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ZENLEARN RESEARCH · HOUSING LOAN UNDERWRITING · THE SIGNALS THAT WERE THERE BEFORE SANCTION

Housing Loan Underwriting: The Signals That Were There Before Sanction

Research based on 112 litigated lending failures and what they reveal about sanction-stage decision quality.

112 cases	92.1 %	1.89 %
COURT-DOCUMENTED CASES	SHARE OF FY25 BANK FRAUD VALUE IN LOAN PORTFOLIOS	PUBLISHED FY25 HFC SECTOR GNPA -- CALCULATED AFTER THE ONE ENTITY WHOSE FRAUD RBI CONFIRMED WAS REMOVED FROM THE SECTOR

REGULATORY ANCHOR

RBI Master Direction - Non-Banking Financial Company - Housing Finance Company (Reserve Bank) Directions, 2021 (SS87-89) · RBI Master Directions on Fraud Risk Management in NBFCs, 2024 · NHB circular MRO/DOS/DOC/2025/04924, 20 Nov 2025

BASIS

Court and regulatory record reviewed through **15 July 2026**; case corpus spans judgments dated from the early 2010s through 2025; regulatory citations current to the NHB circular of **20 November 2025**.

THE SINGLE-LINE THESIS

The signals that predict many future NPAs are already present before sanction. The challenge is finding them consistently.

Prepared by **Rohit Kumar** · **ZenLearn Research**

Founder, ZenLearn Research · MBA, IIM Mumbai

Former Head of Business, Eko India

ex-CFO: Blackstone IARC, Pristyn Care, GE A&C SE Asia · Engine development, Tata Nano programme

Published by Zenlearn Research · July 2026 · zenlearn.ai/research

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the governing instrument

RBI Master Direction - Non-Banking Financial Company - Housing Finance Company (Reserve Bank) Directions, 2021 (17 February 2021)

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KEY PROVISIONS

- Sec. 87.1.1 -- Before sanctioning a construction loan, an HFC must obtain a copy of the sanctioned building plan in the applicant's own name from the competent authority.
- Sec. 88.1 -- Disbursal of housing loans shall be strictly linked to the stages of construction of the housing project or house; upfront disbursal is barred for an incomplete, under-construction, or green-field project.
- Sec. 89.2 -- HFCs shall review and strengthen their credit appraisal systems; wherever title documents or third-party certifications (valuation, legal, chartered-accountant) are submitted as security, there must be a system to verify their genuineness, especially on large-value loans.
- Annex XIV, Sec. 1.2 -- Property valuation must be carried out by a professionally qualified, independent valuer with no direct or indirect interest in the property; an internal valuer is permitted only if qualified to the same external standard.
- Sec. 103 -- HFCs shall file and register security interest with the Central Registry (CERSAI) on an ongoing basis, with what the direction calls 'meticulous compliance.'

In force -- reaffirmed, not amended — NHB circular to all Registered Housing Finance Companies (re-issuing Sec. 88.1) (20 November 2025)

Draft text →

- Not a new rule -- a re-issuance of the existing Sec. 88.1 stage-linked disbursal requirement, prompted by a Karnataka High Court order (5 Aug 2025, WP 23590/2025) concerning a builder-subvention housing loan scheme.

THE POINT

This is the specific, operative rule this report tests against the public court record: a sanctioned plan, stage-linked disbursal, an independent valuer, and verified title, all already required since 2021. The National Housing Bank's need to re-issue the disbursal provision in November 2025 -- and the 112 court-documented cases in Section 02 -- both point the same way: the rule is not the gap, file-level compliance is.

On **6 January 2026**, RBI Governor Sanjay Malhotra separately met NBFC CEOs, including housing finance companies, and urged sound underwriting standards and close monitoring of asset quality (reported consistently across multiple outlets; no verbatim quotation independently verified).

00 Executive Summary

India's housing lenders operate under a specific, well-drafted set of sanction-stage rules -- a sanctioned building plan before a construction loan, disbursal linked strictly to construction progress, an independent valuer, verified title. The public record shows those rules being missed at the file level often enough, and recently enough, that the regulator had to remind lenders of one of them again in November 2025. None of the tools already watching a housing loan file are built to catch this: a forged title or an uninspected valuation passes every bureau check and leaves the capital risk-weight calculation unchanged, because neither one looks at whether the underlying file was itself verified.

01 A housing loan file can pass every bureau check and every capital rule while carrying a forged title, an uninspected valuation, or unreleased construction funds -- because bureau scoring measures a borrower's repayment history and capital rules measure loan size, not whether the file's own documents comply with the sanction condition.

02 Court and tribunal records document **112 cases** where a sanction-stage check was missed, spanning nearly every major bank and housing finance company -- and three failure types together, a forged title document, an uninspected or inflated valuation, and a disbursal made without checking construction stage, are present in **64%** of them, making the pattern narrow enough to act on.

