KYC / AML Policy of the Company

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Inspection & Audit Department

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GUIDELINES ON 'KNOW YOUR CUSTOMER' AND ANTI-MONEY LAUNDERING MEASURES OF CANFINHOMES LTD

'Know Your Customer' Policy

1. The objective of 'Know Your Customer (KYC) Guidelines' is to prevent housing finance companies (HFCs) from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures also enable HFCs to know/understand their customers and their financial dealings better, which in turn help them manage their risks prudently**.** NHB vide its circular NHB(ND)/DRS/Policy Circular No.76/2016-17 dt.01/11/16, advised to upload the KYC details of borrowers/ depositors with CERSAI. CERSAI has been authorized to act and perform the functions of the Central Know Your Customer record Registry. Accordingly, branches have been instructed to comply with CKYCR guidelines vide ABM 106/16 dt.17/12/16.

As per NHB guidelines, HFC's should frame their KYC policies incorporating the following four key elements:

(i) Customer Acceptance Policy;
(ii) Customer Identification Procedures;
(iii) Monitoring of Transactions; and
(iv) Risk management.

2. For the purpose of KYC policy, a 'Customer' may be defined as:

- a person or entity that maintains an account and/or has a business relationship with the HFC;
- one on whose behalf the account is maintained (i.e. the beneficial owner);
- beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors, etc. as permitted under the law, and
- any person or entity connected with a financial transaction which can pose significant reputational or other risks to the HFC, say, a wire transfer or issue of a high value demand draft as a single transaction.
- The DSA's/ Panel Advocates/ Valuers/ Professionals and other third party entities engaged by the Company in the course of business.

Customer Acceptance Policy

3. HFCs should develop a clear Customer Acceptance Policy laying down explicit criteria for acceptance of customers. The Customer Acceptance Policy must ensure that explicit guidelines are in place on the following aspects of customer relationship in the HFC:-
(i) No account is opened/ loan granted or services are utilized in anonymous or fictitious/benami name(s);
(ii) Parameters of risk perception are clearly defined in terms of the location of customer and his clients and mode of payments, volume of turnover, social and financial status, etc. to enable categorization of customers into low, medium and high risk (HFCs may choose any suitable nomenclature, viz. level I, level II, level III etc.); customers requiring very high level of monitoring, e.g. Politically Exposed Persons (PEPs – as explained in Annex I) may, if considered necessary, be categorised even higher;
(iii) Documentation requirements and other information to be collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of Prevention of Money Laundering Act, 2002 (Central Act No. 15 of 2003) (hereinafter referred to as PMLA), rules framed thereunder and guidelines issued from time to time;
(iv) Not to open an account or close an existing account where the HFC is unable to apply appropriate customer due diligence measures, i.e. HFC is unable to verify the identity and /or obtain documents required as per the risk categorisation due to non co-operation of the customer or non reliability of the data/information furnished to the HFC. It may, however, be necessary to have suitable built-in safeguards to avoid harassment of the customer. For example, decision to close an account may be taken at a reasonably high level after giving due notice to the customer explaining the reasons for such a decision;
(v) Circumstances, in which a customer is permitted to act on behalf of another person/entity, should be clearly spelt out in conformity with the established law and practices, as there could be occasions when an account is operated by a mandate holder or where an account may be opened by an intermediary in a fiduciary capacity; and

(vi) Necessary checks before opening a new account so as to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations, etc.

4. HFCs shall prepare a profile for each new customer based on risk categorization. The customer profile may contain information relating to the customer's identity, social/financial status, nature of business activity, information about his clients' business and their location, etc. The nature and extent of due diligence will depend on the risk perceived by the HFC. However, while preparing customer profile the HFCs should take care to seek only such information from the customer which is relevant to the risk category and is not intrusive, and is in conformity with the guidelines issued in this regard. Any other information from the customer should be sought separately with his/her consent and after opening the account. The customer profile will be a confidential document and details contained therein shall not be divulged for cross selling or any other purposes.

5. For the purpose of risk categorization, individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, may be categorized as low risk. Illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover, Government departments & Government owned companies, regulators and statutory bodies, etc. In such cases, the policy may require that only the basic requirements of verifying the identity and location of the customer are to be met.

6. Customers that are likely to pose a higher than average risk to the HFC may be categorized as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile, etc. HFCs may apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear. Examples of customers requiring higher due diligence may include

(a) non-resident customers,
(b) high net worth individuals,
(c) trusts, charities, NGOs and organizations receiving donations,
(d) companies having close family shareholding or beneficial ownership,
(e) firms with 'sleeping partners',
(f) politically exposed persons (PEPs) of foreign origin,
(g) non-face to face customers, and
(h) those with dubious reputation as per public information available, etc.

As regards the accounts of PEPs it is advised that in the event of an existing customer or the beneficial owner of an existing account subsequently becoming a PEP, HFC should obtain senior management approval in such cases to continue the business relationship with such person, and also undertake enhanced monitoring as specified in Annexure – I .

7. It is important to bear in mind that the adoption of Customer Acceptance Policy and its implementation should not become too restrictive and must not result in denial of HFC's services to general public, especially to those, who are financially or socially disadvantaged.

Customer Identification Procedure (CIP)

8. Rule 9 of the Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of Transactions, The Procedure and Manner of Maintaining and Time for Furnishing information and Verification and Maintenance of Records of the Identity of the Clients of the HFCing Companies, Financial Institutions and Intermediaries) Rules, 2005 (hereinafter referred to as PML Rules), requires every HFC:

1. at the time of commencement of an account–based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship, and
2. in all other cases, verify identity while carrying out :
3. transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected, or
4. any international money transfer operations.

In terms of proviso to rule 9 of the PML Rules, the relaxation, in verifying the identity of the client within a reasonable time after opening the account/ execution of the transaction, stands withdrawn. Accordingly, such verification of the identity of the customer is to be done before the opening of any account or entering into any dealing with the customer.

Rule 9 also provides that every HFC shall identify the beneficial owner and take all reasonable steps to verify his identity. The beneficiary owner is defined as the natural person who ultimately owns or controls a clients and/or the person on whose behalf the transaction is being conducted, and includes a person who exercises ultimate effective control over a judicious person. Where a client is person other than an individual or trust, the HFC shall identify the beneficiary owners off the client and take reasonable measures to verify the identity of such persons through appropriate means. Where the client is a trust, the HFC shall identify the beneficiary owners of the client and take reasonable measures to verify the identity of such persons to the identity of the settler of the trust, the trustee, protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control/ ownership. . The said Rule also require HFCs to exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, his business and risk profile.

Therefore, the Customer Identification Policy approved by the Board of an HFC should clearly spell out the Identification Procedure to be carried out at different stages, i.e. while establishing a relationship; carrying out a financial transaction or when the HFC has a doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data.

Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information/s.

9. HFCs need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship. Rule 9 of the PML Rules provides for the documents/information to be obtained for identifying various types of customers i.e. individuals, companies, partnership firms, trusts, unincorporated association or a body of individuals and juridical persons. HFCs are advised to take note of the provisions of the above rule and ensure compliance. Customer identification requirements keeping in view the provisions of the said rule are also given in **Annex-I** for guidance of HFCs. An indicative list of the nature and type of documents/information that may be relied upon for customer identification is given in the **Annex-II.** HFCs are required to frame their own internal guidelines based on their experience of dealing with such persons/entities, normal prudence and the legal requirements.

10. Each HFC should formulate and implement a Client Identification Programme to determine the true identity of its clients keeping the above in view. The Company will follow the client identification programme based on the guidelines issued by FIU Ind./ NHB from time to time.

The increasing complexity and volume of financial transactions necessitate that customer do not have multiple identities with the HFC across the system. This can be achieved by introducing Unique Customer Identification code for each customer. HFC should allot Unique Customer ID code to all their customers while entering into any new relationships for individual customers. Similarly, existing individual customers should be allotted Unique customer ID's which will help the Company to identify the customers, track the facilities availed, monitor financial transactions, in a whole stick manner and to have a better approach to risk profiling of the customers. This will also enable the HFC to smoothen operations for the customers.

Monitoring of Transactions

11. Ongoing monitoring is an essential element of effective KYC procedures. HFCs can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity. However, the extent of monitoring will depend on the risk sensitivity of the account. HFCs should pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose. The HFC may prescribe threshold limits for a particular category of accounts and pay particular attention to the transactions which exceed these limits. Transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer should particularly attract the attention of the HFC. Very high account turnover

inconsistent with the size of the balance maintained may indicate that funds are being 'washed' through the account. High-risk accounts have to be subjected to intensified monitoring. Every HFC should set key indicators for such accounts, taking note of the background of the customer, such as the country of origin, sources of funds, the type of transactions involved and other risk factors. HFCs should put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures.

