose of this manual would be served, inter alia, as below:

- The manual would be guiding parameters to the Management of IHLL including the Senior Management and Executives for adopting the product policy, processes and formats for implementation.
- The manual would be used by the Field Credit Officers (FCOs) to understand and implement the product policy, processes and formats of the home loan products.
- The manual would be used by the auditors for conducting the audit of actual policies and processes implemented on the ground.

## 2. Overview of the TG

This section provides an overview of the TG covering the following aspects:

- Profile of the Target Group (TG)
- Managing risks in lending to this TG
- Approach to Underwriting

To design the policies and processes for any lending product, it is critical to have an understanding of the target customer segment and the risks in lending to that segment. Such understanding would help appropriately align the processes and controls that mitigate the risks inherent in lending to this segment.

### 2.1 Profile of the Target Group

The TG of IHLL constitutes low and mid income earning families, who have no house and/or an inadequate house of their own. Due to their growing needs, these families look for financial assistance to either do improvements in their home or create more living space by constructing additional rooms or purchasing a new home. The income profiles of families in this TG can be diverse. The income earners in these families can be classified into four categories as below:

Stable Salaried – SS	Salaried - Employment with an organization with PF deduction.
Stable Self employed – SSE	Runs a business activity from a separately identifiable, fixed place meant exclusively for business activity.

Unstable Salaried – US	Employment in an organization without PF deduction; employed by a firm; employed by an individual.
Unstable Self employed – USE	Runs a business activity from a non-fixed / wayside location.

The purpose of the above classification is to bring out the diversity of income profiles in this TG. The stability of employment and frequency of earnings would impact the repayment of loan installments. Therefore, an appropriate collection of data and/or information mechanism would have to be evolved and designed for the above four categories.

While there could be families in TG that have only a single earning member, there would be many families which have a combination of the above four categories of income earners.

The typical features of a TG family are as follows:

- **Home:** Owns a pucca house (masonry roof), which would normally be in the need of some work towards repairs, extension or completion of construction. There would be some document of ownership, but the completeness of those documents and the legal validity would need to be checked.
- **Assets owned:** Owns basic electronic items such as TV, music system, refrigerator, fans and lighting in house. The families would also have jewellery (gold and silver) as is demanded by custom.
- **Income earning:** Normally have more than one income earning source within the family. Multiple income options are a necessity given the low income earning capacity of each individual source. The income earned by the families would not be verifiable through a document, except if there is a salaried individual, having a permanent employment with an employer, who provides salary slips on a monthly basis.
- **Leverage:** Running one or more loans from sources such as local moneylender, finance cooperative society, a two-wheeler loan or a low-ticket weekly-installment microfinance loan for running an income earning activity within the family. The borrowings from a local moneylender drain a significant amount of their cash earnings as what the family pays on a monthly basis only goes to interest. The interest rate charged by these money lenders is exorbitant and is in the range of 70% to 75% per annum.
- **Savings orientation:** It is likely that there would be some surplus income left after fulfilling the normal monthly expense requirements for the family, such as on food, electricity etc. These surpluses could be directed to savings in a savings bank account, participation in a chit fund through daily voluntary contributions or a recurring deposit account. But the propensity to save is low. Due to low income levels in the TG, there is always a requirement or the other that remains to be fulfilled and a typical TG family would spend out quickly, any cash available as surplus from their income. There could be loan repayments or medical emergencies that need to be attended to. Therefore savings do not remain in the family for long. The collection approach of IHLL is therefore focused on collecting cash from the borrower as frequently as possible.

- **Health and Education:** Treatments for general ailments done from government hospital and children sent to government schools for education. The applicants could be uneducated or would have had a basic education of having studied up to 5<sup>th</sup> class.
- **Willingness to share information:** The applicants should be willing to share information and should not resist since there is hardly other organizations that are catering to the financial needs of this segment.
- **Phone connection and contactability:** All families would have at least a mobile phone connection and can be contacted through phone. The phone connections would be pre-paid connections and therefore no bills would be available.

