

SVATANTRA MICRO HOUSING FINANCE CORPORATION LTD (“SMHFC”)
'KNOW YOUR CUSTOMER' (KYC) GUIDELINES – ANTI MONEY LAUNDERING (“AML”)
STANDARDS (w.e.f. 01.04.2019)

With reference to the guidelines regarding 'Know Your Customer' norms issued by the National Housing Bank (“NHB”) in terms of its Circulars No. (1) NHB(ND)/DRS/POL-No-02/2004-05 dated August 25, 2004, (2) NHB(ND)/DRS/POL-No-05/2004-05 dated September 23, 2004, (3) NHB(ND)/DRS/POL-No-08/2004-05 dated March 31, 2005, (4) NHB(ND)/DRS/POL-No-32/2009-10 dated March 16, 2010 (5) NHB/ND/DRS/POL-No-33/2010-11 dated October 11, 2010 (6) NHB (ND)/DRS/Pol. No. 59/2013-14 dated January 24, 2014 (7) NHB (ND)(DRS(Policy Circular No.72/2014-15 dated April 23 2015 and NHB (ND)/DRS/Policy Circular No.76/2016-17 dated November 1, 2016, wherein Housing Finance Companies (HFCs) were advised to follow certain customer identification procedure for opening of accounts, monitoring transactions of suspicious nature for the purpose of reporting it to appropriate authority and to take necessary steps and measures required to be in a state of preparedness for online uploading of the KYC particulars and documents on the Central Know Your Customer Record Registry (CKYCR)., SMHFC has revised its KYC / AML policy (April 1, 2013) from time to time in line with changes in NHB guidelines and also reviews the policy annually. The current policy is being updated to include changes regarding the NHB (ND)/DRS/Policy Circular No.94/2018-19 dated March 11, 2019 advising Housing Finance Companies (HFCs) to take necessary steps to implement provisions of the Prevention of Money-Laundering Act, 2002 (“the Act”) and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005, (“the Rules”) as amended from time to time, including operational instructions issued in pursuance of such amendment(s).

Background: The Recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT) standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities. Compliance with these standards both by the banks/financial institutions, including HFCs, has become necessary for international financial relationships. The Reserve Bank of India(RBI) has issued revised set of comprehensive 'Know Your Customer' Guidelines to all Non-Banking Financial Companies (NBFCs), Miscellaneous Non-Banking Companies and Residuary Non-Banking Companies in the context of the recommendations made by the Financial Action Task Force(FATF) and Anti Money Laundering (AML) standards and combating financing of terrorism policies by the regulatory authorities and advised all NBFCs to adopt the same with suitable modifications depending on the activity undertaken by them and ensure that a proper policy framework on KYC and AML measures are formulated and put in place with the approval of their respective Boards. The 'Know Your Customer' Guidelines issued by the National Housing Bank for HFCs have been drafted and issued in the above context.

Definitions: The terms used and not defined herein, shall have their respective meanings as assigned to them in Clause 3.1 of the Guidelines on Know Your Customer & Anti-Money Laundering Measures for Housing Finance Companies as issued by the National Housing Bank in the NHB (ND)/DRS/Policy Circular No.94/2018-19 dated March 11, 2019, including any amendments thereto.

'Know Your Customer' Standards

1. The objective of KYC guidelines is to prevent 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. SMHFC has framed its KYC policy 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 the KYC policy, a 'Customer' is defined as:
 - a person who is engaged in a financial transaction or activity with a HFC and includes a person on whose behalf the person who is engaged in the transaction or activity, is acting.
3. Compliance of KYC Standards
 - SMHFC ensures compliance with the KYC Standards by:
 - Specifying that the "Senior Management" of the Company for the purpose of KYC Compliance constitutes of the Managing Director, Director – Projects & Sales and Director – Credit & Operations.
 - Allocating responsibilities through a Delegation of Powers Policy and Matrix for effective implementation of policies and procedures.
 - Appointing an Internal Auditor for Independent evaluation of the compliance functions of SMHFC's policies and procedures and verification of compliance with KYC/ Anti-Money Laundering (AML) policies and procedures.
 - Submission of quarterly audit notes and compliance to the Audit Committee.