Risk Management

12. The Board of Directors of the HFC should ensure that an effective KYC programme is put in place by establishing appropriate procedures and ensuring their effective implementation. It should cover proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility should be explicitly allocated within the HFC for ensuring that the housing finance companies' policies and procedures are implemented effectively. HFCs may, in consultation with their Boards, devise procedures for creating Risk Profiles of their existing and new customers and apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship.

13. HFCs' internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. As a general rule, the compliance function should provide an independent evaluation of the HFC's own policies and procedures, including legal and regulatory requirements. HFCs should ensure that their audit machinery is staffed adequately with individuals who are well-versed in such policies and procedures. Concurrent/ Internal Auditors should specifically check and verify the application of KYC procedures at the branches and comment on the lapses observed in this regard. The compliance in this regard may be put up before the Audit Committee of the Board at quarterly intervals. HFC should ensure that there is proper system of fixing accountability for serious lapses and intentional circumvention of prescribed procedures and guidelines.

13.1. The Company shall prepare a profile for all the customer based on the risk categorization. The customer profile shall contain information relating to Customer identity, social/financial status, nature of business activity, information about his client business and their location etc. The nature and extent of due diligent will depend risk perceived by the Company. The Company shall ensure to classify the customer as low risk, medium risk and high risk, depending on background, nature and location of the activity. The risk profile should be reviewed at periodical intervals by obtaining the required information. The indicative list of the customers as low risk, medium risk and high risk are as under:

a) Low Risk: Ex Staff of the Company, Govt/Semi Govt Employees, Individuals, pensioners, proprietor ship concerns, Staff Members of public sector Companies, Co-operative Societies, Senior Citizens etc.

b) Medium Risk: Small business enterprises like Pawn Shop, Auctioneers, Cash intensive business as Restaurants, Retail shop, garages, Sole practitioners like law firms, notaries, accountants, bling persons, purthanashin ladies and unregistered bodies.

c) High risk: Customer conducting their business or transactions in unusual circumstances, customer based in high risk countries, politically exposes persons, non-resident customers and foreign nationers, high net worth individuals, firms with sleeping partners, Companys having close family shareholders, shell companies, Trust, Charities, NGO's, NPO's, Customers engaged in business which is associated with higher level of corruption, customers dealing with real estate business, bullion dealers, stock brokers and HUF's.

14. Customer Education – Employee's Training

Customer education: Implementation of KYC procedures requires HFCs to demand certain information from customers which may be of personal nature or which have hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. There is, therefore, a need for HFCs to prepare specific literature/ pamphlets, etc. so as to educate the customer about the objectives of the KYC programme. The front desk staff needs to be specially trained to handle such situations while dealing with customers.

Employee Training: The HFC shall have an ongoing employee training programme, so that members of the staff are adequately trained in KYC procedures and fully understand the rationale behind the KYC policies and implement them consistently.

15. Employees hiring

The KYC norms, AML standards, CFT measures have been prescribed to ensure that criminals are not allowed to misuse the financial sector. It would therefore be necessary that adequate screening mechanism is put in place by HFC as an integral part of recruitment/ hiring process of personal.

16. Introduction of New Technologies

HFCs should pay special attention to any money laundering threats that may arise from new or developing technologies including on-line transactions that might favour anonymity, and take measures, if needed, to prevent their use in money laundering schemes.

17. Applicability to branches and subsidiaries outside India

The above guidelines shall also apply to the branches and majority owned subsidiaries located abroad, especially, in countries which do not or insufficiently apply the FATF Recommendations, to the extent local laws permit. When local applicable laws and regulations prohibit implementation of these guidelines, the same should be brought to the notice of National Housing HFC and RBI.

18. Appointment of Principal Officer

HFCs may appoint a senior management officer, preferably of the level of General Manager/ ***Deputy General Manager or an Official*** immediately below the level of CMD/ED of the HFC (depending on the internal organisational structure of the housing finance company) be designated as 'Principal Officer'. The name of the Principal Officer so designated, his designation and address including changes from time to time, may please be advised to the Director, FIU-IND and also to NHB. Principal Officer shall be located at the head/corporate office of the HFC and shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law. He will maintain close liaison with enforcement agencies, HFCs and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

Role and responsibilities of the Principal Officer should include overseeing and ensuring overall compliance with regulatory guidelines on KYC/AML/CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, rules and regulations made thereunder, as amended form time to time. The Principal Officer will also be responsible for timely submission of CTR, STR and reporting of counterfeit notes and all transactions involving receipts by non-profit organisations of value more than Rupees Ten Lakh or its equivalent in foreign currency to FIU-IND.

With a view to enabling the Principal Officer to discharge his responsibilities effectively, the Principal Officer and other appropriate staff should have timely access to customer identification data and other CDD information, transaction records and other relevant information.

19. Maintenance of records of transactions

HFCs should introduce a system of maintaining proper record of transactions as required under section 12 of the PMLA read with Rule 3 of the PML Rules, as mentioned below:

1. all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
2. all series of cash transactions integrally connected to each other which have been valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds rupees ten lakh;
3. all transactions involving receipts by non-profit organizations of rupees ten lakhs or its equivalent in foreign currency;
4. all cash transactions where forged or counterfeit currency notes or HFC notes have been used as genuine and where any forgery of a valuable security or a document has taken place facilitating the transactions; and
5. all suspicious transactions whether or not made in cash and by way of as mentioned in the Rule 3(1) (D).

20. HFCs should ensure that their branches continue to maintain proper record of all cash transactions (deposits and withdrawals) of Rs.10 lakh and above. The internal monitoring system should have an inbuilt procedure for reporting of such transactions and those of suspicious nature whether made in cash or otherwise, to controlling/head office on a fortnightly basis.

21. Records to contain the specified information

Records referred to above in Rule 3 of the PMLA Rules to contain the following information:-

1. the nature of the transactions;
2. the amount of the transaction and the currency in which it was denominated;
3. the date on which the transaction was conducted; and
4. the parties to the transaction.

22. Maintenance and Preservation of records

Section 12 of PMLA requires every housing finance company to maintain records as under:
(a) records of all transactions referred to in clause (a) of Sub-section (1) of section 12 read with Rule 3 of the PML Rules is required to be maintained for a period of ten years from the date of transactions between the clients and the housing finance company.
(b) records of the identity of all clients of the housing finance company is required to be maintained for a period of ten years from the date of cessation of transactions between the clients and the housing finance company.
HFCs should take appropriate steps to evolve a system for proper maintenance and preservation of information in a manner (in hard and soft copies) that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities.

23. Reporting to Financial Intelligence Unit-India

Section 12 of PMLA requires every housing finance company to report information of transaction referred to in clause (a) of sub-section (1) of section 12 read with Rule 3 of the PML Rules relating to cash and suspicious transactions etc. to the Director, Financial Intelligence Unit-India (FIU-IND). The proviso to the said section also provides that where the principal officer of a HFC has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value to so to defeat the provisions of this section, such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

a) In terms of the PMLA Rules, HFC's are required to report information relating to cash and suspicious transactions and all transactions involving receipts by non-profit organisations of value more than rupees ten lakh or its equivalent in foreign currency to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat, Chanakyapuri,
New Delhi -110021 Website - http://fiuindia.gov.in/

Explanation: Government of India Notification dated November 12, 2009- Rule 2 sub-rule (1) clause (ca) defines Non-Profit Organization (NPO). NPO means any entity or organisation that is registered as a trust or a society under the Societies Registration Act, 1860 or any similar State legislation or a company registered under section 25 of the Companies Act, 1956.

b) HFC's should carefully go through all the reporting formats. There are altogether eight reporting formats, as detailed in Annex II, viz. i) Cash Transactions Report (CTR); ii) Summary of CTR iii) Electronic File Structure CTR; iv) Suspicious Transactions Report (STR); v) Electronic File Structure STR; vi) Counterfeit Currency Report (CCR); vii) Summary of CCR and viii) Electronic File Structure-CCR. The reporting formats contain detailed guidelines on the compilation and manner/procedure of submission of the reports to FIU-IND. It would be necessary for HFC's to initiate steps to ensure electronic filing of all types of reports to FIU-IND. The related hardware and technical requirement for preparing reports in an electronic format, the related data files and data structures thereof are furnished in the instructions part of the concerned formats. c) FIU-IND have placed on their website editable electronic utilities to enable HFC's to file electronic CTR/STR who are yet to install/adopt suitable technological tools for extracting CTR/STR from their live transaction data base. It is, therefore, advised that in cases of HFC's, where all the branches are not fully computerized, the Principal Officer of the HFC should cull out the transaction details from branches which are not yet computerized and suitably arrange to feed the data into an electronic file with the help of the editable electronic utilities of CTR/STR as have been made available by FIU-IND in their website http://fiuindia.gov.in.

