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Lender's Appraisal Procedure



Loan Origination & Credit Appraisal Procedures in Banking

Loan Origination refers to the process by which a **bank processes and approves a loan application** from a borrower.

It includes **assessing creditworthiness, verifying documents, and sanctioning loans** while ensuring **minimal risk for the bank**.

◇ Key Phases of Loan Origination

Loan origination involves **three major phases**:

◆ Phase	◆ Description
□ Information Acquisition 	This phase involves gathering all the necessary information from the borrower in order to assess their eligibility for a loan.
▣ Credit Appraisal & Sanction 	Lender evaluates the borrower's creditworthiness, assesses the risk associated with the loan, and decides about whether to approve the loan and under what terms.

◆ Phase	◆ Description
Loan Disbursement 💰	once the loan is approved and the borrower agrees to the terms, the disbursement phase involves releasing the funds to the borrower.

◇ Phase 1: Information Acquisition

- ✓ **Demographic & Employment Details** – Name, Age, Address, Occupation.
- ✓ **Financial Information** – Income, Liabilities, Credit Score (CIBIL).
- ✓ **Fraud & Blacklist Checks** – To prevent lending to defaulters.
- ✓ **Third-Party Verification** – External agencies validate customer documents.

📌 Documents Required for Loan Processing

- ✓ **Identity Proof** – Aadhaar, PAN Card, Passport.
- ✓ **Income Proof** – Salary Slips, ITR, Bank Statements.
- ✓ **Residence Proof** – Utility Bill, Rent Agreement.
- ✓ **Property Documents (for Home Loans)** – Sale Deed, Title Verification.

◇ Phase 2: Credit Appraisal & Sanction

📌 This is the most **critical stage** where **credit officers assess borrower risk & eligibility.**

✅ **Techniques Used for Credit Appraisal**

✔ **Policy-Based Eligibility Check** – Confirms if the borrower meets banking norms.


✔ **Credit Scoring Model** – Assigns risk scores based on **income, CIBIL score & past loans.**

✔ **Loan-to-Value (LTV) Ratio** – Determines how much the bank can lend.

✔ **Debt-to-Income (DTI) Ratio** – Evaluates existing liabilities vs. income.

📌 **How Risk Assessment Works?**

◆ Factor	📌 How It Affects Loan Sanction?
Credit Score (750+ Preferred) 📊	High scores get faster approvals & better interest rates.
Stable Income & Job 📁	Salaried & business professionals with stable income are preferred.
Low Debt-to-Income Ratio ⚖️	Ensures the borrower can repay the loan without stress.

◆ Factor	📌 How It Affects Loan Sanction?
Co-Borrowers/Guarantors 	Used as risk mitigation for higher loan amounts.

◇ Phase 3: Loan Disbursement

📌 Once the loan is **approved**, banks initiate **disbursement based on agreed terms**.

✓ Loan Disbursement Methods

- ✓ Direct Bank Transfer – Loan amount **credited to borrower's account**.
- ✓ Cheque Issuance – A cheque is **handed over to the borrower**.
- ✓ Third-Party Payment – Direct payment to **supplier/builder (in case of home loans)**.

📌 Final Documentation & Compliance

- ✓ Loan Agreement Signed 📄
- ✓ EMI & Amortization Schedule Shared 📅
- ✓ Collateral Verification (for Secured Loans) 🏠

📖 27.2 Credit Appraisal Procedures

✦ **Credit appraisal ensures that banks minimize lending risks and approve loans only for financially stable borrowers.**

☑ **Steps in Credit Appraisal**

- ✓ **Application Review** – Loan request evaluated based on customer's creditworthiness.
- ✓ **Risk Categorization** – Borrowers classified into **low-risk, medium-risk & high-risk categories.**
- ✓ **Loan Structuring** – Fixing loan tenure, EMI, & interest rate.
- ✓ **Legal & Property Verification (for Housing Loans)** – Ensures clear ownership title.
- ✓ **Final Sanction & Disbursement** – Based on risk assessment.

📄 **27.3 Loan Application Process**

✦ **The loan application form is the first step in the appraisal process.**

☑ **Key Information Required in Loan Application**

- ✓ **Personal Details** – Name, Address, Contact Information.
- ✓ **Employment Details** – Salary, Business Revenue, Job Stability.
- ✓ **Financial Information** – Existing loans, Liabilities, Income proof.
- ✓ **Loan Purpose** – Home purchase, Car Loan, Business Expansion.
- ✓ **Co-Applicant/Guarantor Details** – For additional security.

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Why is the Loan Application Important?






- ✓ It helps the bank assess borrower risk upfront.
- ✓ Ensures compliance with loan policies & eligibility criteria.
- ✓ Acts as the base document for credit verification & approval.







