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   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, KurukshetraUniversity, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

HOME LOAN FRAUDS- BANKER'S NIGHT MARE

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ABSTRACT

The housing advances by the commercial banks are often prone to frauds. The frauds in the banks have the tendency to be detected late and, by the time the fraud is detected the culprit will have moved away from the place and evidence. Fraud is a concept that is generally understood, but whose characteristics are often not recognised until it is too late. Fraud has beendefined by many in many ways. The Study Group on Large Bank Frauds set up by the Reserve Bank of India in 1997 has defined frauds in banks as "A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank". Inadequate legal frame in India makes it difficult to prove the things in courts. Slow judicial process makes prosecution slow, and from the punishment point of view bank frauds is safe as there is no risk of life it is therefore, easier to commit frauds. The potential damage, financial and reputational, means that this risk cannot be ignored; combating fraud therefore, requires an understanding of how and why it occurs, and the way by which it can be minimised. In addition to this, the pressure on the management to maintain income and earnings increases and as such frauds are every banker`s night-mare and it's the need of the hour to restrict, mitigate and manage the frauds.

KEYWORDS

Frauds, Housing Finance, Priority Sector, Management, Mitigation, Mortgage Non Performing Assets (NPA).

INTRODUCTION

The Commercial Banks which are the largest mobilizer of the household savings in the India plays a predominant role not only, in the development of the agricultural and industrial sectors, but also in the development of housing. The Commercial Banks came to be more responsive to the social needs of the community only after the nationalization of the banks in 1969. Previously, the commercial banks were reluctant to tie up their short-term resources for long term lending such as housing, because there was no rational policy to induce them to lend for housing. Although, the commercial banks were indirectly assisting the financing of housing by subscribing to the bonds/debentures of the HUDCO and other Housing Boards, it was only in the wake of the Report of the Working Group on the Role of Banking System in providing finance for housing schemes that banks came to directly finance housing. (R.C. Shah Working Group, RBI report, 1978). The RBI issued the first set of housing finance guidelines to the Scheduled Commercial Banks (SCB) with a view to involve them in providing housing finance for certain types of housing schemes for the benefit of weaker sections of the society. Further, the Twenty- Point Programmeof Government of India in 1975 laid a firm foundation for the entry of the commercial banks into the housing sector. All these factors are responsible for the commercial banks to enter the housing sector in a big way.

STATEMENT OF THE PROBLEM

The banks are financing around 30 - 35 percent of their retail advances to housing because it isconsidered safe, mortgage backed and instances of low NPA. However, housing finance is vulnerable to frauds which are worrisome to the bankers. It is even more worrisome to the banks, as they have to make 100% provision for these fraud loans once they are classified as a fraud. Fraud has been defined in different ways,as per the Indian Contract Act, Section 17 `Fraud` means and includes" acts committed by a party to a contract, or with his connivance, or by his agent with intent to deceive another party thereto, or his agent, or to induce him to enter into the contract". Further, the act also defines fraudas the"active concealment of a fact by one having knowledge or belief of the fact or any such act or omission as the law speciallydeclares to be fraudulent".

The mantra of the banking business today is innovation, to beat the competition among the banks, launching of new products, providing additional features to the existing products is the need of the hour. In addition to this, the banks are developing and introducing Alternative Delivery Channels(ATMs etc.) to satisfy and retain the customers. Improvement in technology has brought about a complete paradigm shift in transactions and banking services. The computerisation of the banks in 1990-2000, by adopting Core Banking Solutions (CBS) and the introduction of the new alternative delivery channels (ATMs) to increase the operational efficiency, productivity and better risks management in the banks has to a large extent unfortunately universalised the frauds. The enormous increase in the banking business, introduction of newtechnology in the last decade in Indian banking and financial sector has also witnessed the increase in the incidents of frauds in the industry.

In this backdrop, the present paper attempts to trace the extent, types and impact of frauds in housing finance by the commercial banks. The present study is based on the following objectives:

OBJECTIVES

- To study the role of commercial banks in financing housing
- To study the typesof frauds in housing finance
- To study the extent and impact of the frauds in housing finance
- To suggest measures to be adopted to manage and mitigate the frauds in financing housing by the commercial banks.