## 2.2 Managing risks in lending to this TG

The key risks in lending to this profile and the methods to manage the risks involved in lending to this TG are discussed as below:

### 2.2.1 Establishing ability to repay

Ability to repay a loan can be determined by an analysis of income, expenses, savings and leverage. Understanding these four financial components of the family is a critical step in the appraisal of the TG family. As regards *income earnings*, with the exception of the profiles having a salary income from a stable employment source, in other profiles in this TG, it is unlikely that they would be able to provide any document to substantiate their earnings. There could be documents available for savings such as a pass book or any other record book, but for expenses and loan obligations again, no documents would be available. Therefore the estimation of financial strength of the family and its ability to service a loan needs to be done through discussions with the family and understanding their income earning, spends and savings patterns.

The process of evaluating the ability to repay, in the absence of any income documents, consists of the following steps:

- Conducting a personal discussion with the applicant's family covering family background, loan requirements, income, expenses, savings, loans and assets owned. The personal discussion sheet is designed with specific questions to extract relevant information from the applicant's family.
- Conducting a repeat discussion with the family at a later date and running a similar set of questions focused on income, expenses, savings and loans.
- Checking for consistency in the responses in all the occasions.
- Enquiries about the family from neighbors.
- Reaching a conclusion as to the extent of income, savings, expenses and loans in the family.

The process as above, when applied with necessary rigour and driven by the specially designed interview questions, would help in establishing borrower's ability to repay the loan.

### **2.2.2 Property Documentation**

While some borrowers in this TG would be able to give the necessary property documents for creation of mortgage, there could be other cases, where the property documentation available is not complete enough to establish the ownership title, from a legal document perspective. Due to low awareness and at times the costs involved (stamp duty etc.), the families in the TG do not complete the legal formalities involved in transfer of ownership. This risk could be mitigated as below:

- The lawyer of IHLL would scrutinize the property documents in all the cases, conduct searches in the records of land authorities, sub-registrar of assurances, civil courts in respect of the title to the land/property and confirm whether a mortgage can be created in favour of IHLL.
- If required, the lawyer of IHLL would design appropriate indemnities, loan agreement and other supporting legal documents to be signed by the applicant. A promissory note will also be obtained.
- The applicants may have some property documents, which even if incomplete, would state that they are the owners of the location. These documents should be deposited in original with IHLL.
- An equitable mortgage can be created by depositing the original documents held by the family with IHLL and confirming that the documents are so deposited with an intention to create the mortgage. Such mortgages on the land/house are not registered with the Registrar/Sub-registrar of Assurance as there is no document/deed to evidence the creation of mortgage.
- No funding would be given in respect of the properties to which the applicants have no clear and marketable title and/or which fall in the category of “unauthorized colonies”, unless and until they have been regularized and development and other charges paid. The same circular also mentions that the construction on the property funded should be as per the approved plan (refer NHB circular no. 18 dated 23<sup>rd</sup> November 2006).

### **2.2.3 End Use of Loan**

Any cash available in hand, gets spent quickly in this TG to meet the expense or any other loan repayment requirements of the family. The funds from the loan disbursed, can get diverted to other needs in the family that the family may consider important at that point in time. These could include, repaying a moneylender’s high-interest loan or attending to any family emergencies or buying a two-wheeler for business. If the family already has a loan exposure to a moneylender at a high rate of interest, the inclination would be to first close that loan as early as possible and hence the loan disbursed may get diverted to repaying the moneylender’s loan. This risk is managed by disbursing the loan amount directly to the builder of the house from whom the applicants have purchased the house, in appropriate tranches and in other cases, ensuring that applicants have invested the minimum margin required before any disbursement. A portion of the loan is disbursed first and deployment of the funds is confirmed by observing the progress at site. Further disbursement would be done only on the confirmation that the loan disbursed has been appropriately used for the declared end use.

#### **2.2.4 Collection of installments**

Loans granted to the borrowers of IHLL are normally repaid by payments of pre-determined EMIs. However, for the same reason as stated in 2.2.3, any cash that remains in the hands of the borrower could get immediately used up in the family's needs, it is important to collect cash from the applicants at smaller and quicker intervals such as weekly or fortnightly that could be appropriated towards the payments of EMIs. If the case demands, a daily collection of installments would be done.

### **2.3 Approach to the Underwriting Process**

The approach to the underwriting process revolves around the niche customer segment that is in question. There are certain key determinants that formulate the approach to the underwriting process. These are explained in the following paragraphs.