Home Loan Documentation & Appraisal Process

Applying for a **home loan** involves **submitting key documents** for **identity verification, income assessment, property evaluation, and legal validation.**

The **bank/lender ensures the borrower has clear ownership of the property and repayment capacity** before sanctioning the loan.

Required Documents for Home Loan Application

 Category	 Required Documents
Personal Identification 	✓ Aadhaar Card, PAN Card, Voter ID, Passport, or Driving License.
Address Proof 	✓ Electricity Bill, Telephone Bill, Property Tax Receipt, Voter ID, Passport.
Income Proof (Salaried) 	✓ Latest Salary Slip , Form 16, Last 3 years ITR.

 Category	 Required Documents
Income Proof (Self-Employed) 	<input checked="" type="checkbox"/> Last 3 years ITR , Business Registration Proof, GST Returns, Profit & Loss Statement.
Bank Statements 	<input checked="" type="checkbox"/> Last 6 months' bank account statement/passbook copy .
Property-Related Documents 	<input checked="" type="checkbox"/> Sale Deed, Parent Documents, Agreement of Sale, Encumbrance Certificate, Title Deed.
Construction-Related Documents 	<input checked="" type="checkbox"/> Approved Building Plan, Valuation Report from Bank's Approved Valuer.

◇ Property & Legal Documentation for Home Loans

Before sanctioning a home loan, banks conduct **legal scrutiny & property valuation** to ensure that the borrower holds **clear ownership** and that the property **meets construction norms**.

Key Legal & Title Documents Required

Document	Description
Sale Deed/Agreement of Sale	Legal document detailing the transfer of ownership from the seller to the buyer.
Parent documents/prior documents	Documents tracing the property's ownership history to establish the chain of title .

Non-encumbrance certificate (Sub-Registrar's office)	Official document indicating that the property is free from any encumbrances or legal claims .
Search Report/Non-encumbrance certificate (bank's Advocate)	A report from the bank's advocate showing the property's encumbrance status for the past 13 years .
Possession certificate (revenue authorities)	Certificate issued by revenue authorities confirming the current possession of the property .
Latest revenue tax receipt	Receipt indicating the payment of revenue tax for the property.
Latest building tax receipt (if applicable)	Receipt for building tax payment , applicable if the property has a building on it.
NOC under ULC Regulation Act, 1976	No Objection Certificate under the Urban Land Ceiling Regulation Act, if applicable.
RERA approval of housing projects	Approval from the Real Estate Regulatory Authority for housing projects, ensuring compliance with regulations.

◇ **Property Valuation & Technical Verification**

Banks **conduct property valuation** through **approved valuers** to assess the **real market value** and determine the **loan amount eligibility**.

◆ **Key Aspects of Property Valuation**

Valuation report and construction plan: Banks require a valuation report and construction plan for **considering a loan for house construction on a specific land plot.**

Valuation Assessment An approved valuer, designated by the bank, evaluates the value of the land.

Feasibility Check The valuer also assesses the applicant's construction plan to confirm its feasibility on the chosen plot.

Boundary Clarity To enhance clarity, the bank's branch ensures that the land's boundaries are **clearly marked and defined.**

Engineering Approval An engineer subsequently reviews and grants approval for the construction plan, ensuring its practicality.

Comprehensive Evaluation During this evaluation, factors like construction costs are carefully considered.

IN CASE OF PURCHASE OF BUILDING/FLAT.

Approval by Local Authorities: The branch needs to verify that the **construction of the building** or flat has received the necessary approvals from local government authorities.

Up-to-Date Tax Payments: It's essential to confirm that all taxes related to the **land and building are paid up to the current date.**

Age Confirmation and Recording: The branch should ascertain the **age of the building or flat** and include this information in the valuation report.

Estimation of Future Building Life: The future life expectancy of the building should be estimated to understand its longevity and potential for depreciation.

RERA Approval Check: If applicable in the jurisdiction, the branch must verify whether the project has obtained approval from **the Real Estate Regulatory Authority (RERA).**

Loan Applications Received Through Power of Attorney (POA)






- For **Non-Resident Indians (NRIs)** and **individuals unavailable in person**, home loan applications are often **submitted through an agent using a Power of Attorney (POA)**.
- Proper verification of the **POA is essential to prevent fraud** and ensure that the **loan process remains legally valid**.

◇ Understanding Power of Attorney (POA)

◆ A **POA is a legal document** that allows an individual (**Principal**) to authorize another person (**Agent**) to act on their behalf.

✓ Types of Power of Attorney

◆ POA Type	◆ Description
General Power of Attorney (GPA) 	Grants broad authority to the agent for multiple transactions .
Special Power of Attorney (SPA) 	Grants authority for specific acts (e.g., property sale, mortgage).
Irrevocable POA 	Cannot be revoked without consent; often used in property transactions .