REVIEW OF LITERATURE

Fraud is one of the besetting evils of our times,although lessdramatic, than crimes of violence like murder etc., fraud can inflict significant damage at organizational or individual level. Fraud is a concept that seems to have an obvious meaning until one tries define it. As fraud exists in many guises and it is necessary to carefully define what it is, and to tailor policies and initiatives accordingly. Fraud has been defined in many ways. Lucian Vasiu, Mathew Warren and David Mackay (Defining Fraud: Issues for Organizations from an Information System Perspective, 7th Pacific Asia Conference on Information Systems, 10-13, July 2003, Adelaide, South Australia), Wikipedia, and Webster Merriam has defined fraud as "Deceit, trickery, intentional perversion of truth in order to induce another, to part with something of value or to surrender a legal right". Fraud has also been defined by the Study Group on Large Value Bank Frauds set up by the Reserve Bank of India in 1997, as "A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank"(RBI Study Report, 1997).

The frauds have been classified into different types on the basis of the crime committed by insiders or outsiders as, Internal Frauds and External Frauds. Literature pertaining to the classification of frauds has discussed about the types of frauds and the modus operandi adopted by the fraudsters. Abhishek Sharma, in his article "Banking Fraud: Classification and Reporting" (January 2007, the chartered accountant, 1051), P.K.Kaul, has discussed the various types, modus operandi and their mitigation in his guidelines to all Housing Finance Companies and Banks “Fraudulent Transactions in Housing Finance” (NHB Report, 2005).The definitions, extent and impact of the internal frauds has been well dealt in “Frauds and Internal Audit , Current views, examples, and resources”.(Institute of Internal Auditors, September 2012).

The frauds in the mortgage finance by the commercial banks in India have been discussed vastly. The RBI-Master Circular – “Frauds- Future approach towards monitoring of frauds in NBFCs” ,(RBI Report, July 2011), and Deloitte`sFraud Survey shows that banks have witnessed a rise in the number of fraud incidents in the last one year, and the trend is likely to continue in the near future. “Indian Banking Fraud Survey-2012Navigating the Challenging Environment” (February 2012).TarunNangia has also discussed that the increasing amount of frauds in the banking sector is a disturbingfactor and the banking sector has lost a huge amount due the frauds. In his article “Increasing bank frauds disturbing CBI” Indian Express, August, 2012). Further, the articles Housing Loans and Various Types of Frauds Detected by Banks (Accommodation Times, 2012), ShounakMitra “Bank Frauds”(QuickBook.Online,Aug, 2008). Like-wise “Details of Housing Loan Fraud during the last 3 years”(WWW.jaabaaali.com, January 2013) have discussed about the frauds in the Indian Banks.

The extent of fraud in the banks in general, and housing finance in particular is shocking. Ernst &Young in their book “India Fraud Indicator 2012 Increasing magnitude of fraud” (2012), have discussed that the business in India are constantly exposed to fraud risk. The losses suffered due to fraud amount to Rs.66 billion. The extent of frauds wasfurther detected by the publication by the Financial Express “PSU banks detect frauds worth 5.2croreduring April-Sept (Dec.2012). The Central Bureau of Investigation , policy division, in its report (June, 2011) has reported that the number of cases registered were 100 involving 133 public servants and in the report published during August2011, 124 cases were registered in general and from Scale I to top Management cumulatively around 274 bank employees were involved in bank frauds.

The literature regarding the various techniques to mitigate the frauds in housing finance by the commercial Banks discusses how the internal and the external frauds can be averted. Expressing concerns over the rise in banking frauds , the RBI has expressed that the underestimating the capital requirement for operational risks , like the loss from frauds, incurred by banks in India due to frauds have been on the rise.(Rising Losses due to bank frauds a worry”(B.S. Reporter, Mumbai, Dec.2012). ApoorvaYadav&JuhiMalviyahave suggested measures to be adopted to mitigate the frauds in the banks. A sound banking system should possess three basic characteristics to protect the depositor`s interest and public faith. They are a fraud–free culture, a time- tested Best Practice Code (BPC) and an in-house immediate grievance remedial system.(Enzine Articles, 2013). M.S. Phogat has suggested various precautionary measures in his article “Housing loan frauds in banks: Some Precautionary measure.”(The Indian Banker, May 2006, vol.no.5, IBA)