24. Cash and Suspicious Transaction Reports

A. Cash Transaction Report (CTR)

While detailed instructions for filing all types of reports are given in the instructions part of the related formats, HFC's should scrupulously adhere to the following:
i) The Cash Transaction Report (CTR) for each month should be submitted to FIU-IND by 15th of the succeeding month. Cash transaction reporting by branches to their controlling offices should, therefore, invariably be submitted on monthly basis (not on fortnightly basis) and HFC's should ensure to submit CTR for every month to FIU-IND within the prescribed time schedule.
ii) All cash transactions, where forged or counterfeit Indian currency notes have been used as genuine should be reported by the Principal Officer to FIU-IND in the specified format not later than seven working days from the date of occurrence of such transactions (Counterfeit Currency Report – CCR). These cash transactions should also include transactions where forgery of valuable security or documents has taken place and may be reported to FIU-IND in plain text form.
iii) While filing CTR, details of individual transactions below Rupees Fifty thousand need not be furnished.
iv) CTR should contain only the transactions carried out by the HFC on behalf of their clients/customers excluding transactions between the internal accounts of the HFC.
v) A summary of cash transaction report for the HFC as a whole should be compiled by the Principal Officer of the HFC every month in physical form as per the format specified. The summary should be signed by the Principal Officer and submitted to FIU-India. vi) In case of Cash Transaction Reports (CTR) compiled centrally by HFC's for the branches having Core HFC Solution (CBS) at their central data centre level, HFC's may generate centralised Cash Transaction Reports (CTR) in respect of branches under core HFC solution at one point for onward transmission to FIU-IND, provided:

a) The CTR is generated in the prescribed format;
b) A copy of the monthly CTR submitted on its behalf to FIU-India is available at the concerned branch for production to auditors/inspectors, when asked for; and
c) The instruction on 'Maintenance of records of transactions'; 'Information to be preserved' and 'Maintenance and Preservation of records' as contained this Circular.

However, in respect of branches not under CBS, the monthly CTR should continue to be compiled and forwarded by the branch to the Principal Officer for onward transmission to FIU-IND.

B. Suspicious Transaction Reports (STR)

i) While determining suspicious transactions, HFC's should be guided by definition of suspicious transaction contained in PMLA Rules as amended from time to time.
ii) It is likely that in some cases transactions are abandoned/aborted by customers on being asked to give some details or to provide documents. It is clarified that HFC's should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.
iii) HFC's should make STRs if they have reasonable ground to believe that the transaction involve proceeds of crime generally irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences in part B of Schedule of PMLA, 2002.
iv) The Suspicious Transaction Report (STR) should be furnished within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer should record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction report is received from a branch or any other office. Such report should be made available to the competent authorities on request.
v) In the context of creating KYC/AML awareness among the staff and for generating alerts for suspicious transactions, HFC's may consider the indicative list of suspicious activities.
vi) HFC's should not put any restrictions on operations in the accounts where an STR has been made. HFC's and their employees should keep the fact of furnishing of STR strictly confidential, as required under PML Rules. It should be ensured that there is no tipping off to the customer at any level.

C. Non-Profit Organisation

The report of all transactions involving receipts by non- profit organizations of value more than rupees ten lakh or its equivalent in foreign currency should be submitted every month to the Director, FIU-IND by 15th of the succeeding month in the prescribed format.

A copy of information furnished shall be retained by the Principal Officer for the purposes of official record.

(a) The information in respect of the transactions referred to in clause(A), (B) and (BA) of sub-rule (1) of rule 3 of the PML Rules (i.e. clauses (1) , (2) and (3) referred to in Paragraph 19 supra) is to be submitted to the Director every month by the 15th day of the succeeding month.

(b) The information in respect of the transactions referred to in clause(C) of sub-rule (1) of rule 3 of the PML Rules (i.e. clause(4) in Paragraph 19 supra)is to be furnished promptly to the Director in writing, or by fax or by electronic mail not later than seven working days from the date of occurrence of such transaction.

(c) The information in respect of the transactions referred to in clause(D) of sub-rule (1) of rule 3 of the PML Rules (i.e. clause(5) in Paragraph 19 supra) is to be furnished promptly to the Director in writing, or by fax or by electronic mail not later than seven working days on being satisfied that transaction is suspicious.

Provided the housing finance company and its employees maintain strict confidentiality of the fact of furnishing/ reporting details of suspicious transactions.

25. It has been advised by the FIU-IND, New Delhi that HFCs need not submit ‘NIL’ reports in case there are no Cash/Suspicious Transactions, during a particular period. HFCs are advised to take note and act accordingly. (Vide Circular NHB/ND/DRS/Pol-No. 33/2010-11 dt.11/10/10)

26. The formats for reporting the requisite information in respect of cash transactions and suspicious transactions are enclosed (Annexures 3 to 10). An illustrative (but not exhaustive) list of suspicious transactions in housing/ builder/project loans is furnished in Annexure 11 for information of the HFCs.

27. The required information is to be furnished by the HFCs **directly** to the FIU-IND, through the Principal Officer designated by the housing finance company under the Prevention of Money Laundering Act, 2002.

General

28. HFCs should ensure that the provisions of PML, Rules framed thereunder and the Foreign Contribution and Regulation Act, 1976, wherever applicable, are adhered to strictly.

29. Where the HFC is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, the HFC may consider closing the account or terminating the business relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions need to be taken at a reasonably senior level.

30. These guidelines are issued under the National Housing HFC Act and any contravention of or non-compliance with the same may attract penal consequences under the said Act.

31. As per PMLA rules notified by the Govt. on 27/08/13, every Bank/UCB/HFC shall nominate the Director on their Boards as a designated Director to ensure complaints with the obligations under the Prevention of Money Laundering Act (Amendment Act 2012). The designated Director has been defined under rule 2(1) (ba) as a person designated by the reporting entity to ensure overall compliance and includes the Managing Director or a whole time Director duly authorised by the Board. Under Rule 7 (1) of PML rules, every reporting entity should communicate to Director FIU IND, the name, designation and address of the designated Director. Currently, Managing Director is the only whole time Director in the Company and by default, he is the designated Director.

Annex-I

CUSTOMER IDENTIFICATION REQUIREMENTS - INDICATIVE GUIDELINES

Trust/Nominee or Fiduciary Accounts

1. There exists the possibility that trust/nominee or fiduciary accounts can be used to circumvent the customer identification procedures. HFCs should determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, HFCs may insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place. While opening an account for a trust, HFCs should take reasonable precautions to verify the identity of the trustees and the settlors of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries should be identified when they are defined. In the case of a 'foundation', steps should be taken to verify the founder managers/directors and the beneficiaries, if defined. If the HFC decides to accept such accounts in terms of the Customer Acceptance Policy, the HFC should take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are.

Accounts of companies and firms

2. HFCs need to be vigilant against business entities being used by individuals as a 'front' for maintaining accounts with HFCs. HFC should verify the legal status of the legal person/ entity through proper and relevant documents. HFC should verify that any person purporting to act on behalf of the legal/ juridical person/entity is so authorized and identify and verify the identity of that person. HFCs should examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception, e.g. in the case of a public company it will not be necessary to identify all the shareholders.

Client accounts opened by professional intermediaries

3. When the HFC has knowledge or reason to believe that the client account opened by a professional intermediary is on behalf of a single client, that client must be identified. HFCs may hold 'pooled' accounts managed by professional intermediaries on behalf of entities like mutual funds, pension funds or other types of funds. Where the HFCs rely on the 'customer due diligence' (CDD) done by an intermediary, they should satisfy themselves that the intermediary is regulated and supervised and has adequate systems in place to comply with the KYC requirements. It should be understood that the ultimate responsibility for knowing the customer lies with the HFC.

Accounts of Politically Exposed Persons (PEPs) resident outside India

4. Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g. Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. HFCs should gather sufficient information on any person/customer of this category intending to establish a relationship and check all the information available on the person in the public domain. HFCs should verify the identity of the person and seek information about the sources of funds before accepting the PEP as a customer. The decision to open an account for PEP should be taken at a senior level which should be clearly spelt out in Customer Acceptance Policy. HFCs should also subject such accounts to enhanced monitoring on an ongoing basis. The above norms may also be applied to the accounts of the family members or close relatives of PEPs.

Accounts of non-face-to-face customers

5. In the case of non-face-to-face customers, apart from applying the usual customer identification procedures, there must be specific and adequate procedures to mitigate the higher risk involved. Certification of all the documents presented may be insisted upon and, if necessary, additional documents may be called for. In the case of cross-border customers, there is the additional difficulty of matching the customer with the documentation and the HFC may have to rely on third party certification/introduction. In such cases, it must be ensured that the third party is a regulated and supervised entity and has adequate KYC systems in place.