Key Points about POA:

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- POA can be given to **more than one person**, specifying whether they'll act **jointly or separately**.
- **General POA** remains valid until expressly revoked or by the death of either party; **special POA** ends once the specified act is done.
- If **executed abroad**, the POA should be **stamped in India** within **three months** of receiving it.
- When accepting a **POA for mortgage creation**, the bank should verify its necessity and acceptable reasons.


Home Loan Appraisal & Assessment Process

A home loan appraisal is the process of **evaluating a borrower's eligibility**, assessing the **property value**, and ensuring compliance with **lending policies** before sanctioning a loan.

Key Objectives of Loan Appraisal:

- ✓ **Validate borrower details** (income, credit score, employment).
- ✓ **Assess property value** through legal & technical verification.
- ✓ **Ensure repayment capacity** based on net monthly income.
- ✓ **Comply with risk management & bank policies.**

Loan Appraisal Documentation & Agreements

 The following agreements and letters are required for loan processing:

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✓ Essential Documents for Home Loan Appraisal

Document	Description
Housing Loan Application	Initial application for a housing loan.
Appraisal Form	Document used for evaluating the loan request.
Term Loan Agreement for Home Finance	Agreement outlining terms of the home loan.
Guarantee Agreement (if required)	Agreement for a third-party guarantee.
Arrangement Letter	Outlines terms and conditions for housing finance.
Equitable Mortgage Intent Letter	Formalizes the intention for an equitable mortgage.
Equitable Mortgage Confirmation Letter	Confirms the establishment of an equitable mortgage.
Letter of Undertaking	For financing the purchase of a plot.
Undertaking Letter (Construction)	Assurance that construction follows the approved plan.
Letter (Applicant as Drawing Officer)	If the applicant is overseeing the project.
Mortgage Deed (Registered Mortgage)	Document for a registered mortgage.
Mortgage Confirmation Letter	Confirms the mortgage arrangement.
Pledge of Other Securities Documents	Pertains to pledge of additional securities.

◇ Home Loan Appraisal Form & Eligibility Calculation

Banks use a **standard loan assessment format** to determine loan eligibility.

1 Loan Eligibility Criteria

◆ Parameter	📌 Details
Loan Amount Requested 	Amount applied by the borrower.
Property Cost + Registration Fees 	Total cost including stamp duty & legal charges .
Bank Margin % 	The borrower's own contribution (typically 10-20%).
Loan Sanctioned Amount 	Based on lesser of eligibility & property value .

💡 Example:

If the **total property cost is ₹60 lakh** and the **bank finances 80% (₹48 lakh)**, the borrower **must contribute ₹12 lakh**.

2 Income-Based Loan Eligibility Calculation

◆ Parameter	📌 Details
Gross Monthly Income (GMI) 💰	Includes salary, business income, rental income.
Net Monthly Income (NMI) 📄	Deducts taxes & expenses.
Loan Eligibility Based on GMI 📊	Banks lend 36x GMI (e.g., ₹1 lakh salary = ₹36 lakh loan eligibility).
Loan Eligibility Based on NMI ⚖️	Banks lend 60x NMI (e.g., ₹80k NMI = ₹48 lakh loan eligibility).
Final Loan Eligibility 📄	Lower of property-based or income-based eligibility.

💡 Example:

If a borrower has a **GMI of ₹1.2 lakh/month**, the **maximum loan eligibility is ₹43.2 lakh** (36x GMI).

APPRAISAL FORM FOR A HOME LOAN

ELIGIBLE LOAN AMOUNT

The lender could have a policy laying down the **criteria for acceptance of a home loan exposure**, against which a loan application is checked.

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Key Parameters

Preferred Age Group: Lenders might have an ideal age range for borrowers, ensuring that borrowers have **sufficient working years ahead to repay the loan.**

Minimum Salary/Income Level: Borrowers need to meet a minimum salary or income threshold to ensure they have the **financial capacity to make loan repayments.**

Credit Information Report Score: Lenders assess the borrower's credit history and score from credit bureaus. A **higher credit score indicates responsible financial behaviour** and enhances loan eligibility.

Geographical Eligibility: Lenders specify areas or localities where they are **comfortable offering home loans.** Some locations might be preferred due to factors like market stability or growth potential.