ROLE OF COMMERCIAL BANKS

The commercial banks provide finance to housing on the guidelines of the RBI. The commercial banks disburse their funds for housing both directly and indirectly. Indirectly, it finances housing by way of subscribing to the bonds/debentures of HUDCO, and other Housing Boards and directly by providing finance to individuals for construction of their own houses. In 1982 the RBI, allocated Rs.150 crores to housing. Of the Rs.150 crores the commercial banks were advised to utilize Rs.65 crores for the direct finance and the remaining Rs. 85 crores for indirect financing. Apart from this, Rs. 10 crores was to be provided to assist the victims of flood in Gujarat for reconstructing and repairing their dwelling.

PRIORITY SECTOR LENDING

Housing has been considered as a priority sector lending by the commercial banks. However, prior to 1969housing loans were considered as personal loans and therefore, much importance was not given to housing finance. The National Credit Council meeting held during July 1968 emphasized that the commercial banks should increase their lending to the priority sector which includes agriculture, SSI, and other segments such as small businesses, retail trade, small road and water transport operators, professional and self-employed persons, housing, education loans, micro credit, software, among others.

The commercial banks have been directed by RBI time again to adopt various yardsticks to finance housing under the umbrella of priority sector. Like-wise,

- Direct housing loans to individuals by banks up to Rs.20 lakhs for construction of houses in urban and metropolitan areas will be eligible for inclusion under Priority Sector.
- Banks with the approval of their Boards were eligible to extend direct housing loans to the extent of Rs.25 lakhs in the rural and semi-urban areas to be considered as part of Priority Sector advances.
- Loans granted by the banks to the extent of Rs.1 lakh in rural and semi urban areas and Rs.2 lakh in urban areas for repairs, additions and alterations to individual borrowers, would be reckoned as priority Sector advances.
- Assistance granted to any governmental agency for the purpose of construction of houses not exceeding Rs.5 lakh per unit and all advances for
- slum clearance and rehabilitation of slum dwellers would be classified as priority sector advances and advances for the weaker sections

The following table indicates that the advances towards housing loan under priority sector have occupied the major portion of priority sector basket. During 2007 out of around 32.49 per cent of total priority sector advances the share of housing was 25.58 per cent and was 12.08 of the priority sector lending. There was a decline in the lending to housing and this was due to the direction of the RBI to concentrate on the other priority sectors.

TABLE 1

Housing finance visa a visa other Priority Sector advances
(AMOUNT IN CRORERS AS ON MARCH END)

YEAR	2007		2008		2009		2010*		2011	
Total Bank loan Outstanding	1947099		2417006		2847713		3345169		4075647	
Total priority sector Advance	632647 (32.49)	%age priority sector	1079954 (44.68)	%age priority sector	1318611 (46.30)	%age priority sector	1647673 (49.25)	%age priority sector	1909131 (46.84)	%age priority sector
Agriculture & Allied Activities	230180	36.38	275343	25.49	338656	25.69	404354	24.54	460333	24.11
Micro & Small Enterprises	116908	18.47	204892	18.97	259998	19.72	377913	22.93	454995	23.83
Manufacturing	-	-	132698	12.28	168997	12.82	207321	12.58	229101	12.00
Services	-	-	72194	6.68	91000	6.90	170592	10.35	225894	11.83
Housing	161832	25.58	180715	16.73	197110	14.95	219360	13.31	230686	12.08
Micro-Credit	-	-	13337	1.23	16579	1.25	22085	1.34	26895	1.40
Education Loans	-	-	19942	1.84	27861	2.11	36431	2.21	43026	2.25
State - sponsored Orgs. for SC/ST	-		1701	0.15	2451	0.18	2077	0.13	2048	0.11
Weaker Sections	-	-	106714	9.88	139422	10.57	179226	10.88	204332	10.70
Export Credit	-	-	25233	2.33	27339	2.07	28314	1.72	31821	1.66
Others	123727	19.55	47185	4.37	49198	3.73			-	-

. *Due to non-availability data as on March 2010 figures are as on April 2010
Source: RBI.Statistical Table Relating to Banks in India 2007-2011