Annex-II

CUSTOMER IDENTIFICATION PROCEDURE (CIP)
FEATURES TO BE VERIFIED AND DOCUMENTS THAT MAY BE OBTAINED FROM CUSTOMERS

S L No	Features	Documents (Certified copy)
1.	**Individuals** - Legal name and any other names used - Correct permanent address	(i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving license (v) Identity card (subject to the HFC's satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of HFC. (vii) Job cards issued by NREGA duly signed by an Officer of the State Govt. (viii) the letter issued by Unique Identification Authority of India, containing the details name, address and Aadhar number or any other document as notified by the Central Govt. (i) Telephone bill (ii) HFC Account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the HFC) (any one document which provides customer information to the satisfaction of the HFC will suffice) One recent passport size photograph except in case of transactions referred to in Rule 9(1)(b) of the PML Rules.
2.	**Companies** - Name of the company - Principal place of business - Mailing address of the company - Telephone/Fax Number	(i) Certificate of incorporation (ii) Memorandum & Articles of Association (iii) Resolution from the Board of Directors and Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) an officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf. (v) Telephone Bill.
3.	**Partnership Firms** - Legal name - Address - Names of all partners and their addresses - Telephone numbers of the firm and partners	(i) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses. (v) Telephone Bill in the name of firm/partners.
4.	**Trusts& Foundations** - Names of trustees, settlers, beneficiaries and signatories - Names and addresses of the founder, the managers/directors and the beneficiaries - Telephone/fax numbers	(i) Certificate of registration, if registered(ii) trust deed (iii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlers, beneficiaries and those holding Power of Attorney, founders/managers/ directors and their addresses (iv) Resolution of the managing body of the foundation/association. (v) Telephone Bill.
5.	**Unincorporated association or a body of individuals**	(i)resolution of the managing body of such association or body of individuals (ii) power of attorney granted to him to transact on its behalf (iii) an officially valid document in respect of the person holding an attorney to transact on its behalf (iv) and such other information as may be required by HFC to collectively establish the legal existence of such as association or body of individuals.

6.	***Accounts of Proprietorship Concerns Proof of the name, address and activity of the concern***	***Registration certificate (in the case of a*** registered concern) • Certificate/licence issued by the Municipal authorities under Shop & Establishment Act, • Sales and income tax returns • CST/VAT certificate • Certificate/registration document issued by Sales Tax/Service Tax/Professional Tax authorities • Licence issued by the Registering authority like Certificate of Practice issued by Institute of Chartered Accountants of India, Institute of Cost Accountants of India, Institute of Company Secretaries of India, Indian Medical Council, Food and Drug Control Authorities, registration/licensing document issued in the name of the proprietary concern by the Central Government or State Government Authority/ Department, etc. Banks may also accept IEC (Importer Exporter Code) issued to the proprietary concern by the office of DGFT as an identity document for opening of the bank account etc. • The complete Income Tax return (not just the acknowledgement) in the name of the sole proprietor where the firm's income is reflected, duly authenticated/ acknowledged by the Income Tax Authorities. • Utility bills such as electricity, water, and landline telephone bills in the name of the proprietary concern. Any two of the above documents would suffice. These documents should be in the name of the proprietary concern

'Officially valid document' is defined to mean the passport, the driving license, the permanent account number card, the Voter's Identity Card issued by the Election Commission of India or any other document as may be required by the HFC .

List of Annexures 3-10
MANUAL REPORTING FORMATS

1. MCTR (Manual Cash Transaction Report) for HFCs- Annex-3
2. MCTR(IDS)-Annexure-A (Manual Cash Transaction Report- Individual detail sheet for HFCs)-Annex-4
3. MCTR(LP/Entity-Details)-Annexure-B (Manual Cash Transaction Report- Legal Person/Entity detail sheet for HFCs)- Annex-5
4. MCTR(S) Summary of Manual Cash Transaction Reports for HFCs- Annex-6
5. MSTR (Manual Suspicious Transactions Report) for HFCs- Annex-7
6. MSTR(IDS)-Annex-A (Manual Suspicious Transactions Report- Individual detail sheet)-Annex-8
7. MSTR(LP/Entity-Details)-Annexure-B (Manual Suspicious Transaction Report-Legal persons/Entity)-Annex-9
8. MSTR(ADS)-Annexure-C (Manual Suspicious Transaction Report-Account Details Sheet)-Annex-10
9. Illustrative (but not exhaustive) list of suspicious transactions in housing/builder/project loans

(Now all the manual reporting formats have been dispensed with. All the Banks/HFC are required to submit the reports of CTR/STR/CCR/NTR through online. Hence the branches are required to provide the required data to the Inspection Dept. Registered Office, Bangalore, so as to enable them to submit the report to FIU IND through online. However, the branches shall continue to submit the CTR/STR in the prescribed format to RO Annexure)

II. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO BUILDER/PROJECT LOANS:

a. Builder approaching the HFC for a small loan compared to the total cost of the project;
b. Builder is unable to explain the sources of funding for the project;
c. Approvals/sanctions from various authorities are proved to be fake;

Annex-11

I. ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO HOUSING LOANS:

a. Customer is reluctant to provide information, data, documents;
b. Submission of false documents, data, purpose of loan, details of accounts;
c. Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc;
d. Reluctant to meet in person, represents through a third party/Power of Attorney holder without sufficient reasons;
e. Approaches a branch/office of a HFC, which is away from the customer's residential or business address provided in the loan application, when there is HFC branch/office nearer to the given address;
f. Unable to explain or satisfy the numerous transfers in the statement of account/ multiple accounts;
g. Initial contribution made through unrelated third party accounts without proper justification;
h. Availing a top-up loan and/or equity loan, without proper justification of the end use of the loan amount;
i. Suggesting dubious means for the sanction of loan;
j. Where transactions do not make economic sense;
k. There are reasonable doubts over the real beneficiary of the loan and the flat to be purchased;
l. Encashment of loan amount by opening a fictitious HFC account;
m. Applying for a loan knowing fully well that the property/dwelling unit to be financed has been funded earlier and that the same is outstanding;
n. Sale consideration stated in the agreement for sale is abnormally higher/lower than what is prevailing in the area of purchase;
o. Multiple funding of the same property/dwelling unit;
p. Request for payment made in favour of a third party who has no relation to the transaction;
q. Usage of loan amount by the customer in connivance with the vendor/builder/developer/broker/agent etc. and using the same for a purpose other than what has been stipulated.
r. Multiple funding / financing involving NGO / Charitable Organisation / Small / Medium Establishments (SMEs) / Self Help Groups (SHGs) / Micro Finance Groups (MFGs)
s. Frequent requests for change of address;
t. Overpayment of instalments with a request to refund the overpaid amount

Guidance Note

On

Effective process

of

STRs detection and reporting

for

Housing Finance Companies

Table of Contents

CHAPTER I

Introduction

Money Laundering is a highly sophisticated act to cover up or camouflage the identity/ origin of illegally obtained earnings so that they appear to have been derived from lawful sources. It is the process by which illegal funds and assets are converted into legitimate funds and assets. It is the process through which proceeds emanating from a criminal activity are disguised to conceal their illicit origins and project as untainted.

The importance of prevention of Money Laundering has increased substantially in the past decade throughout the globe. Money Laundering poses a serious threat not only to the financial systems of countries, but also to the integrity and sovereignty of the nation. India's promising position as a financial centre, increasing property prices and the informality with which cross border moneys flow makes the country highly susceptible to money laundering.

Accordingly to curb the menace of money Laundering in India, the Prevention of Money Laundering Act, 2002 (PMLA) was enacted, which became effective from the year 2005. In terms of the Act, the Reporting Entity (RE), including , Housing Finance Companies (HFCs) are required to submit specified statutory reports namely Cash Transaction Report (CTR), Suspicious Transaction Report (STR), Non-Profit Transaction report (NTR), Counterfeit Currency Report (CCR) – to the Financial Intelligence Unit–India(FIU -IND) within the prescribed timelines. In this regard, various guidelines/circulars have been issued by the Regulator of HFCs i.e. the National Housing Bank (NHB) , a wholly owned subsidiary of the Reserve bank of India, on the issues of Know Your Customer (KYC) and Anti-Money Laundering measures (AML). While CTRs, NTRs and CCRs have objective reporting requirements, however, an element of subjectivity is involved in reporting of STRs. This has led to divergent approaches in the process for generation of alerts and consequential reporting of suspicious transactions which are not consistent across the Housing Finance Sector. Thus the need to formulate a comprehensive 'Guidance Note' for the Housing Finance sector was perceived, which would provide for identification and reporting mechanism of STRs, accordingly, a Working Group (WG)was constituted by the FIU-IND in co-ordination with NHB.

Members of the working group comprises of representatives of:

- National Housing Bank
- Housing Development Finance Corporation Ltd.
- Dewan Housing Finance Corporation Ltd.
- India Infoline Housing Finance Ltd.
- Orange City Housing Finance Ltd.
- Financial Intelligence Unit – India.

