

## NHB Advise Housing Finance Companies To Avoid Financing Subvention Schemes

**Current Affairs** **Headlines** **Housing Finance** **Real Estate News** by Staff Reporter - July 23, 2019



By Rohit Sharma

MUMBAI:

The **National Housing Bank** has advised Housing Finance Companies (HFCs) to desist from offering loan products involving servicing of the loan dues by builders/developers on behalf of the borrowers, according to the circular issued by the regulator on Friday.

Accommodation Times was the first who reported that this is big fraud in offing.

The regulator in a circular said, "Several complaints continue to be received by the National Housing Bank (NHB) in relation to the aforementioned housing loan products. Further, instances of frauds having been allegedly committed by certain builders using subvention schemes have also been brought to the notice of the NHB."

Further, with reference to July 01, 2016 whereby HFCs were again advised that disbursal of housing loans should be strictly linked to the stages of construction and no upfront disbursal should be made in case of incomplete/un-constructed projects, the circular said.

HFCs should have in place a well-defined mechanism for effective monitoring of the progress of construction of housing projects and obtaining the consent of the borrowers prior to the release of payments to the builder/developer. Merely obtaining borrower consent and release of funds by the company without linkage to the stage of construction will be seen as a dereliction of duty of the HFC, it added.

"Most real estate developers allow buyers to book flats with a minimum percentage of down payment. This also helps developers to raise money for the completion of their projects. The liquid subvention schemes were helping home buyers who were temporarily short on liquid funds and would delay the interest burden for the period of subvention. Buyers who are attracted to properties merely based on lucrative schemes will be discouraged. In the long term, this may be a good initiative from the government. It may bring stability among home buyers and stop speculation", Bijay Agarwal, MD – Salarpuria Sattva Group said.

Gulam Zia, Executive Director– Valuation & Advisory, Retail & Hospitality, Knight Frank India, said, "Subvention schemes are offered by reputed and A-grade developers on whom financial lenders had enough confidence. About 10% to 12% of the home loan market in top 8 cities were subvention schemes. HFCs and NBFCs were offering it while they were under NHB as a regulator but banks couldn't do it. Now RBI, the new regulator, has cracked the whip to make it a level playing field for all. It was one of the most important schemes used by developers to induce purchase by homebuyers for under-construction properties, in the absence of subvention scheme the transaction volumes may come down in metro cities. In recent times, the subvention schemes were extended to even ready properties wherever unsold inventory was piling up. The new ruling will make a dent on this side of the market as well".

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