RBI`S GUIDELINES

The allocation of funds by the RBI to the housing sector has enhanced manifold, at the end of 1994-95 the total allocation for housing finance has reached to Rs. 723.78 crores. (NHB report, 1992 & 96).As per the guidelines, the commercial banks normally provide up to 80 per cent of the total cost in respect of direct loans to Scheduled Castes and Scheduled Tribes, Economically Weaker Sections and Low Income Groups. However, only 50 per cent of the cost of the project is provided to the other categories, and charge an interest rate of about 12 per cent per annum. The banks further advance loans to public and private sector undertakings, for taking up construction activities for their employees. The Scheduled Commercial Banks, of late have been providing housing finance in a big way. The Government initiatives, encouragement to people for construction of houses, rebate under IT Act, interest rate concessions, long run repayment, triggered the banks into fierce competition for lending towards housing sector.

Housing loan outstanding:

The following table indicates that the advances of the commercial banks in financing housing have enormously increased. Between the periods, 2001-2011the outstandingadvances to the housing sector have increased from 4.71 per cent in 2001 to 8.48 per cent in 2011. In this context the commercial banks are playing a major role in financing housing

TABLE 2

Extent of Housing Finance by Schedule Commercial Banks from FY2000-2011

(Amt. in crores)

Year	Total Bank Credit Out Standing	Credit outstanding to Housing Finance	Percentage of Housing Finance to total Bank Credit
2001	538433	25412	4.71
2002	655993	32825	5.00
2003	855968	49066	6.49
2004	880312	85346	9.69
2005	1152467	126797	11.00
2006	1513842	182167	12.03
2007	1947099	228923	11.75
2008	2417006	248434	10.27
2009	2847713	284750	9.99
2010	3345169	306306	9.15
2011	4075647	345931	8.48

Source: Basic Statistical Returns of Schedule Commercial Banks in India RBI , Various Issues.

DEFINITION OF FRAUD

There is no single accepted definition of fraud.It is impossible to provide a comprehensive definition of fraud. Indeed, it may be possible to distinguish between two general types of definition: a general broader one and a criminal narrower one. However, all definitions have one thing in common "an element of dishonesty or deceit".There are many dictionary definitions of the word 'fraud'; each is similar but not exactly the same.According to Webster Merriam Webster has defined fraud as "Deceit, trickery, intentional perversion of truth in order to induce another, to part with something of value or to surrender a legal right". "An act of, deceiving or misrepresenting". Or "A person who is not what he or she pretends to be, one that is not what it seems or is represented to be". Fraud can be considered any falsification or misrepresentation by customer, employee or any third party with the intention to gain undeserved benefits. Generally speaking an act is considered fraud when losses occur, whilst the gain from this act is not simply about of money. Any type of advantage is a gain.

Fraud has also been defined bythe Study Group on Large Value Bank Frauds set up by the Reserve Bank of India in 1997, as "A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank". The banking frauds constitute a considerable percentage of white-collar offences being probed by the police. Unlike ordinary thefts and robberies, the amount misappropriated in these crimes runs intolakhs and crores of rupees. Bank fraud is a federal crime in many countries, defined as planning to obtain property or money from any federally insured financial institution. It is therefore,considered asa white-collar crime.

The frauds in housing finance are broadly committedin two stages.

1. **PRE -SANCTION STAGE AND**

- The pre-sanction stage the non-adherence to Know-Your-Customer (KYC)
- Failure to identifyfactious accounts
- Sanction of higher amounts on the basis of fake/forged income documents without verifying
- Failure to asses Inflated valuation of land and building, income.

2. **POST –SANCTION STAGES**

In the post –sanctioned stage, failure to verify the forged title deeds, photo-copy of the title deeds and other property documents, are predominant.

TYPES OF FRAUDS

The frauds in housing finance have been broadly classified as

- Internal frauds and
- External frauds.