Customer Acceptance Policy (CAP)

4. SMHFC's Customer Acceptance Policy, which lays down explicit criteria for acceptance of customers, ensures the following aspects of the customer relationship:
 - i. No account is opened in anonymous or fictitious/benami name(s);
 - ii. Customers are all assessed for location of residence, business if any including type of clients and also the mode of transactions and payments (in SMHFC's case, we require payments to be made through ECS unless in an emergency (and in any case given our business – of low ticket size loans – the level of cash handling is very minimal). ;
 - iii. No transaction or account based relationship is undertaken without following the CDD procedure.
 - iv. The mandatory information to be sought for KYC purpose while opening an account and during the periodic updation, is specified.
 - v. Optional additional information is obtained with the explicit consent of the customer after the account is opened.
 - vi. CDD Procedure is followed for all the joint account holders, while opening a joint account.
 - vii. If an existing KYC compliant customer of the Company desires to open another account with us, there shall be no need for a fresh CDD exercise.
 - viii. Volume of turnover, social and financial status, etc. to enable categorization of customers into low, medium and high risk (these customers will require very high level of monitoring). Currently given the size of our loans and type of clients we deal with, all our customers are considered low risk;
 - ix. Documentation requirements and other information collected in respect of different categories of customers depending on perceived risk and keeping in mind the requirements of PML Act, 2002 and guidelines issued from time to time;
 - x. SMHFC will not open an account where it is unable to apply appropriate customer due diligence (CDD) measures, i.e. where SMHFC 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. However, SMHFC will have suitable built-in safeguards to avoid harassment of the customer.
 - xi. Circumstances, in which a customer is permitted to act on behalf of another person/entity, will 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
 - xii. Checks against any notified list of the NHB or the RBI any other regulator, before accepting a customer, 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.

SMHFC will prepare a profile for each new customer which 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 SMHFC. However, while preparing the customer profile, SMHFC will seek only such information from the customer which is relevant and is not intrusive. The customer profile will be a confidential document and details contained therein will not be divulged for cross selling or any other purposes.

5. It is important to bear in mind that the adoption of Customer Acceptance Policy and its implementation will not result in denial of SMHFC's services to the general public, especially to those who are financially or socially disadvantaged.

Risk Management

6. The Board of Directors of SMHFC has ensured that an effective KYC program is in place and has established appropriate procedures and is overseeing its effective implementation. The program covers proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibility has been explicitly allocated within SMHFC to ensure that SMHFC's policies and procedures are implemented effectively. The Board of SMHFC is aware that while all customers will be of low risk profile given the nature of its business, unless belonging to a higher risk profile listed under #9 above and approved as an exception, and it will apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship.
7. SMHFC's Board, especially through its Audit Committee, will directly evaluate and ensure adherence to the KYC policies and procedures, including legal and regulatory requirements.
8. SMHFC has already ensured that its front line staff and credit staff are aware that no loan accounts will be created unless the KYC procedures are adhered to completely.
9. For Risk Management, SMHFC has a risk based approach which includes the following:

The Risk categorization is undertaken based on parameters such as customer's identity, social financial status, nature of business activity, and information about the clients' business and their location etc. While considering customer's identity, the ability to confirm identity documents through online or other services offered by issuing authorities are also factored in. 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

- i. Given the nature of our business – small ticket loans to low income financially excluded families – we have categorized all our customers as **low risk**.
- ii. 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. SMHFC 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.

It is highly unlikely that SMHFC will have any medium / high risk clients given its focus on the lower income section of society, but for information, examples of customers requiring higher due diligence may include:

- i. non-resident customers,
- ii. high net worth individuals,
- iii. trusts, charities, NGOs and organizations receiving donations,

- iv. companies having close family shareholding or beneficial ownership,
- v. firms with 'sleeping partners',
- vi. politically exposed persons (PEPs) of foreign origin,
- vii. non-face to face customers, and
- viii. those with dubious reputation as per public information available, etc.

