

## NHB wants housing finance firms to link loan disbursement to stages of construction

Our Bureau

1

Online Apartment Listings

2

Free Housing Grants

3

Latest HUD Home Listings



If a builder delays delivering on the housing project or does not deliver at all, then the home loan becomes an albatross around the home buyers' neck  
SHUTTERSTOCK

*Says if much of the loan is released upfront, builders may use the funds to repay old high-cost loans and for other projects*

Mumbai, July 5:

Fearing diversion of funds by builders under 'innovative' financing schemes — '10:80:10' and '5:90:5' — offered to home buyers, the National Housing Bank has warned housing finance companies against making upfront loan disbursements without linking the same to the stages of construction of housing projects or else they could attract penal provisions.

National Housing Bank (NHB), the regulator of housing finance companies (HFCs), said it has come to its notice that some HFCs are making such upfront disbursements.

Some HFCs have also approved certain projects for the advance disbursement facility.

What has caught the regulator's eye is that some builders are actually taking advantage of these schemes to source funds at low interest rates at the expense of the home buyer. The fear is that these funds could either be used to repay old high-cost loans or get diverted to other projects.

Now, if a builder delays delivering on the housing project or does not deliver at all, then the home loan becomes an albatross around the home buyers' neck.

### **How the scheme works**

Once a builder gets a housing project and financing scheme approved by an HFC, the home buyer is lured with sales pitch that he needs to only come up with 5 or 10 per cent of the value of the house as his own equity.

The buyer gets a loan for 90 or 80 per cent of the value of the house from the HFC. And the balance 5 or 10 per cent own equity can be brought in by the buyer on completion of the project.

The builder promises to service the equated monthly instalment on the loan that is disbursed upfront by the HFC till the buyer gets possession of his house. Now, for the builder this arrangement is beneficial as he gets funds at home loan rates, of 9.40 per cent to 11.75 per cent.

In sharp contrast, if the builder were to approach a bank or an HFC for a loan for a residential project, he would be charged 15-16 per cent. If he taps the informal sources, the interest rate would be double what is charged by banks and HFCs.

## Regulator's worry

NHB is worried that if the builder diverts the funds into other projects/repays old loans and delays the existing project, then the home loan borrower could get into trouble and this could have repercussions for HFCs.

The housing finance regulator, in a circular to HFCs, emphasised that disbursement of housing loans should be strictly linked to the stages of construction and no upfront disbursement should be made in case of incomplete/un-constructed projects.

## Review schemes

NHB said the prevalent (financing) scheme(s) of HFCs, if any, need to be reviewed in order to remove inappropriateness of funding exposure with concomitant risk of diversion of funds.

The regulator warned that any non-compliance in this regard will be viewed seriously and may attract penal provisions.

(This article was published on July 5, 2016)

**01. LOWEST MORTGAGE RATES**

**02. ONLINE APARTMENT LISTINGS**

**03. FREE HOUSING GRANTS**

**04. LATEST HUD HOME LISTINGS**

**05. AFFORDABLE HOME LOANS**

**06. STARTUP BUSINESS LOANS**

**07. UNSECURED PERSONAL LOANS**

**08. STUDENT LOANS MADE EASY**

**09. BAD CREDIT LOANS**

**10. CAR LOAN CALCULATOR**

**11. BEST STUDENT LOANS**

**12. SMALL BUSINESS IDEAS**



Latest HUD Home Listings