INTERNAL FRAUDS

Internal frauds refers to the fraud due to the involvement of the insiders that the employees of the concerned bank. Internal frauds can be referred to as `Acts intended to defraud misappropriate property or circumvent regulations, the law or bank policy which involves at least one internal party' for instance unauthorised activities, thefts and so on. The internal frauds are due tothe active involvement of the staff both supervisor and clerical, either independent of external elements or in connivance with outsiders. The failure on the part of the bank staff to followthe meticulously laid down instructions and guidelines may also lead to internal frauds. Evidence shows that the internal frauds are because there may have been negligence or dishonesty at some stage, on part of one or more of the bank employees. One of them may have colluded with the borrower, or the bank official may have been putting up with the borrower`s sharp practices for a personal gain. The proper care which was expected of the staff, as custodians of banks interest may not have been observed or may have been deliberately ignored.

Banks have however, not encountered high levels of collusion of employees, the incidence if the internal frauds are stray incidents where most the employees have been sincere and honest. The following table shows the number of internal frauds in the public sector banks during the period of May 2011 and August 2011.

The table shows that around 105 scale I& II officers, 121 Scale III to V officers, 28 officers between Scale VI to VIII,15 of the subordinate staffare involved in the internal frauds.

TABLE 3

Internal frauds/Involvement of bank employees in frauds for the month of May and August -2011

Grade		MAY 2011		AUGUST 2011		CUMULATIVE FIGURE DURING THE YEAR AS ON AUGUST 2011			
	Reg	Investigation	Trial	Reg	Investigation	Trial	Reg	Investigation	Trial
SCALE-I-II	8	36	4	5	22	4	44	105	33
SCALE III-V	9	56	11	17	11	2	87	121	44
ABOVE VI-VIII	1	7	0	2	7	0	16	28	4
TOPMANAGE MENT/BORAD LEVEL APPOINTEES ABOVE SCALE VIII	1	4	0	0	0	01	5	0	
SUBORDINAT E STAFF	0	8	6	0	0	0	9	15	15

Source:Monthly crime report of CBI for the month of May2011 and August

EXTERNAL FRAUDS

External frauds commonly originate with or involve customers and vendors. Common frauds include cheque and credit card frauds, shoplifting, vendor and telemarketing frauds, and fraud perpetuated by ID theft. Like frauds committed internally in a business by its employees, external frauds can cause serious damage to the bank`s finance. These types of frauds are abundant, to say the least. Only by staying alert 24/7/365 days can a business owner recognize and nip these scams in the bud.

THE TYPES OF EXTERNAL FRAUDS INCLUDE

Fabrication of income documents such as income tax returns, salary slips, balance sheets are instances of external frauds. The borrowers in connivance with the builders ,promoters, estate agents, sellers,with a view to get larger amount of loans than the capacity of the borrower to repay, leads to frauds in financing housing.

1. Many a times, the other income of the applicants like agriculture, future rental incomes, income of non-working spouse, purportedly running hobbies like cooking classes, beauty parlors, and computer job works etc., are clubbed to inflate the income and secure higher loans. This too, is one of the reasons for the external frauds.
2. Disbursement of loans by way of demand drafts/bankers cheques are enchased by third party/agent /borrower also lead to external frauds. Frauds committed are encashment of bankers cheques/demand draft handed over directly to the borrower /agent and many times the borrower/agent himself will resort to fraud by opening a false account in the name of the payee which would be actually the vendor or the builder. In this case, the borrower will have not purchased any property but the amount will be paid by the banker which was enchased fraudulently by the borrower/agent himself.
3. Forged document. The title deeds are being forged by the borrower and builder by way of colored photo- copies of various document including nil encumbrance from the sub-registrars, fake stamp papers, and laminating the documents, etc., which are difficult to distinguish from the original documents.
4. The over-valuation of the property. The borrower in connivance with the builder/valuer will over- value the property and exorbitant valuation report and, induce the banks to lend higher loans than what the property is worth. The value of the property is also inflated by including various expenditures, additional amenities, fixtures, legal charges,society advance, and maintenance charges etc., which are non-existing leads to the external frauds.
5. Multiple financing. The fraudsters with an intention to defraud the bank in connivance with chairman/secretaries of housing co-operative society and borrowers prepare a number of original documents in respect of single flat and avail loans from several banks using those fake documents. In the process, the miscreants get the owners clear and marketable titles to the property certified by lawyers and in turn create equitable mortgage by depositing fake title deeds. On the other hand the borrower will make one genuine document and pay the stamp duty, register the same with the sub-registrar and thereafter they take colour Xerox with some changes and submit to various banks for the same property.
6. Cancellation of booking flats/property/. After the sanction and release of the first installment of loan amount, the booking of the flat/property by way of cancelling directly by the borrower with the collusion of the builder / promoter .In this case, under construction of the flats are booked and documents are registered and after availing the loan the borrower would go to the builder and cancel the booking and the builder refunds the money to the borrower without the knowledge of the bank.
7. The sale of the property by the loanee without clearing the loans is one of the factors of the external fraud. In this case, the property is sold by the borrower by way of duplicate/fake title deeds fabricated by the borrower even though the original title deed has been deposited with the bank.
8. Misrepresentation of the end use of the loan. The borrower avails a loan for the purpose of residential property however; he constructs / purchases commercial building. In this case, the borrower misuses the interest concession extended to the residential property.
9. Sale of the property by the builder without clearing bank'sdue availed by the builder. The builders sell the half constructed/semi-constructed flat /houses without clearing the bank loans which leads to huge loss to the banks.
10. Multiple registrations. There is a provision for the registration of the property at any one of the joint-sub-registrar's office where there are multiple registration offices. The fraudsters take advantage of this situation and register the same property at different sub-registrar offices and avail multiple loans on the same property from different banks which in due course will be a loss to all the loan advancing banks.