Customer Identification Procedure (CIP)

10. SMHFC will follow clear NHB guidelines on the Customer Identification Procedure to be carried out at different stages, i.e. while establishing a relationship; carrying out a financial transaction or when SMHFC 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. SMHFC will obtain sufficient information necessary to establish, to its satisfaction, the identity of each new customer, whether regular or occasional and the purpose of the intended nature of relationship. Being satisfied means that SMHFC must be able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place. Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate etc). For customers that are natural persons, which will be most of its clients, SMHFC will obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities (very unlikely to be a customer except for project finance to construction companies), SMHFC will:

- (i) verify the legal status of the legal person/ entity through proper and relevant documents;
- (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person; and
- (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person.

Where SMHFC is unable to apply appropriate KYC measures due to non-furnishing of information and /or non-cooperation by the customer, SMHFC 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. SMHFC has an internal team for the purpose of verifying the identity of customers at the time of commencement of account-based relationship. No delegation of this activity to third parties is envisaged until when decided by the Board/ Management Committee.

Customer Due Diligence (CDD) Procedure

11. Procedure for obtaining identification

- a) While undertaking CDD, SMHFC shall obtain the following information from an individual while establishing an account based relationship with an 'individual' or dealing with the individual who is a beneficial owner, authorised signatory or the power of attorney holder related to any legal entity:
 1. (i) the Aadhaar number where he is desirous of receiving any benefit or subsidy under any scheme notified under Section 7 of the Aadhaar Act, **or**
 - (ii) Certified Copy of an Officially Valid Document (OVD) containing details of identity and address as defined in Rule 2(1)(d) of the Prevention of Money- Laundering (Maintenance of Records) Rule 2005; **AND**
 2. the Permanent Account Number (PAN) or Form No. 60 as defined in Income-tax Rules, 1962, as amended from time to time; **AND**
 3. One recent photograph

Explanation 1- Obtaining a certified copy by the SMHFC shall mean comparing the copy of OVD so produced by the client with the original and recording the same on the copy by the authorised officer of the SMHFC.

Explanation 2: The submission of Aadhaar by an individual as a KYC document in cases other than mentioned at 1 (i) above will not be insisted upon by SMHFC. However, the individual, if so desires, may provide the same out of his own volition. Customers, at their option, shall submit one of the OVD.

Explanation 3: Where the customer is submitting Aadhaar, the SMHFC shall be guided by directions issued by Unique Identification Authority of India from time to time.

- b) In case the OVD furnished by the customer does not contain updated address, the following documents shall be deemed to be OVDs for the limited purpose of proof of address:-
- i. utility bill which is not more than two months old of any service provider (electricity, telephone, post-paid mobile phone, piped gas, water bill);
 - ii. property or Municipal tax receipt;
 - iii. pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address;
 - iv. letter of allotment of accommodation from employer issued by State Government or Central Government or Public Sector Departments, statutory or regulatory bodies, public sector undertakings, scheduled commercial banks, financial institutions and listed companies and leave and license agreements with such employers allotting official accommodation;

Provided that in case the OVD submitted by a foreign national does not contain the details of address, in such case the documents issued by the Government departments of foreign jurisdictions and letter issued by the Foreign Embassy or Mission in India shall be accepted as proof of address. Provided further that the customer shall submit updated OVD with current address within a period of three months of submitting the above documents.

- c) A customer already having an account based relationship with SMHFC, shall submit his Permanent Account Number or Form No.60, on such date as may be notified by the Central Government, failing which the account shall temporarily cease to be operational till the time the Permanent Account Number or Form No. 60 is submitted by the customer.

Provided that before temporarily ceasing operations for an account, SMHFC shall give the customer an accessible notice and a reasonable opportunity to be heard.

Explanation: - For the purpose of this clause, "temporary ceasing of operations" in relation to an account means the temporary suspension of all transactions or activities in relation to that account by the HFC till such time the customer complies with the provisions of this clause;

In case of asset accounts such as loan accounts, for the purpose of ceasing the operation in the account, only credits shall be allowed.

- d) If a customer having an existing account based relationship with SMHFC gives in writing to the company that he/ she does not want to submit his/her Permanent Account Number or Form No.60, as the case may be, the customer's account with SMHFC shall be closed and all obligations due in relation to the account shall be appropriately settled after establishing the identity of the customer. SMHFC shall duly inform the customer about this provision while opening the account.