03 Banks publish loan-portfolio fraud annually, broken down by bank group across three consecutive years. In FY25, advances fraud totalled **Rs 33,148 crore**[11] — **92.1%**[11] of all bank fraud across every category combined; digital-channel fraud, card fraud, and all other categories together account for the remaining **7.9%**. No equivalent figure exists for housing finance companies: neither the RBI nor the NHB publishes a fraud line for HFCs, in any format, in any year. The gap matters now: Upper-Layer HFC asset quality — the segment under the regulator's closest watch — is deteriorating while every other lender tier is improving, and there is no published fraud figure to explain what is driving it.

04 In a nine-bank study of **6,669** credit assessments run against one identical quantitative rating model, loan officers reversed one in five model-driven rating changes — reversals with limited power to predict how the loan actually performed.

A separate, unrelated study of **26,501** bank credit decisions found approval rates measurably lower in the two hours around midday than earlier in the morning, purely as a function of when the file was reviewed, not what was in it.

Neither pattern is visible in a lender's own disclosures today, because nothing requires a sanctioning decision to record why it departed from the model or the norm.

01 Loan-portfolio fraud carries 92% of bank fraud value — housing finance has no equivalent figure

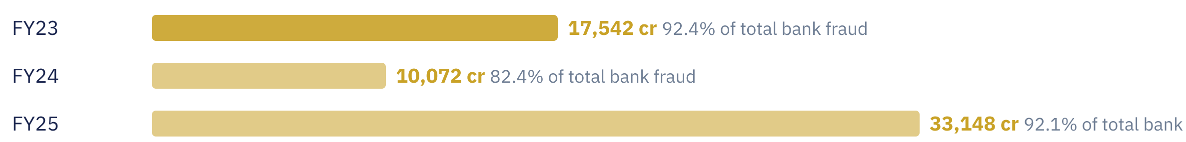
> The RBI publishes bank fraud data by category every year; housing finance companies are absent from those tables in any year on record. The gap matters now: loan-portfolio fraud accounted for **Rs 33,148 crore**[11] and **92.1%**[11] of all reported bank fraud value in FY25, yet Upper-Layer HFC asset quality — the segment under the closest regulatory watch — is deteriorating in the RBI's June 2025 data while every other lender tier improves. There is no published fraud figure to explain what is driving it.

92.1%[11]

OF FY25 BANK FRAUD VALUE SITS IN LOAN PORTFOLIOS, NOT DIGITAL CHANNELS

Card and digital fraud is the more familiar story -- **56.5%** of reported cases -- but only **1.4%**[45] of the money. Loan-portfolio fraud is the reverse: fewer cases, most of the value. The Reserve Bank's own framing: fraud happens mostly in digital payments by count, and mostly in loans by value.

FRAUD VALUE FELL IN FY24 THEN SPIKED IN FY25 -- THE TREND IS NOT A STEADY DECLINE



FY25's **92.1%**[11], FY24's **82.4%**, and FY23's **92.4%** are each that year's advances-fraud value as a percentage of all bank fraud reported that year (loans plus card/digital/other categories combined) — a bank-wide denominator, not a housing-specific one.

RBI Annual Report 2024-25, Tables VI.2-VI.3. Bank-group-wise breakdown only; housing finance companies are not a row in this table in any year. · ZenLearn Research

That trended, published figure is a BANK number only. The Reserve Bank's Annual Report breaks it down by bank group across seven rows, three years running -- housing finance companies are not one of those rows, in any year.

HFCs already report fraud incidents to the Reserve Bank and the National Housing Bank under the 2024 Fraud Risk Management Directions, so the data exists inside the regulator; it has simply never been aggregated and published as a trended figure, the way the bank number has.

HOUSING FINANCE HAS NO SECTOR-SPECIFIC FRAUD METRIC -- GNPA IS THE CLOSEST PUBLISHED PROXY

The closest public proxy measures something different. The Reserve Bank and the National Housing Bank publish enforcement actions — monetary penalties levied on HFCs for regulatory violations found during inspections. In FY2024-25, RBI issued monetary penalty orders against multiple housing finance companies, citing failures in reporting, KYC compliance, and governance under the NHB Act and RBI Master Directions.

The total penalty quantum across all such orders was **Rs 1.16 crore**[13]. Two things are true simultaneously: the penalties are real regulatory findings, and they are not a count of fraud losses. A housing finance company can receive zero enforcement actions in a year and still carry every sanction-stage failure this report documents — a forged title deed, an uninspected valuation, a disbursal made without checking construction stage — because inspection teams do not re-examine completed loan files against the sanction conditions that governed them.

Enforcement and fraud incidence are not the same denominator. The exhibit below makes the distinction concrete.