The scope of the WG included providing suggestions from the perspective of Housing Finance companies on:

- Mechanism for identification and monitoring of STRs.
- Provide guidance for effective alert management of STRs; and
- Recommending a list of Red Flag indicators/ Parameters to identify STRs;

The Guidance Note will help in ensuring uniformity of the approach amongst the HFCs in understanding the requirement of effective reporting from the perspective of HFCs as such and thereby differentiating the same from a generic perspective of Banks. The Note is designed to assist in effectively implementing the regulatory framework on Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) and to establish an effective reporting regime of STRs amongst the HFCs.

The Guidance Note is also intended to strengthen their transaction monitoring capabilities and protect them from being a conduit for money laundering and terrorist financing. This document is to be read in conjunction with all the guidelines/circulars issued by the NHB relating to Know Your Customer (KYC) Norms, Anti-Money Laundering (AML) Measures, Combating of Financing of Terrorism (CFT) and obligations of HFCs under the Prevention of Money Laundering Act (PMLA) and rules framed thereunder[1].

CHAPTER II

LEGISLATIVE & REGULATORY FRAMEWORK

a) Financial Action Task Force (FATF)

The FATF was established in 1989 as an inter-governmental body. The mandate of the FATF is to set standards and to promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system.

The FATF recommendations (Original 40 recommendations & 9 special recommendations on terrorist financing)have been endorsed by over 180 countries. These are recognized as the international standard for AML/CFT.

b) NHB

National Housing Bank (NHB), a wholly owned subsidiary of Reserve Bank of India (RBI), was set up on July 9, 1988 under the National Housing Bank Act, 1987. NHB is an apex financial institution for housing. NHB has been established with an objective to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other support incidental to such institutions and for matters connected therewith.

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[1] Refer Annexure I : *Guidelines on ' Know Your Customer' & Anti Money Laundeerng Measures' for HFCS issued on October 11, 2010 bearing no. NHB/ND/DRS/Pol-No. 33/2010-11*

The Bank exercises regulatory and supervisory authority over the HFCs pursuant to the powers vested in it under the National Housing Bank Act, 1987 and the Housing Finance Companies (NHB) Directions, 2010 issued there under. These include, inter alia, the regulation of entry to the sector through the issue of Certificate of Registration (COR) to companies for commencing /carrying on the business of a housing finance institution, regulation of deposit acceptance and borrowing by HFCs, prescription of Prudential Norms in regard to capital adequacy, asset classification, concentration of credit, income recognition, provisioning, etc. Besides, NHB has also issued Guidelines for HFCs on various aspects like Asset Liability Management (ALM), Know Your Customer (KYC), Fair Practices Code (FPC), etc.

NHB supervises the working of HFCs through a system of on-site inspections, market intelligence and off-site surveillance.

c) Financial Intelligence Unit –India

As per recommendation 29 of the Financial Action Task Force, countries are required to establish a FIU that serves as a national centre for the receipt and analysis of:

(a) Suspicious Transaction Reports; and

(b) Other information relevant to money laundering, associated predicate offences and terrorist financing and for dissemination of the results of that analysis.

The FIU should be able to obtain additional information from reporting entities and should have access on a timely basis to the financial, administrative and law enforcement information that it may require.

Article 7.1 (b) of the United Nations Convention against Transactional organized Crime requires member states to consider the establishment of a FIU to serve as a national centre for the collection, analysis and dissemination of information regarding potential money laundering.

Accordingly, the Government of India established the Financial Intelligence Unit – India (FIU-IND) in 2004. FIU-IND is an independent body reporting to the Economic Intelligence Council (EIC) headed by the Finance Minister and functions under the administrative control of the Department of Revenue, Ministry of Finance.

The Prevention of Money Laundering Act, 2002 (PMLA) and Rules framed there under empowers FIU-IND to receive Reports from Reporting Entities (REs) on cash transactions, suspicious transactions, counterfeit currency transactions, funds received by non-profit organizations and cross-border wire transfers. FIU-IND analyses these Reports and disseminates to authorized agencies for further action.

d) The Unlawful Activities (Prevention) Act, 1967 (UAPA)

The Unlawful Activities (Prevention) Act, 1967 (UAPA), Criminalises terrorist acts and raising of funds for terrorist acts. This Act was also amended in 2013 to make it more effective and meet the standards of FATF.

e) Prevention of Money Laundering Act, 2002 (PMLA)

The PMLA was enacted in 2003 and brought into force on 01.07.2005 as India's law for combating money laundering. Since then the Act has been since amended from time to time to bring it in sync with the FATF recommendations, UN resolutions and National requirements. So far as the filing of reports by REs to FIU-IND is concerned, following Sections of the PMLA (read with Rules made thereunder) are of utmost importance:

Section	Title
12	Reporting entity to maintain records.
12-A	Access to information
13	Powers of Director to impose fine
14	No civil or criminal proceedings against reporting entity, its Directors and employees in certain cases.
15	Procedure and manner of furnishing information by reporting entities.

f) The Prevention of Money Laundering Rules

Section 73 of the PMLA empowers the Central Government to make Rules for carrying out the provisions of the PMLA. Accordingly, Central Government notified the Prevention of Money Laundering (Maintenance of Records) Rules in 2005 and amended it in 2013 to give effect to revised FATF recommendations and changes made in the PMLA.

The Rule obligates Principal Officers to furnish all the reports to the FIU-IND as per schedule and Designated Director to ensure overall compliance with the obligations imposed under Chapter IV of the PMLA and the said Rules.

CHAPTER III

1. Housing Sector in India

Housing, a basic human need, has always had and continues to have major socio-economic implications and assumes a crucial role as it contributes significantly to the national economy and nation building.

The need for adequate shelter for all along with basic services is more urgent than ever, particularly in developing countries like India. Safe, secure and adequate housing is a fundamental need of man. Housing is a key input in economic, social, and civic development. In importance, it is third after food and clothing. A host of vocations and professions directly or indirectly derive their livelihoods from housing which include construction workers, builders, developers, suppliers, civil engineers, valuers, furnishers, interior decorators, and plumbers. Further, indirect impact of housing is in terms of improved habitat, living, educational, social and cultural standards leading to human capital formation and income capabilities. Housing is integrally related to a host of outcomes for the society more broadly beyond those that are financial or material. Quality housing can facilitate psychological and social outcomes such as an ontological security and a sense of control over one's life.

Housing tends to serve as a catalyst for a change in socio-cultural milieu and also aids in economic development. More importantly, housing lays the foundation for a life of dignity. By investing in homes, people, in particular, the low-income groups accumulate equity that can then be used as collateral, making them more credit-worthy for accessing finance through normal channels and also for generating income.

The importance of housing investment in the National economy and rapid growth of housing investment have become distinct characteristics of the world economies in recent years. However, at the same time, there is a concern that economic growth, if heavily dependent on housing investment, may compromise the stability and the health of the national economy.

The housing sector contributes to the economy by way of capital formation, generation of revenue by way of rentals and repairs and contribution by way of property taxes. The Gross Fixed Capital Formation (GFCF) by the housing construction sector has been growing at a healthy 12 per cent over the five year period ending 2011.

The construction and housing industry's contribution to the country's GDP is significant and estimated at around 10 per cent, which makes it a major contributor to GDP[2]. Given the nature of the construction industry, it has several backward and forward linkages and has one of the highest multipliers with respect to employment generation in the country,

Residential buildings or housing is an important constituent of the construction sector. In the five years up to 2010-11, there was a 12.10 per cent net increase in physical assets by way of residential buildings. Predominance of private sector in the housing sector can be gauged from the fact that private sector contributed 94 per cent to the total capital formation in the residential buildings segment.

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[2]*Trend and Progress Reports of Housing in India and Ministry of Statistics and Programme Implementation Reports.*

The real estate sector around the globe has taken a significant leap in the last three decades. This has been fuelled by the generation of new ideas and their application for productive uses. Human talent has paved the way for growth, development and high economic value creation through generation of ideas, innovations, new technologies and robust financial systems. Emergence of electronic finance has on one hand benefited growth, development and inter-regional trade, though on the other hand it has made the possibility to trace movements of suspect funds and in identifying the real ownership of suspicious assets behind shell companies or offshore bank facades an enormously difficult task for the enforcement bodies, the intelligence agencies and the Governments.

According to, the information available in public domain[3], it is suggested that about 30% of all property transactions in a year are done with black money. This poses a serious concern for the Government of India and also to the players in the housing finance market.

The Indian Housing Finance Market: In the Indian context, the housing finance system has been rapidly evolving. The sector is largely driven by the aspirations of people in all income segments who desire to own a house early in their lives. The capacity of the lending institutions has grown over the years as the mortgage segment has proved to be promising and profitable and increasingly bankable. The market is big and growing on account of factors such as rapid urbanization, population migrating to urban centers, and demographic composition. The growth and evolution of the sector are marked by challenges and opportunities for the various stakeholders. While the financial sector (demand side) is fairly unified under the governance of a central regulator, the construction activities and land resources (supply side, or the real economy) and their governance are decentralized and somewhat fragmented. This has thrown up regulatory challenges often resulting in multiple regulations.