SMHFC shall apply the following procedure while establishing an account based relationship with an individual:

- (a) Obtain information as mentioned under Section 8 above; and
- (b) such other documents pertaining to the nature of business or financial status specified by the SMHFC in the KYC policy

Management Committee of SMHFC will provide appropriate relaxation for continued operation of accounts of customers who are unable to provide Permanent Account Number or Form No.60 owing to injury, illness or infirmity on account of old age or otherwise, and such like causes.

- (i) Provided that information collected from customers for the purpose of opening of account shall be treated as confidential and details thereof shall not be divulged for the purpose of cross selling, or for any other purpose without the express permission of the customer except while considering the requests for data / information from Government and other agencies. SMHFC shall satisfy themselves that the information being sought is not of such a nature as will violate the provisions of the laws relating to secrecy in transactions.

12. Customer Due Diligence (CDD) Procedure in case of Sole Proprietary Firms, Legal Entities, Beneficial Owners, Non-face-to-face customers, Politically Exposed Persons (PEPs) and Customer accounts opened by Professional Intermediaries shall be followed as per the NHB (ND)/DRS/Policy Circular No.94/2018-19 dated March 11, 2019.

Monitoring of Transactions

13. Ongoing monitoring is an essential element of effective KYC procedures. SMHFC can effectively control and reduce its risk only if it has an understanding of the normal and reasonable activity of the customer so that it can identify transactions that fall outside the regular pattern. However, the extent of monitoring will depend on the risk sensitivity of the account. Since SMHFC will not have any deposit accounts, this situation will hardly arise, but SMHFC will in any case pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose, or transactions that involve large amounts of cash inconsistent with the normal and expected activity of the customer. SMHFC will put in place a system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures. SMHFC will ensure that a record of transactions in the accounts is preserved and maintained as required in terms of section 12 of the PML Act, 2002 (and the Amended Act, 2009). It will also ensure that transactions of suspicious nature and/or any other type of transaction notified under section 12 of the PML Act, 2002 (and the Amended Act, 2009), is reported to the appropriate law enforcement authority. The extent of monitoring shall be aligned with the risk category of the customer.

Periodic Updation

14. Periodic KYC updation shall be carried out at least once in every two years for high risk customers, once in every eight years for medium risk customers and once in every ten years for low risk customers as per the following procedure:

- a) SMHFC shall carry out:
 - i. PAN verification from the verification facility available with the issuing authority and
 - ii. Authentication, of Aadhaar Number already available with the HFC with the explicit consent of the customer in applicable cases.
 - iii. In case identification information available with Aadhaar does not contain current address an OVD containing current address may be obtained.
 - iv. Certified copy of OVD containing identity and address shall be obtained at the time of periodic updation from individuals except those who are categorised as 'low risk'. In case of low risk customers when there is no change in status with respect to their identities and addresses, a self-certification to that effect shall be obtained.
 - v. In case of Legal entities, HFCs shall review the documents sought at the time of opening of account and obtain fresh certified copies.
- b) SMHFC may not insist on the physical presence of the customer for the purpose of furnishing OVD or furnishing consent for Aadhaar authentication unless there are sufficient reasons that physical presence of the account holder/holders is required to establish their bona-fides. Normally, OVD / Consent forwarded by the customer through mail/ post, etc., shall be acceptable.
- c) SMHFC shall ensure to provide acknowledgment with date of having performed KYC updation.

- d) The time limits prescribed above would apply from the date of opening of the account last verification of KYC.

Customer Education

15. The implementation of KYC procedures requires SMHFC to demand certain information from customers, which may be of personal nature, or which has 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. SMHFC's front line staff will therefore personally discuss this with customers and if required, SMHFC will also prepare specific literature/ pamphlets, etc. so as to educate the customer on the objectives of the KYC program.