#### **2.3.1 Risk Drivers**

Since the TG is a low and mid income segment, the loan amounts required could also be on the lower side. The small ticket size of the loan however would have no bearing on the risk assessment of the case. Every case, notwithstanding the ticket size, would be assessed for risk based on the overall profile of the applicant family and not the loan amount. Hence for underwriting purposes it is the profile that drives the risk assessment and not the loan amount.

#### **2.3.2 Lending to family and not to individual**

The lending to this TG would be driven by the premise that the loan is being given to the family of the applicant and not applicant alone. Incomes of other income earners in the family can also be considered and they would be made co-applicants to the loan. It needs to be noted that in this TG, it is quite common to find more than one income earner in the family. Given their constant requirement for cash, all capable members of the family work and add their bit to the total family income. It would therefore be the family that would be lent the money and not just the main income earner.

#### **2.3.3 Lack of documents to substantiate income**

Except where the applicant is a salaried person, it is unlikely that IHLL would get any income documents to evidence the income earned by the family. In case of salaried customers, since a document in the form of salary slips would be available, it would be easy to know the income of the applicant and thereby proceed to decide on the loan. In other cases, the decision would be driven by the information collected from the customer in the personal discussions held with him/her and the family.

#### **2.3.4 Minimum filter – Analysis of basic lifestyle**

Besides an analysis of income, expenses, savings and other loan obligations, the overall assessment of borrower's ability to repay would also involve a review of his lifestyle. A quick analysis of minimum lifestyle indicators observed in the applicant's family would be amongst the first things done in reviewing any case. A certain minimum criteria to measure the present lifestyle of the applicant are applied and if the applicant does not meet the minimum criteria, the loan would not be progressed

ahead. The template for review of essential lifestyle indicators is given in Table 1 below. All the conditions in this table must be met for the case to be progressed ahead.

**Table 1**

Sl.No	Essential Lifestyle Indicators	Tick (as available)
1	Phone connection for main applicant / spouse	
2	Family living in pucca house (masonry roof)	
3	The house has a legal electric connection	
4	KYC Documentation (ID and Address Proof) for all applicants	
5	Bank Account for main income earner	
6	Gas Connection or Kerosene stove	
7	Fan	
8	Television	

### 2.3.5 Controlled process – Information collector different from underwriter

The underwriting process would be such that the individual interfacing with the customer and collecting information, will not be eventually deciding on the case. The decision to approve or decline the loan would be taken by an underwriter, who would have limited interface with the customer. This process is an effective control mechanism and segregates duties appropriately.

### 3. Product Policy

The product policy designed for the loan offering to the TG is given below:

Sl.No	Policy item	Policy Description
1	Loan Purpose	<ul style="list-style-type: none"> <li>- Home Improvement</li> <li>- Home Extension</li> <li>- Home Purchase (New)</li> <li>- Home Purchase (resell)</li> </ul>
2	Applicant	<ul style="list-style-type: none"> <li>- Minimum of 2 applicants</li> <li>- Lady of the house to be the main applicant</li> </ul>
3	Co-Borrowers	<ul style="list-style-type: none"> <li>- All Co-owners of the property to become co-borrowers.</li> <li>- Any family member whose income is considered for loan to become a co-borrower.</li> <li>- Any other adult family members sharing the same kitchen to become co-borrowers (maximum two).</li> </ul>
4	Loan Amount	<ul style="list-style-type: none"> <li>- Minimum – Rs.500,000</li> <li>- Maximum – Rs.3,000,000</li> </ul>
5	Loan Term	Minimum - 60 months Maximum – 180 months