This tends to affect the efficiency of the market, while inducing some unintended distortions that limit the market potential. However, it is widely recognized that the Indian mortgage finance market has withstood the stress and pressures resulting from the ongoing global crisis. This is evidenced by the sustained robust growth of the sector despite recessionary trends in several quarters of the domestic economy. The quality of assets in the housing sector has been consistently good, as reflected in the low level of non-performing loans, though the coverage has progressively expanded across the population and geographical regions. While the market has become more engaging for the lenders, the need for a good balance between regulation and development cannot be overemphasized in the larger context of the economic imperatives and the national priorities of the government.

As a result of concrete efforts by Central Government, RBI and NHB towards development of stable housing finance system, Banks and Housing Finance Companies are now major stake holders in the Housing Finance Market.

[3] http://www.bloomberg.com/news/articles/2015-03-18/modi-s-money-laundering-crusade-looms-over-india-property-bubble

2. Housing Finance Companies performance

Housing Finance Companies are companies with principal objective of lending for housing finance. However, the noticeable aspect revealed is that there are only about 20 companies accounting for greater than 90% of total housing loans provided. The NHB operates as the principal agency for promoting, regulating and providing financial and other support to HFCs at local and regional levels, while banks and NBFCs are managed and regulated by the RBI. As on 31st March, 2015, 64 companies have been granted certificates of registration by NHB to act as HFCs. HFCs have also grown steadily over the years in a largely stable and regulated market environment, supported with their strong origination skills and diverse channels of sourcing business. Over the last few years, NHB has launched various refinance schemes to promote institutional financing of the rural and urban low-income housing segments. Examples of such schemes include Rural Housing Fund (RHF), Urban Housing Fund (UHF), and Special Refinance Scheme for Urban Low Income Housing. With sharper focus on collections and recoveries, the quality of asset of HFCs was maintained well in the FY 2014-15.

The growth in outstanding housing loan portfolio of HFCs has been encouraging, with an annual increase of nearly 20 per cent during the year 2014-15. The HFCs' market share was approximately 35 per cent of the retail housing finance market. The Directions/Policies/Circulars/ Guidelines issued by NHB for the HFCs on issues pertaining to requirements of Net Owned Fund, Capital Adequacy Ratio, Loan to Value Ratio, Assignment of Risk weights and Provisioning, Know Your Customer and Anti Money Laundering, etc., have been intended to ensure sound growth of HFCs and development of housing finance sector on sustainable lines. Some of the key highlights of HFCs would include the following-

- *Number of registered HFCs was increased from 58 as on 31-03-2014 to 64 as on 31-03-2015.*
- *Number of branches/offices of registered HFCs has increased from 2,510 as on 31-03-2014 to 2,958 as on 31-03-2015.*
- *Total outstanding loan portfolio as on 31-03-2015 was Rs. 562,315 crore, with an annual growth of 21.20%.*
- *Total outstanding housing loan portfolio as on 31-03-2015 was Rs. 423,346 crore, with an annual growth of 21.70%.*
- *Total outstanding non-housing loan portfolio as on 31-03-2015 was Rs. 138,970 crore, with an annual growth of 19.71%.*
- *Share of outstanding housing loans to outstanding total loans was increased to 75.29% as on 31-03-2015 from 74.98% as on 31-03-2014.*
- *Share of outstanding non-housing loans to outstanding total loans was marginally decreased to 24.71% as on 31-03-2015 from 25.02% as on 31-03-2014.*
- *Total NNPAs as on 31-03-2015 were Rs. 2,638 crore with an increase of 0.65% over previous year (Rs. 2,621 crore as on 31-03-2014).*
- *Total Net Owned Funds as on 31-03-2015 were increased by 19.32%, i.e. from Rs.51,785 crore as on 31-03-2014 to Rs. 61,790 crore as on 31-03-2015.*
- *Outstanding Borrowings of HFCs as on 31-03-2015 were Rs. 509,016 crore, with an annual growth of 20.75%.*
- *Outstanding Public Deposits as on 31-03-2015 were Rs. 63,681 crore, with an annual growth of 22.51%.*

CHAPTER IV

OFFENCE OF MONEY LAUNDERING AND THE REPORTING REQUIREMENTS

4.1 Section 3 of the PMLA defines the offence of Money Laundering, the same is reproduced herewith;

> "*Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected [proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming] it as untainted property shall be guilty of offence of money-laundering.*"

Money Laundering thus includes illegally acquiring of money through financial systems so that it appears to be legally acquired. There are three common stages of money laundering as detailed below which are resorted to by the launderers: -

i. Placement - the physical disposal of cash proceeds derived from illegal activity;
ii. Layering - separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the source of money, subvert the audit trail and create anonymity; and
iii. Integration - creating the impression of apparent legitimacy to criminally derived wealth.

Upon layering schemes of integration place the laundered proceeds back into the economy in such a way that they re-enter the financial system appearing to be normal business funds. HFCs, as Reporting Entities (RE) are therefore, placed with a statutory duty to make a disclosure to the FIU when knowing or suspecting that any property, in whole or in part, directly or indirectly, representing the proceeds of crime is passing through the institution. Such disclosures are protected by law as confidential enabling the REs to be able to disclose the same to FIU without identification. PMLA also protects REs from any breach of confidentiality owed to customers so far as reporting to FIU is concerned.

An effective anti-money laundering framework does not only include institution of controls to prevent usage of financial instruments to launder money, but also bring to the notice of the FIU, transactions which are suspicious in nature. The acid test to conclude whether a transaction is suspicious or not depends on whether the transaction appears to be proceeds of a crime or involves unexplainable complexities or does not have any economic rationale.

While CTRs, NTRs, CBWT and CCRs are objective reporting requirements, an element of subjectivity is involved in reporting of STRs. This has led to divergent approaches in the process for generation of alerts and consequential reporting of suspicious transactions.

4.2 REPORTING OBLIGATIONS TO FIU-IND

The Prevention of Money-Laundering Act, 2002, and Rules thereunder require every bank, financial institution and intermediary, to furnish to FIU-IND various transactional reports. The HFCs have to submit 'Cash Transaction Report', 'Non-Profit Organization Transaction Report', 'Suspicious Transaction Report', ‘Counterfeit Currency Report’ and ‘Cross Border Wire Transfer Report’. (Note: Currently, HFCs are exempted by FIU-IND to submit a nil report.)

a. Cash Transaction Reports (CTRs)

Rule 3 (A) The Prevention of Money Laundering (Maintenance of Records Rules, 2005) lays down the pecuniary limit beyond which a transaction is to be reported in ‘Cash Transaction Report’ is defined in the PMLA.

It may be noted that whenever, within a month, total credit transactions in cash or total debit transactions in cash in an account exceeds Rs.10 lacs, such accounts along with the transactions therein are to be reported to FIU-IND. This report being of huge volume, generation of this report requires system support. This report has to be compulsorily filed by the fifteenth (15th) day of the succeeding month for the previous month and in case no transaction is eligible for reporting a NIL report need not be submitted by HFCs.

Reporting of all these transactions does not imply that all these accounts are suspicious. It is for the HFCs to further analyse these reported accounts and if the transactions are found suspicious, the same are to be reported to FIU-IND as a STR as well.

b. Non-Profit Organization Transaction Report

For the purpose of PMLA, the definition “Non Profit Organization” is given in Rule 2 (1)(ca) of PML Rules and means any entity or organization that is registered as a trust or a society under the Societies Registration Act, 1860 (21 of 1860) or any similar State legislation or a company registered under section 25 of the Companies Act, 1956 (1 of 1956).

Similarly as mentioned in case of CTRs, reporting of all these transactions in NTR does not imply that all these accounts are suspicious. It is again for the HFCs to analyse these reported accounts and if the transactions are found suspicious, the same are to be reported to FIU-IND in STR.

c. Suspicious Transaction Reports (STRs)

Suspicious transaction, as defined in the PMLA, also includes an attempted transaction, whether or not made in cash, which to a person acting in good faith -

- gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
- appears to be made in circumstances of unusual or unjustified complexity; or
- appears to have no economic rationale or bona fide purpose; or
- gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism;

This report must be compulsorily filed within Seven (7) working days of being satisfied that the transaction is suspicious by the Principal Officer of the HFCs.

d. Counterfeit Currency Reports (CCRs)

The information relating to all cash transactions, where forged or counterfeit currency notes or bank notes are received at the counter should be reported **by fifteenth (15th) day of the succeeding month**to FIU-IND as Counterfeit Currency Reports (CCRs). Appropriate legal actions are required to be initiated by the HFCs in such a situation.

4.3 REPORTING PROCESS

Under PMLA, the STR is required to be submitted not later than seven working days on the Principal Officer being satisfied that the transaction is suspicious. The HFCs should provide complete and accurate information in the STR and capture all information of all accounts, individuals, entities related to the suspicion. It is important to mention key identifiers such as PAN, ID number, date of birth to enable effective linking of STR with other reports at FIU.