Introduction of New Technologies

16. SMHFC will 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 its use in money laundering schemes.

Central Know Your Customer Record Registry (CKYCR)

17. The Government of India has authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), to act as, and to perform the functions of the Central KYC Record Registry. HFCs were advised to upload the Know Your Customer (KYC) data with CERSAI in respect of new individual accounts opened on or after November 1, 2016. HFCs which are not yet ready to join Central KYC Record Registry process immediately, were advised to take steps to prepare their systems for uploading the KYC data respect of new individual accounts so that the same is completed as soon as possible in time bound manner. Currently SMHFC is not registered with CERSAI for KYC record registry. This being a very critical process SMHFC will complete the registration process not later than 31.01.2017. As part of SMHFCs credit process we already collect KYC in digital. With regards to the uploading requirement of the above circular SMHFC will initiate collection of KYC as per desired format and roll out online submission with CERSAI from 01.04.2017.

Appointment of Principal Officer and Designated Director

18. SMHFC has appointed its Director – Projects & Sales to be designated as 'Principal Officer'. Per the NHB guidelines, the Principal Officer will be located at the corporate office and will 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, other HFCs and any other institution which are involved in the fight against money laundering and combating financing of terrorism.
19. SMHFC has appointed its Managing Director as the Designated Director to ensure overall compliance with the obligations imposed under Chapter IV of the Act.

Maintenance of records of transactions

20. As unlikely as it will be in SMHFC's case, due to its focus on lower income families, SMHFC has a system of maintaining proper record of transactions prescribed under Rule 3, of the Prevention of Money-Laundering and value of transactions, the procedure and manner of maintaining and verification and maintenance of records of the identity of the clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005, as mentioned below:

- all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
- all series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such

series of transactions have taken place within a month and the monthly aggregate value exceeds rupees ten lakh or its equivalent in foreign currency;

- all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
- all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

Information to be preserved

21. As per the NHB guidelines, SMHFC is required to maintain the following information in respect of transactions referred to in Rule 3 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005:

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

Maintenance and Preservation of records

22. SMHFC has a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. SMHFC will maintain for at least ten years from the date of cessation of transaction between the bank and the client, all necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.

SMHFC will also ensure that records pertaining to the identification of the customer and his / her address (e.g. copies of documents like passports, identity cards, driving licenses, PAN, utility bills etc.) obtained while opening the account and during the course of business relationship, are properly preserved for at least ten years after the business relationship is ended. The identification records and transaction data will be made available to the competent authorities upon request.

Reporting to the Director, Financial Intelligence Unit-India (FIU-IND):

23. In terms of the PMLA rules, SMHFC will report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

**Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi-110021**

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

24. Robust software, throwing alerts when the transactions are inconsistent with risk categorization and updated profile of the customers may be put in to use as a part of effective identification and reporting of suspicious transactions.

Reporting under the Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS):

25. Under FATCA and CRS, SMHFC (if applicable) shall adhere to the provisions of Income Tax

Rules 114F, 114G and 114H and determine whether it is a Reporting Financial Institution as defined in Income Tax Rule 114F and if so, shall take steps for complying with the reporting requirements as given in NHB (ND)/DRS/Policy Circular No.94/2018-19 dated March 11, 2019:

Other Measures

26. Sharing KYC information with Central KYC Records Registry (CKYCR)

SMHFC shall capture the KYC information for sharing with the CKYCR in the manner mentioned in the Rules, as required by the revised KYC templates prepared for 'individuals' and 'Legal Entities' as the case may be. Government of India has authorised the Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI), to act as, and to perform the functions of the CKYCR vide Gazette Notification No. S.O. 3183(E) dated November 26, 2015. SMHFC is required to upload the Know Your Customer (KYC) data with CERSAI in respect of new individual accounts opened on or after November 01, 2016.
27. Hiring of Employees and Employee training
 - a. Adequate screening mechanism as an integral part of their personnel recruitment/ hiring process will be put in place.
 - b. SMHFC will have an ongoing employee training program so that the members of the staff are adequately trained in KYC/AML Measures policy. Training requirements will have different focuses for frontline staff, compliance staff and staff dealing with new customers so that all those concerned fully understand the rationale behind the KYC policies and implement them consistently. The Company will educate the customer on the objectives of the KYC program so that customer understands and appreciates the motive and purpose of collecting such information. The Company will ensure with proper staffing of the audit function with persons adequately trained and well-versed in KYC/AML Measures policies of the HFC, regulation and related issues shall be ensured.
28. Selling Third party products:

SMHFC acting as agents while selling third party products shall comply with the applicable laws/regulations, including system capabilities for capturing, generating and analysing alerts for the purpose of filing CTR/STR in respect of transactions relating to third party products with customers.
29. Adherence to Know Your Customer (KYC) guidelines by the Company and persons authorised by the Company including brokers/agents etc.
 - (a) Persons authorized by the Company for selling loan related products, their brokers/ agents or the like, shall be fully compliant with the KYC guidelines applicable to SMHFC.
 - (b) All information shall be made available to the National Housing Bank to verify the compliance with the KYC guidelines and accept full consequences of any violation by the persons authorised by SMHFC including brokers/ agents etc. who are operating on their behalf.
30. SMHFCs will ensure that the provisions of the PML Act, Rules framed thereunder and the Foreign Contribution (Regulation) Act, 2010, applicable, are adhered to strictly.
31. An illustrative (but not exhaustive) list of suspicious transactions in housing/ builder / project loans is furnished in Annexure - I for guidance of the SMHFC.

Annexure – I

ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO BUILDER PROJECT/ CORPORATE CLIENTS:

1. Builder approaching the HFC for a small loan compared to the total cost of the project;
2. Builder is unable to explain the sources of funding for the project;
3. Approvals/sanctions from various authorities are proved to be fake or if it appears that client does not wish to obtain necessary governmental approvals/ filings, etc.;
4. Management appears to be acting according to instructions of unknown or inappropriate person(s).
5. Employee numbers or structure out of keeping with size or nature of the business (for instance the turnover of a company is unreasonably high considering the number of employees and assets used).
6. Clients with multijurisdictional operations that do not have adequate centralised corporate oversight.
7. Advice on the setting up of legal arrangements, which may be used to obscure ownership or real economic purpose (including setting up of trusts, companies or change of name/ corporate seat or other complex group structures).
8. Entities with a high level of transactions in cash or readily transferable assets, among which illegitimate funds could be obscured.

ILLUSTRATIVE LIST OF SUSPICIOUS TRANSACTIONS PERTAINING TO INDIVIDUALS:

1. Legal structure of client has been altered numerous times (name changes, transfer of ownership, change of corporate seat).
2. Unnecessarily complex client structure.
3. Individual or classes of transactions that take place outside the established business profile, and expected activities/ transaction unclear.
4. Customer is reluctant to provide information, data, documents;
5. Submission of false documents, data, purpose of loan, details of accounts;
6. Refuses to furnish details of source of funds by which initial contribution is made, sources of funds is doubtful etc.
7. Reluctant to meet in person, represents through a third party/Power of Attorney holder without sufficient reasons;
8. Approaches a branch/ office of an 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;
9. Unable to explain or satisfy the numerous transfers in the statement of account /multiple accounts;
10. Initial contribution made through unrelated third party accounts without proper justification;
11. Availing a top-up loan and/ or equity loan, without proper justification of the end use of the loan amount;
12. Suggesting dubious means for the sanction of loan;
13. Where transactions do not make economic sense;
14. Unusual financial transactions with unknown source.
15. Payments received from un-associated or unknown third parties and payments for fees in cash where this would not be a typical method of payment.

16. There are reasonable doubts over the real beneficiary of the loan and the flat to be purchased;
17. Encashment of loan amount by opening a fictitious bank account;
18. 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;
19. Sale consideration stated in the agreement for sale is abnormally higher/lower than what is prevailing in the area of purchase;
20. Multiple funding of the same property/dwelling unit;
21. Request for payment made in favour of a third party who has no relation to the transaction;
22. 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.
23. Multiple funding / financing involving NCO / Charitable Organisation / Small/ Medium Establishments (SMEs) / Self Help Groups (SHCs) / Micro Finance Groups (MFCs)
24. Frequent requests for change of address;
25. Overpayment of instalments with a request to refund the overpaid amount.
26. Investment in real estate at a higher/lower price than expected.
27. Clients incorporated in countries that permit bearer shares.