Negative List: Lenders maintain a list of disqualifications that can lead to loan application rejection. These may include factors such as **past loan defaults, legal issues, or inadequate documentation.**

Eligible Loan Amount Calculation

Parameter 1

- a. Loan Amount Requested
- b. Cost of purchase/construction/renovation/repair of flat/house
Plus registration fee/stamp duty
- c. Amount under (b) above less margin stipulated
- d. Loan amount: (a) or (c) whichever is less

a. Gross monthly income (Parameter 2) (A)

- Gross income of the applicant
- Add: Income of the spouse if any
- Add: Other income if any

Total**b. Net monthly income Parameter 2 (B)**

- Net income of the applicant
- Add: Net Income of the spouse
- Add: Other net income

Total

- c. Certain multiples of (a) (say 36 times)
- d. Certain multiples of (b) (say 60 times)
- Loan amount (c) or (d) whichever is higher

Eligible loan limit: Lower than Parameter 1 or Parameter 2

SERVICE ELIGIBILITY

Minimum years of service _____ years (applicable for loan to salaried class people)

AGE ELIGIBILITY

- Present age of the borrower
- Repayment period
- Age at the end of the repayment period
- Retirement age (in case of salaried class people)

LEGAL OPINION

- Date of opinion
- Name of the advocate (who should be in the panel of the financing institution)
- Layer's opinion on the title of the property

VALUATION DETAILS

- Date of valuation
- Name of the valuer

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- Value of the property as per valuer's report: _____
- Estimated cost of construction/repair: _____
- Whether the property is encumbered: Yes/No
- If yes, name of the mortgagee
- Amount of loan taken _____
- Amount of loan outstanding _____
- Replacement value for insurance _____

INSPECTION DETAILS

- Date of inspection by staff of the financing institution: _____
- Inspection done by: _____

RATE OF INTEREST

- Rate of interest: % per annum
- Type of interest: Fixed/Floating

SECURITY DETAILS

- Market value of the land and house/flat (proposed to be financed)
- Collateral security value, if any
- Total
- Margin (.... %)

REPAYMENT DETAILS

- Holiday period, if any months
- Repayment to start from _____ (Month) _____ (Year)
- Type of EMI: Regular/Variable
- Repayment in _____ EMIs of _____ each

OTHER CHARGES

- Processing Fee/Administrative Fee _____ Date of collection
- Upfront Fee _____ Date of collection _____

LITIGATION DETAILS

Details regarding any ongoing **litigation or legal disputes** related to the property or borrower.

RELAXATION/CONCESSION

Any special relaxation or concession granted to the borrower based on specific circumstances.

DISBURSEMENT DETAILS

- First Stage: _____ Date of disbursement
- Second Stage: _____ Date of disbursement
- Third Stage: _____ Date of disbursement
- Total: _____

HOUSING LOAN ASSESSMENT TEMPLATE

In Case of House	
Description	Measurement
Area of Plot	Sq. ft.
Proposed Built-Up Area	Sq. ft.
Purchase Price of Plot	
Architect's Fees	
Cost of Construction	

In case of Flat	
Description	Measurement
Area of Undivided Share of Land	Sq. ft.
Cost of Undivided Share of Land	
Cost of Semi-Finished Flat	
Cost of Completion and Additional Items	
Registration Charges	

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Total Cost	
Market Value as per Report	

Loan for Purchase of House/Flat (Ready Built)	
Description	Measurement
Is the Unit New/Old	_____ years
Age of Existing Structure if Old	
Purchase Price	
Cost of Additional Items	
Total Cost	
Area of Plot/Undivided Share of Land	_____
Built Up Area in Sq. Ft.	_____
Market Value/Land Value	
Structure Value	

Loan for Extension	
Description	Measurement
Age of Existing Structure	_____
Plot Area/Built Up Area of Flat	_____ in sq. ft.
Market Value of Existing Structure	
Is the Property Mortgaged to Any Institution?	Yes/No
If Yes, Name of Institution	
Value of Outstanding Loan	
Mortgage Value	
Details of Proposed Repair/Extension	

Estimated Cost of Repairs/Extension	
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OTHER RELEVANT ISSUES AT PRE-SANCTION STAGE

Interest

Both, **fixed and floating** rate loans may be offered.

Insurance

The house/flat should be **insured against the risk of fire/riots/earthquakes/lightning/floods**, etc. for replacement value.

Moratorium

- The moratorium period can last up to **18 months** after the **first loan** disbursement or **two months** after the **construction completion**, whichever comes first.
- For loans that cover **both land and building/flat purchase**, the maximum holiday **period is three months**.

Pre EMI interest

- Borrower **pays interest on the portion disbursed** before the full disbursement. This interest is called **pre-EMI interest**.
- It is payable each month from the **disbursement date until EMI commencement**.

EMI Reset

- In a floating rate interest home loan, the **total dues to the lender** will change when **the rate of interest is changed**.
- The lender does not usually **change the EMI amount**. The **number of instalments is increased** or reduced depending upon the change in the total dues.

Check-off facility

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- Borrower must give an **irrevocable authority for salary deductions** and remittance to lender.
- **Employer must record and accept this authority.**
- Elements of the arrangement include **letter of authority, payment of dues, employer undertaking, check-off via bank account**, and lender keeping informed of changes.