Every RE is required to register the name of their Principal Officer (PO), with FINnet Gateway. Reports are to be prepared and filed in the new single XML file format. FIU-IND has released a comprehensive reporting format guide to describe the specifications of prescribed reports to FIU-IND.

The three reporting formats are

a) Account Based Reporting format (ARF) for reporting of account based CTRs, STRs and NTRs;

b) Transaction Based Reporting Format (TRF) for reporting of transaction based CTRs, STRs, NTRs and CBWTs

c) CCR Reporting Format (CRF) for reporting of (CCRs)

FIU-IND has also developed a Report Generation Utility and Report Validation Utility to assist reporting entities in the preparation of prescribed reports. The Operational Manual(OM) issued on Reporting Formats under Project FINnet dated March 31, 2011 by FIU containing all relevant details are available on FIU-IND's website.

The HFCs at the time of reporting of a STR must provide comprehensive information on the Ground of Suspicion covering the following:

- Background/profile/occupation of the customer and other related individuals/entities;
- When did the relationship with the customer begin? ;
- How was suspicion detected?;
- What information was linked or collected during the review process?;
- What explanation was provided by the subject(s) or other persons (without tipping off)?
- Summary of suspicion;
- Whether the suspicious activity is an isolated incident or relates to another transaction? ;
- Who benefited, financially or otherwise, from the transaction(s), how much, and how (if known)?;
- What is the volume of transactions in reported accounts in the financial year, or in a given period and what is the volume of cash transactions?;
- Whether any STR filed for the customer earlier?;
- Any additional information that might assist Law Enforcement Authorities.

CHAPTER V

GUIDANCE ON PROCESS OF STRs DETECTION & REPORTING

(i) PROCESS OF IDENTIFICATION

a. Identification of Risk Parameters

Identification and assessment of risks is very crucial for HFCs for an effective and efficient Suspicious Transaction detection system. HFC's should exercise ongoing due diligence with respect to the business relationship with every customer and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, his business and credit profile and risk profile and where necessary, the sources of funds also.

NHB also emphasises on following a risk based approach in implementing the requirements of customer acceptance policy, customer identification procedures, transaction monitoring and risk management.

Risk assessment is required to be considered on the basis of the broad parameters set out in the guidelines issued by the NHB for Asset Liability Management in Housing Finance Companies which can be accessed at http://www.nhb.org.in/Regulation/RS003.pdf

b. IT Platform

Information technology enablement is critical to the success of any monitoring and tracking mechanism. Every HFC may have an enabling IT platform/ Software in place for identification of the suspicious transactions. Based on the identified risk parameters the IT platform/ Software may generate automatic alerts which shall form basis for further investigation.

The IT platform may be enabled to send alerts which are more critical and carry higher risks which should be taken up first for review. e.g. alerts generated for high risk customer, alerts generated under the high risk scenario etc. Each HFC needs to assess, based on its own criteria, whether a particular customer poses a higher risk of money laundering.

c. Behavioural Alerts:

There are various suspicious transactions that cannot be detected through the IT platform. To identify such transactions, behavioural pattern of the customer needs to be studied. For example payments not commensurate to a customers earning capacity may raise an alarm of suspicion. Intuition and experience shall help in judging whether a transaction is genuine or suspicious.

(ii) REPORTING STRUCTURE & PROCESS

a. Principal Officer or a separate cell/department

The alerts generated by various sources (either by the IT platform or by intervention of branch official) need to be reviewed before submission as STR. HFCs have the liberty to frame their own policy whether the alerts should be monitored centrally or by the branch level. However it is recommended that HFCs should have a dual monitoring framework.

Reporting to FIU shall be the responsibility of the Principal Officer who is expected to be a Senior official of the HFC. The Board of Directors and the senior management of the HFC should have the responsibility to ensure that the HFCs control process and procedures are appropriately designed and implemented, and are effectively operated to reduce the risk of the HFC being used as a conduit for money laundering or terrorist financing. The Principal Officer should be able to take independent and informed decision on reporting of Suspicious Transactions.

b. Reporting Process

i. The HFCs should submit STR within the stipulated time period on a priority basis. It should be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction report is received from a branch or any other office.

ii. All alerts generated and case management for these alerts are required to be preserved for a period as prescribed in the PMLA.

iii. Every alert generated through various sources need not be suspicious. It is for the concerned officials to verify the same eg- whether all the KYC documents in these accounts are on record and moreover ensure that the transactions are in conformity with the profile of the customer.

(iii) MONITORING

i. CTR reported to FIU-IND has to be immediately made available to offices and/or centralised cell, which are expected to ensure that these accounts which have heavy cash transactions are KYC compliant and also ensure that transactions in these accounts match the profile of the customers. Every such account, be it suspicious or not, may ideally be marked as 'Medium Risk' or 'High Risk' and shall not be marked as 'Low Risk'.

ii. HFC's may evolve appropriate reporting mechanism for STRs to effectively ensure adequate reporting of STRs to the FIU with an inbuilt escalation matrix as may be deemed appropriate by the respective HFCs. Even if the account is reported in STR, the account holder should be allowed to continue his transactions as in the past and no transaction should be refused to the customer. But KYC compliance of these customers should be insisted upon. All such customers should be marked as high risk in the system. However, when the HFC is unable to apply appropriate KYC measures such cases must be flagged to the Principal Officer who shall take the final decision.

CHAPTER VI

OTHER IMPORTANT FACTORS FOR EFFECTIVE AML PROCESS

i. HFCs should establish ongoing internal and external employee training system to ensure that employees are kept informed of new developments, including information on current ML and FT techniques, Methods and trends; and that there is a clear explanation of all aspects of AML/CFT laws and obligations, and in particular, requirements concerning CDD and suspicious transaction reporting.

ii. To increase awareness, HFCs should conduct periodic trainings/workshops and educate staff on the possible indicators/circumstances that indicate suspicious nature of transactions, the responsibilities of reporting transactions identified as suspicious and also the methodology of reporting the transactions.

iii. HFCs may evolve effective audit mechanism for reporting of STRs HFCs' internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures. As a general rule, the compliance function should provide an independent evaluation of the HFC's own policies and procedures, including legal and regulatory requirements. The compliance in this regard should be put up before the Audit Committee of the Board on quarterly intervals.

CHAPTER VII

RED FLAGS / PARAMETERS TO IDENTIFY STR

List of RED FLAG INDICATORS (RFI) for STR identification:

In order to facilitate an effective reporting regime of STRs by HFCs, the note identifies a list of RFIs that may be further identified as a Suspicious Transaction and then reported as a STR, upon due verification.

The RFIs are indentified as situations that may be encountered by HFCs in particular and are categorised under the following broad categories:

a. Customer Centric;
b. Transaction / Loan Account Centric;
c. Property / Property document Centric; and
d. Cases (falling under a, b & c above) that would require auto reporting
e. List of RFIs pertaining to builder/project loans

As such the suggested RFIs are essentially situations that would require further analysis as they have the potential of being a STR. The Principal Officers are expected to sensitise the respective HFCs of the RFIs and should there be adequate justification, the RFIs may then be reported as STRs to the Principal Officer for further reporting to the FIU. Mere sighting of the enumerated situations is not expected to be reported as a STR on an "as is" basis as the same is in the nature of possible trigger of reporting as a STR and should be accordingly reported after adequate diligence and with proper justification.

As indicated above, the note also identifies situations that may generate Auto triggers within the system of a HFC which may automatically be referred to the respective Principal Officer for reporting as a STR.

There are certain parts (as specifically indicated) that would need to be assessed by each HFC, in lines of its business practises, and determine the point of trigger of the RFI for the said HFC. Upon such identification, all HFCs are expected to approve the RFIs by their Board and incorporate the same as a part of their respective KYC policy.
Thus in order to ensure effective reporting of STRs, the note indentifies the following transactions/ situations as RFIs which (upon adequate diligence and justification) may be identified as a Suspicious Transaction and then onward reported as a STR.