THE EXTENT AND IMPACT OF FRAUDS

There have been many attempts to measure the true extent of frauds but, compiling reliable statistics around frauds is not easy .As one of the key aspects of fraud is deception, it is difficult to identify and survey results often only reflect the instances of frauds that have actually been discovered .It is estimated that the majority of frauds go undetected, and even when a fraud identified it may not be reported for the reason that this may be that a company that has been a victim of fraud does not want to risk negative publicity, and more often it is hard to distinguish fraud from carelessness and poor record-keeping as such the extent of fraud is difficult to be measured.

The following table shows the bank-wise frauds of the public sector in housing finance. The frauds during the period 2009-10 has been alarmingly increasing. During 2009 the total number of frauds was 654 to the extent of Rs.13850.32 lakhs which increased to 706 frauds and the extent of fraud was around Rs. 21964.10 lakhs. However, due to the fraud risk management techniques the frauds in the housing finance has marginally declined compared to past few years. The number of frauds decline to 596 and the amount decreased to 18052.80 lakhs in 2011.

TABLE 4: BANK -WISE FRAUDS OF PUBLIC SECTOR BANKS (PSB) AMT. IN LAKHS

Sl. No.	Name of the Banks	Year 2009		Year 2010		Year 2011		Year 2012 Up to 30th Sept.	
		No of Frauds	Amt. Involved	No of Frauds	Amt. Involved	No of Frauds	Amt. Involved	No of Frauds	Amt. Involved
1	State Bank of India	37	1643.36	101	5863.04	62	2905.31	25	335.15
2	SBBJ	9	347.2	15	238.17	13	137.12	4	55.01
3	SBH	5	144.06	11	499.84	5	133.46	7	124.2
4	SBM	7	139.08	5	1078.87	8	306.42	1	14.22
5	SBP	11	237.95	17	159.65	5	160.37	5	69.43
6	SBS	5	186.25	0	0	0	0	0	0
7	State Bank of Indore	0	0	2	20.4	0	0	0	0
8	SBT	9	118.47	4	62	11	236.68	2	11.35
9	Allahabad Bank	6	67.21	23	490.85	15	553.28	14	440.53
10	Andra Bank	1	4.53	6	58.27	26	2259.47	12	274.81
11	BOB	65	754.5	61	1167.6	24	411.8	16	168.23
12	Bank of India	33	386.79	44	609.28	21	210.29	21	111.43
13	Bank of Maharastra	11	454.12	14	679.5	9	287.43	1	10
14	Canara Bank	28	954.84	27	537.41	14	231.53	7	240.9
15	Central Bank of India	35	691.03	29	4447.67	37	736.87	16	282.57
16	Corporation Bank	12	173.14	21	274.19	12	933.63	5	603.03
17	Dena Bank	13	315.92	18	341.04	20	459.11	2	50.75
18	IDBI .	81	813.28	42	988.81	81	2638.37	28	362.93
19	Indian Bank	23	870.21	23	395.48	21	379.83	6	68.82
20	Indian Overseas Bank	8	91.41	14	152.41	14	593.47	4	36.19
21	Oriental Bank of Commerce	11	168.57	50	629.19	8	167.69	7	76.85
22	PNB	27	284.72	18	178.03	21	1251.45	8	82.16
23	Punjab &Sind bank	11	84.93	4	61.83	5	122.6	3	402.93
24	Syndicate Bank	57	2194.68	26	369.8	20	345.4	26	677.01
25	Union Bank of India	14	215.7	22	459.84	15	320.98	17	379.98
26	United Bank of India	18	473.87	17	260.93	46	714.37	30	276.78
27	UCO Bank	36	691.71	62	1127.46	58	742.69	11	62.64
28	Vijayaya Bank	81	1342.79	30	812.53	25	813.16	10	322.87
	TOTAL	654	13850.32	706	21964.10	596	18052.80	288	5540.77