6	Minimum Income	Disposable family income of Rs.15000 per month. (Disposable family income is the income available with the family to meet all its household expenses, debt obligations and savings)
7	Essential lifestyle indicators check	Essential lifestyle indicators check would be done based on the information related to lifestyle of the borrower, collected on origination. Template for a review of essential indicators is given in <a href="#">Table 1</a> above. All the eight conditions as in the Table 1 should be met for an applicant to qualify for a loan.
8	Repayment Mode	Installment calculation would be done on a monthly reducing balance method
9	Installment Collection	<ul style="list-style-type: none"> <li>- Installment would be collected in Cash / ECS / PDC</li> <li>- Where through cash, the installment would be collected on monthly basis depending on each case</li> </ul>
10	Debt to Income Ratio	30% of the total disposable family income of the household.
11	Debt Service Coverage Ratio	<p>70% of discretionary surplus</p> <p>Note: DSCR would be applied on the discretionary surplus calculated as below :</p> <p>Discretionary surplus = Total income less (per capita subsistence * no. of family members)</p> <p>Per Capita Subsistence to be taken as higher of Actual per capita subsistence expense for the applicant or Rs.1052</p>
11	Loan to Value Ratio	70%
12	Age	<p><u>For applicants whose income is considered:</u></p> <p>Min Age on loan application – 23 years Max Age on loan application - 55 years</p> <p><u>For applicants whose income is not considered but are co-owners in the property:</u></p> <p>Min Age on loan application – 18 years Max Age on loan application - 70 years</p> <p><u>For other co-borrowers (neither income considered nor co-</u></p>

		<u>owners of the property</u> : Min Age on loan application – 18 years No maximum age limit
13	Work Experience	Salaried – min 3 years  Self Employed – 5 years in business with 3 years on the same business
14	Location of the borrower’s residence, workplace and property	- Borrower’s residence, workplace and property financed to be located within the prescribed geographical limits in each city. The limits to be defined by IHLL for each city. - Property being financed should be located in the same municipal ward in which the borrower resides.
15	Security	Equitable mortgage
16	Guarantor	One personal guarantor with KYC documents (Optional).
17	Disbursement	Disbursement to be initiated only after evidence of work done at site is available. Evidence of work done to be established by either of the following: - Construction material to be sighted at the property - Incomplete construction sighted at the property (Photographs to be taken as evidence)  Disbursement to be done in tranches as below: As per the schedule provided by the developers or As per the construction schedule (supported by valuer certificate)  Before each subsequent disbursement, a photograph of the construction progress to be taken and placed on record.
18	Exceptions	Any exception to the policies to be approved by an authorized person as per the delegation matrix.

#### 4. Processes

This section covers the processes that are implemented in IHLL for different functions. The following processes are covered:

- Loan origination process
- Underwriting process
- Disbursement process
- Collections process

##### 4.1 Loan Origination process

The loan originations would be done by Field Credit Officers (FCOs) / DSA. The FCOs are employees of IHLL and are responsible for managing the relationship with the customer across the life cycle of the

loan. The FCOs understand the TG classification and identify prospective borrowers from the market as per the defined TG for IHLL.

*\* To be developed further.*

#### 4.2 Underwriting process

The steps followed in underwriting the loan, starting from the first meeting with the identified prospect are given in Table 2 below. The underwriting steps as per this table at each stage would be marked as completed in the Underwriting Checklist (Refer [Annexure](#)) by the person responsible.

**Table 2**

Sr No	Steps	Forms to be filled up	Details	Responsibility to complete the step
1	Met the Prospect and filled up the essential lifestyle indicators sheet	<b>Essential Lifestyle Indicators sheet</b>	<p>This is the first meeting with the prospect. The purpose is to understand the loan requirements and evaluate if the applicant fulfils all the eight conditions of the essential lifestyle indicators sheet.</p> <p>Only if the applicant meets all the eight conditions, is the process is taken ahead.</p> <p>FCO also to capture information required for CIBIL check in this sheet.</p>	FCO
2	Document checklist completed	<b>Document Checklist</b>	FCO to complete the standard document checklist and confirm documents available with the applicant.	FCO
3	Document list given to the prospect		FCO to give a list of documents that the prospect would be required to provide. This list provided to the prospect should be written in vernacular language so that the prospects understand the documents required.	FCO