Part A: RFIs that are Customer Centric:

Sr. No.	Sub- Category	Types
1.	Identity of Customer	a. Submission of false Identification Documents. b. Customer holding multiple PAN. c. Identification documents which could not be verified within reasonable time or replaced with another set of

		Identification documents. d. Accounts opened with names very close to other reputed business entities. e. Customer uses aliases and a variety of similar but different addresses. f. Customer spells his or her name differently from one transaction to another, without justification. g. Name of customer indicated differently in different KYC documents enabling creation of multiple customer identities. h. A customer/company who is reluctant or refuses to provide complete information, data, documents and to reveal details about its activities or to provide financial statements /Employment related documents / KYC documents. i. Doubt over the real beneficiary of the loan account j. The customer is reluctant to meet in person, represents through a third party/Power of Attorney holder without sufficient reasons. k. The customer approaches a branch/office of a HFC, which is away from the customer's residential or business address provided in the loan application, when there is HFC branch/office nearer to the given address. l. Changes in mailing address of the Customer more than [twice]* in last 6 months m. Unusual capital, partnership, management or employment structure of companies compared to other institutions in the same sector or general company structure. n. Current data not updated with relevant regulatory authorities, without justification. o. Existing or new partners/shareholders abstaining from giving information about their personal and commercial background, having indications that they did not have interest, education or experience in the field in which the company operates
2.	Background of a customer	a. The customer details matched with watch lists (e.g. UN list, Interpol list etc.) b. **Notice/Letter from a law enforcement agencies / Regulators/ Other Government Agencies**: In case of

		such notices received, Principal Officer should be informed for further action /advise on the matter. This notice shall be treated as an alert to analyse the transactions in such accounts and if the transactions appear to be suspicious the same should be included in the STR along with the details mentioned in the "Ground of Suspicion". These Accounts are to be reported even if they are closed. c. **Adverse Media / Public News:** Branches / offices should check for adverse media coverage with the names of the customer. The names of customers that are pointed as suspects or accused in such reports shall be searched and in case of matches the same may be further internally analyzed for reporting purposes. d. Customer shows income from "foreign sources" on loan application without providing proper documentation.
3.	Credit bureau Information	a. Multiple addresses reflecting against the name of the customer which has not been shared / or does not match with the employment history / residence details provided.

Part B: RFIs that are Transaction / Loan Account Centric:

Sr. No.	Sub- Category	Types
1.	Multiple Accounts	a. Use of Bank A/c's of Third Parties for payment of EMIs at more than [*] occasions. b. Change in the bank account from which PDC/ ECS are issued more than [*] in last [6/12*] months c. Total amount of payments through DD, Cash and 3rd party Cheques valued at [*] EMIs / part payments in last 30 days d. Customer appears to have recently established a series of new relationships with different financial entities.
2.	Nature of Activity in an Account	a. Unusual activity compared with past transactions. b. Encashment of loan amount by opening a fictitious bank account.

		c. Activity inconsistent with what would be expected from declared business/profile of the customer. d. Part closure to the extent of [*] % or more of the loan amount in one or more occasions within 6 months. e. Loan Accounts with original tenor of more than 1 year are foreclosed within 6 months after disbursal of loan. f. Usage of loan amount by the customer in connivance with the vendor/builder/developer/broker/agent etc. and using the same for a purpose other than what has been stipulated. g. Overpayment of instalments in cash with a request to refund the excess amount. h. Customer conducts transactions at different physical locations in an apparent attempt to avoid detection. i. Customer presents confusing details about the transaction or knows only few details about its purpose. j. Customer's home or business telephone number has been disconnected or there is no such number when an attempt is made to contact customer shortly after opening account. k. Account indicated by customer to receive interest payment against a deposit placed is attached by Government Authorities
3.	Nature of transactions	a. Unusual or unjustified complexity shown in a Transaction that may normally be done in simpler manner. b. Initial contribution made through unrelated third party accounts without proper justification; c. No economic rationale or bonafide purpose behind the transaction. d. Availing a top-up loan and/or equity loan, without proper justification of the end use of the loan amount e. Suggesting dubious means for the sanction of loan or placing a deposit. f. PAN not disclosed but multiple deposits raised (across branches to avoid TDS).

4.	Value of transactions	a. Value just under the reporting threshold amount in an apparent attempt to avoid reporting. b. Multiple related cash transactions which are broken to just below the following thresholds: i) Rs.50,000/- in a day ii) Rs.10,00,000/- in a month c. Value inconsistent with the client's apparent financial standing. d. Deposits made in cash amounting to Rs[*]and above and without details of source.
5.	Transaction amongst family members	Transaction between members of the same family to avail a loan wherein there is no genuine transaction / rationale.
6.	Transaction more than specified percentage of the EMI , paid in cash by a Delinquent Borrower.	Delinquent borrower for more than 6 months repays the loan in cash beyond [twice]* the original EMI.

(*): to be decided by respective HFC at the Board level and should be a part of the KYC policy of the HFC duly approved by the Board.

Part C: RFIs that are Property/Property Document Centric:

Sr. No.	Sub- Category	Types
1.	Cash payment indicated in the Sale Deed/Agreement	Cash payment shown as consideration paid to the seller for purchase of a property and the source of which cannot be explained or proof not provided by the customer.
2.	Valuation of property	Valuation of property shown considerably lower in the sale deed than the government approved rate / RESIDEX, especially on sale deeds executed within a period of 12 months.
3.	Change in Ownership without rationale	Converting/changing the individual properties in the name of Company/Trust/HUF/Partnership Firm/LLP by executing a sale deed at a low price or by way of any type of agreement , attorney , arrangement (registered or not) and subsequently in quick succession further transaction is shown at a considerably higher amount in favour of third parties.
4.	Refusal to share own Contribution details	Specifically in cases where the source is specified as "Funds from Family" and the customer fails or refuses to divulge any information or proof on where the concerned family member is providing the funds from.
5.	Property repurchased	Customer buys back a property that he or she recently sold without justification

Part D : RFIs that may be considered to be auto generated through a system

SN	Scenario	Indicator/ Trigger
1	Foreclosure by a customer in a very short period	Loan Accounts with original tenor of more than 1 year are foreclosed within 6 months after disbursal of loan.
2	Frequently change in repayment bank account during currency of account	Change in the bank account from which PDC/ ECS are issued more than [*] in last [6/12] months
3	Negative information about customer through external sources/ database or Notice received from any Agency / Regulator/ Other Government Agencies	a. The customer details matched with watch lists (e.g. UN list, Interpol list etc.) b. **Notice/Letter from a law enforcement agencies / Regulators/ Other Government Agencies**: In case of such notices received, Principal Officer should be informed for further action /advise on the matter. This notice shall be treated as an alert to analyse the transactions in such accounts and if the transactions appear to be suspicious the same should be included in the STR along with the details mentioned in the "Ground of Suspicion". The Accounts are to be reported even if they are closed. c. **Adverse Media / Public News:** Branches / offices should check for adverse media coverage with the names of the customer. The names of customers that are pointed as suspects or accused in such reports shall be searched and in case of matches the same may be further internally analyzed for reporting purposes
4	Frequent change of Address without reasonable explanation	Changes in mailing address more than [twice]* in last 6 months
5	Account having a large volume of repayments by depositing DD, Cash and 3rd party Cheques	Total amount of payments through DD, Cash and 3rd party Cheques valued at [*] EMIs / part payments in last 30 days
6	Transaction more than specified percentage of the EMI , paid in cash by a Delinquent Borrower.	Delinquent borrower for more than 6 months repays the loan in cash beyond [twice]* the original EMI.
7	Cash transactions	Multiple related cash transactions which are broken to

		just below the following thresholds: i) Rs.50,000/- in a day ii) Rs.10,00,000/- in a month
8	Part payments	Part closure to the extent of [*] % or more of the loan amount in one or more occasions within 6 months.
9	Separate bank accounts	Use of Bank A/c's of Third Parties for payment of EMIs at more than [*] occasions.

(*) : to be decided by respective HFC at the Board level and should be a part of the KYC policy of the HFC duly approved by the Board.

Part E : Additional List of RFIs pertaining to Builder/Project Loans:

a) Builder approaching the HFC for a small loan compared to the total cost of the project-;
b) Builder is unable to explain the sources of funding for the project;
c) Approvals/sanctions from various authorities are proved to be fake;
d) Builder retains substantial number of the Units in the Project in his or his family members names
e) Builder has known political connections / shareholders or directors of his company are individuals with suspicious background
f) Frequent Reconstitution of partnership/ proprietorship without justification.
g) Allotting different numbers to the same flat in different style/order.

ANNEXURE 1

By Speed Post

NHB/ND/DRS/Pol-No. 33/2010-11

October 11, 2010

All Registered Housing Finance Companies

Dear Sir,

GUIDELINES ON ' KNOW YOUR CUSTOMER' &

'ANTI MONEY LAUNDEERNG MEASURES' FOR HFCs

Please refer to our Circular NHB(ND)/DRS/POL. No. 13/2006 dated April 10, 2006 and circulars issued subsequent thereto from time to time on the above subject advising Housing Finance Companies (HFCs) to ensure that a proper policy framework on 'Know Your Customer' and 'Anti money Laundering Measures' is put in place with the approval of their Board. In this connection we wish to inform that the said Guidelines have since been reviewed in the light of subsequent developments including amendments in the Prevention of Money Laundering Act and Rules framed there under.The revised Guidelines on 'Know Your Customer' and 'Anti money Laundering Measures' that are to be followed are enclosed.

HFCs are advised to amend their existing policy framework keeping the above Guidelines in view with the approval of their Board within one month from the date of issue of this circular and ensure their strict compliance.

A copy of the modified policy should be sent to the National Housing Bank.

Please acknowledge receipt.

Yours faithfully,

(R.S.Garg)

General Manager

Department of Regulation and Supervision