Source:www.jaabali.com

IMPACT OF FRAUDS IN HOUSING FINANCE

The impact of the frauds is worrisome to any banker as the Frauds have a multi-dimensional impact on the banks. Apart from influencing the image /reputation of the bank it also impacts on the management, culture, ethics and more importantly the share-holders money. The Reserve Bank of India has time and again issued various guidelines in plugging frauds and has directed the banks to provide 100 per cent provision or write-off such advances and claim tax benefits., which affects the profit of the banks and also the quality of the assets and providing regulatory capital.. The impact of the frauds in housing finance has been analysed in the following table. The write –off of the all bad loans including housing loans and compromise duringMarch 2009 was to the extent of Rs.7084.48 crores which jumped to a whooping Rs. 17291.52 crores.

TABLE 5: THE EXTENT OF WRITE-OFF FOR THE PERIOD 2010-212SEPT.

Year	Amt. in Crores
2008-2009	7084.48
2009-2010	10965.75
2010-2011	17291.52

Source:Business Line-Feb 24,2009)

MITIGATING AND MANAGEMENT OF FRAUDS IN HOUSING FINANCE

The fraud management process involves three steps:

- Fraud prevention;
- Fraud detection; and
- Fraud investigation.

The best way to fight fraud is to prevent it. Prevention is mostly about improving the key risk processes.

For a bank, it is important that when dealing with customers, employees must ensure that they know the identity of the customer, what business they do with the bank and why they are undertaking each activity. It is the personal responsibility of every member of staff to ensure that they are aware of and that they can competently identify activities which may constitute fraud, can identify signs of suspicious behaviour by customers or staff and to know how they should report any concern regarding fraud, and to whom. All bank employees (specifically those in relevant positions) should be provided with the adequate and appropriate fraud prevention and awareness training.

- The rising incidents of fraud in housing loans ,and operational activity has sent warning signals to the bankers. The banks today are more focused on the fraud prevent and management function. The fraud management process involves three steps Fraud prevention, fraud detection, and fraud investigation. However, the best way to fight fraud is to prevent it as prevention is mostly about improving the key risk processes.
- It is of utmost importance that the banks when dealingwith customersmust ensure that they know the identity of the customer, what business they do with the bank and why they are undertaking each activity. It is also the personal responsibility of every member of the staff that they are aware of and that they can competently identify activities which may constitute fraud, can identify signs of suspicious behaviour by customers or staff and to know how they should report any concern regarding fraud, and to whom.
- All the bank employees especially those in relevant positions should be provided with the adequate and appropriate fraud prevention and awareness training.
- Fraud risk must also be analysed during the development of all new products within the bank to ensure that the product structure will help prevent possible fraudulent attempts. The approval process of the banks should be strictly considered from the fraud point of view of the bank.
- The bank should have a third party acquisition and monitoring policy in place which must include fraud related actions. The granting of loans or credit limits should be made only after considering the fraud risk as well as the credit risk associated with the applicant, the co-applicant and the guarantor.