4	Loan processing steps explained to the prospect		<p>Explain the following:</p> <p>a. That this is a preliminary meeting to understand the requirements of the prospect.</p> <p>b. That there will be a personal discussion with the prospect and his family to take this process forward.</p> <p>c. That the property would need to be secured under equitable mortgage with PHFC</p> <p>d. That the applicant would be required to provide a personal guarantor with KYC documents.</p> <p>e. That this process will take ____ (TBD) days (Standard TAT)</p>	FCO
5	CIBIL and De-dupe checks done		The borrower information is captured in the system and CIBIL check and de-dupe checks are done.	System or through a central coordinator
6	First Personal discussion scheduled		<p>A phone-call is made to the applicant to schedule a personal discussion and to convey the following:</p> <ul style="list-style-type: none"> <li>- That the PD would be done at the residence of the applicant</li> <li>- The time and date when the PD would be done (to be decided by mutual consent)</li> <li>- That the discussion would take about 30 to 45 minutes</li> <li>- That applicant and his family to be available for the discussion</li> <li>- That photocopies of documents as per the list given earlier, relating to KYC, Income, property and savings to be kept ready.</li> </ul> <p><i>(Note: This telecon will also be considered as a validation of the applicant's telephone number and contactability on phone)</i></p>	FCO
7	First Personal discussion conducted and PD sheets filled in	<b>Salaried PD Sheet or SENP PD Sheet</b>	The FCO must meet the prospect's family on the scheduled date, and conduct the personal discussion. Fill up <b>Salaried PD Sheet</b> for Salaried applicants and <b>SENP PD Sheet</b> for SENP applicants. <b>Follow guidance note no 1 (annexed to this checklist) while conducting the PD.</b>	FCO
8	Documents collected		Collect the documents as per the list provided to the prospects as mentioned in point no 2 and 3 above.	FCO

9	Application form filled up and signed		Get the application form filled in and signed by the applicants	FCO
10	Property Photographs taken		Take photographs of the property, approach to the property and the neighborhood.	FCO
11	Documents submitted to Branch Manager		Following documents to be submitted to the branch manager. a. This underwriting checklist marked completed till step 10 above. b. Documents Checklist, Essential Lifestyle indicators sheet and the PD sheet. c. Photographs of the Property d. Filled up application form with photographs of the applicants. e. Documents provided by the applicant as per the list given (Refer Pt 3 above).	FCO
12	Proposal scrutinised by the branch manager	<b>Eligibility Calculator</b>	The branch manager performs the following activities: - Scrutinises the information collected and the documents obtained. - Calculates the basic loan eligibility based on the information collected and stated policy using the eligibility calculator. - Seeks clarifications as necessary from FCO and where FCO is unable to answer, notes them down in the subsequent PD sheet for clarifying from applicant.	Branch Manager
13	Second PD scheduled		Post the scrutiny, the branch manager schedules a second personal discussion with the applicant. The second discussion is to be conducted by branch manager in all the cases. Second PD also is conducted at the residence of the applicant.	Branch Manager
14	Second PD conducted and second PD sheet filled up	<b>Second PD Sheet</b>	Second personal discussion conducted and second PD sheet filled in. During the Second PD, branch manager to validate a select list of assets mentioned in the addendum to the First PD sheet.	Branch Manager
15	Preparation of Credit Appraisal Memo	<b>Credit Appraisal Memo</b>	The FCO fills the available information in the Credit Appraisal Memo and recommends the loan to the branch manager. The branch manager double checks the	FCO and Branch Manager

			information on credit appraisal memo to be forwarded to underwriter	
16	The entire file submitted to underwriter		The file containing all the documents to be submitted to the underwriter.	Branch Manager
17	Consolidated information scrutinised		The underwriter will scrutinize all the information now available and check for consistency in the information provided by the applicant at different points in time.	Underwriter
18	Complete the credit appraisal memo	<b>Credit Appraisal Memo</b>	The underwriter would complete the Credit Appraisal Memo which will capture the relevant information and match it with the stated policy.	Underwriter
19	Validate legal documents as per approved checklist		Underwriter to validate that copy of the all property papers, as per the IHLL approved legal checklist, are available. Originals of the property papers to be collected before disbursement.	Underwriter
20	Decision made		The underwriter, when satisfied that all required information is collected, does a final analysis and decides on the case.	Underwriter

*Note: All the forms required for the above processes are given in the **Annexures**.*

**4.3 Disbursement Process:** A loan application received by IHLL will be required to be examined on the lines of the Loan Processing Note/Credit Appraisal Memo shown at Annexures-A to this manual; and after sanction, the loan will be disbursed only after a disbursement memo is prepared as per the format at Annexure - B.

**4.4 Collections Process** – As per the Recovery Policy of IHLL

- 5 Annexures**
- i. Check list is as per Annexure-1,
  - ii. Interview Sheet as per Annexure-2
  - iii. Customer Profile as per Annexure – 3
  - iv. Credit Score as per Annexure – 4

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