- The bank should have a fraud response plan, which manages and reduces instances of fraud committed by employees /agents or by third parties of the bank and thus minimise the losses incurred. The purpose of the fraud response plan must be clearly to communicated to the employees.
- The Fraud Response Plan should have initial action, once a fraud has been detected and reported, to restrict further losses to the bank, and review the reasons for the incident, advice measures required to prevent future fraud.The banks should strengthen future response plan and recover any actual losses.
- The mitigation of the frauds in case of fabrication of income documents like income-tax returns, salary slips/balance-sheet etc., involves verification of salary slips with employer,income-tax returns with the concerned department , the salary drawn should be compared with the bank statement, cross verification of balance-sheet and above all personally interviewing and visiting the borrowers office/establishment.
- The fraud due to the loan amount disbursed by way of cheque/demand drafts are enchased by the third party/agents can be mitigated by issuing cheques in the name of the bankers of the builders with the bank account on it. The cheques should not be handed over to the borrower/agent/seller, and the bank`s marketing officials should hand-over the cheques /demand draft to the property owner/builderat the registered address mentioned in the title deeds.
- The banks have to keep track of, and adopt an information sharing mechanism among other banks and HFCs, regarding the black-listed builders and developers.The agreement for sale document of the title should be in DEMAT form and, in addition to this, the banks should approach the sub-registrar`s office to verify the genuineness of the stamp paper documents /registration receipt.
- To avert the over-valuation of the property to draw higher loan amount by the borrower in connivance with the builders to cheat the bank, it is necessary to get the property valued by two different and independent valuers, especially when the loan is above Rs. 25 lakhs.
- The banks to mitigate the frauds due to the multiple financing should insist on the original title deeds of the landed property on which the structure is built.
- The banks should insist upon the registration receipt by the Registrar of stamp office to avert the occurrence of the fraud due to the cancellation of the booking of flats/property in collusion between the customer and the builder.
- The banks to avert the fraud due to the sale of the property by the loanee without clearing the existing loan should create an Equitable Mortgage at the registrar`s office by depositing the title deeds, and above all, the inter diligence plays a more important role to prevent this type of frauds .
- The bank should conduct timely verification /inspection of the property to ensure the end-use of the loans to avert the misuse of the misrepresentation of the end use of the loan.

SUGGESTIONS AND RECOMMENDATIONS

- While introducing new products within the bank the fraud risk must be analysed to ensure that the product structure will help prevent possible fraudulent attempts.
- The lending activity of the bank, which bears the greatest external and internal fraud risk should involvea fool-proof approval process
- The bank should have a third party acquisition and monitoring policy in place which must include fraud related actions.
- The granting of loans or credit limits should be made only after considering the fraud risk as well as the credit riskassociated with the applicant, the co-applicant and the guarantor.
- A bank should have in place a Fraud Response Plan, which manages and reduces instances of fraud committed by employees/agents (internal fraud) or by third parties (external fraud) of the bank and thus minimizes incurred losses.
- The purpose of a Fraud Response Plan must be clearly communicated to the employees. The Fraud Response Plan should have been devised to define initial action and make persons responsible once a fraud has been reported and restrict further losses to the banks, review the reasons for the incident, advice on measures required to prevent future fraud, recommend actions that will strengthen future responses to fraud and,
- Fraud monitoring cell at all module of the banks should be established,
- Uniform registration norms of the property through- out the country should be adopted,
- Centralised land records should be maintained by the Government and available for verification,
- Registration of property in favour of bank’s in the sub-registrar.
- Lastly, recover any actual losses.

CONCLUSION

Like any othercrime, the frauds are to be dealt with stringent laws. However, the frauds in the housing finance/mortgage loans are detected late, because, of the nature of the housing advance which spans over a period of a minimum of 10-20 years. The key to minimising the risk of fraud lies in understanding the reasons for the frauds, identifying the areas that are risk-prone. The mitigation of the fraud should adopt suitable guidelines to prevent of the occurrence of the fraud. That is, plugging all the loop-holes which leaves gap for a fraud. The fraud risks are to be managed holistically and proactively. The fraud risks and controls should be considered as an objective of internal control activities, suitable training and awareness, necessary information and communication which are concise and timely are the need of the hour. In the end it is necessary to adopt controls to detect and prevent fraud. It is also needed for re- assessment of the Anti-Fraud Policy. However, more important than all the policies, the mitigation and management techniques, it is even more important to imbibe a culture of ethics both among the staff and the customer, to halt the frauds in the mortgage finance by the banks.

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