ENFORCEMENT ACTIONS COUNT REGULATORY FINDINGS, NOT FRAUD INCIDENCE -- THE TWO GAPS ARE NOT INTERCHANGEABLE

WHAT IS COUNTED	WHAT IT CAPTURES	WHAT IT DOES NOT CAPTURE
Monetary penalty order (RBI/NHB)	A specific regulatory violation identified during a supervisory inspection — reporting failure, KYC gap, governance deficiency	Sanctions-stage failures on completed loan files not examined in that inspection; fraud loss quantum; how many files carried the same flaw
Penalty amount (Rs lakh per order)	A deterrent set by statute, proportional to the violation type	Not correlated with the size or frequency of underlying fraud losses in that HFC's loan book
Zero enforcement actions in a year	No regulatory violation was found and penalised during that year's inspections	Does not mean no fraud or sanction-stage failure occurred — only that none was found and penalised in that cycle
FY25 total penalty quantum — all HFCs (Rs 1.16 crore[13])	Sum of all monetary penalties across all HFC penalty orders issued by RBI in FY25	Not the total fraud loss in the HFC sector in FY25; the two figures measure entirely different things

RBI press releases on enforcement actions, FY2024-25 (penalty orders issued against HFCs under the NHB Act and RBI Master Directions). Penalty amounts are per-violation deterrents set by statute, not estimates of fraud loss. · *Source: ZenLearn Research*

> **2.6%[15] to ~1.9%[44]**
> UPPER-LAYER HFC GROSS NPA MOVE, 2024 TO 2025 -- A REVERSAL, NOT A CONTINUED SLIDE

The absence is hard to test against, in either direction. Upper-Layer HFC asset quality rose in 2024 before reversing by 2025 (below), a one-year rise now fully unwound -- while Middle-Layer HFCs improved throughout. The Reserve Bank's own report called the 2024 Upper-Layer move 'some slippage' in a single clause; there was, and still is, no published fraud figure that would have let an outside reader test at the time whether sanction-stage fraud of the kind documented in Section 02 was part of that year's explanation, or rule it out.

THE UPPER LAYER GNPA RISE OF 2024 REVERSED IN 2025 -- BUT THE IMPROVEMENT IS UNEVEN ACROSS COMPANIES

LAYER	GNPA 2023	GNPA 2024	GNPA 2025	DIRECTION
Upper Layer (4 of 91 HFCs -- LIC Housing Finance, Piramal Capital & Housing Finance, PNB Housing Finance, Bajaj Housing Finance)	2.3%[15]	2.6%[15]	~1.9%[44]*	Rose in 2024, reversed by 2025
Middle Layer (all other HFCs)	2.9%[15]	1.9%[44]	~1.6%*	Improved throughout

2023-24 figures: RBI Report on Trend and Progress of Banking in India 2023-24, Chart VI.33. 2025 figures (marked *): read from RBI Report on Trend and Progress of Banking in India 2024-25, Chart VI.25, which does not print exact values for the Upper/Middle-Layer bars individually -- the sector-wide FY2024-25 figure the same chart does print explicitly is **1.8%**, consistent with NHB's own Trend and Progress of Housing in India 2024-25, which states **1.89%** for the same date. 2022 is not used as a comparison year because a large HFC-bank merger that year distorts like-for-like comparison, per the source report's own note.

One exception proves the pattern. NHB's own Report on Trend and Progress of Housing in India, 2024-25, documents a rare named case: whistleblower complaints in September and October 2024 alleged that Aviom India Housing Finance had manipulated its books, window-dressed non-performing assets, booked fake disbursements, issued fake receipts, and forged documents.

NHB ran a Snap Audit, then a Forensic Audit; the Reserve Bank superseded the company's board on **27 January 2025** for governance failures and payment defaults.

NHB's own FY25 sector GNPA figure -- **1.89%** -- explicitly excludes Aviom, on the stated ground that its board had been superseded. The exclusion is methodologically defensible; it is also a demonstration, in a single case, of exactly the invisibility this section describes: the one HFC confirmed by forensic audit to have fabricated its numbers is the one left out of the number meant to describe the sector.

The GNPA improvement across the sector is harder to read without its mechanism. Rating agency research notes for FY2024-25 consistently name write-offs and sales to asset reconstruction companies — not genuine borrower recovery — as the primary driver of the decline.

The Reserve Bank's Financial Stability Report for June 2025 gives the scale: write-offs accounted for **72.9%** of the total GNPA stock for upper-layer NBFCs as of March 2025, up from approximately **50%**[19] in June 2022; for middle-layer NBFCs the ratio was **38.7%**. The four largest housing finance companies sit within the upper-layer.

A loan moved off the books through a write-off is indistinguishable from a recovered loan in the reported GNPA ratio — both reduce it. The disclosure gap this section documents applies here too: bank write-off volumes are published in the Reserve Bank's Annual Report each year; no equivalent sector-level figure exists for housing finance companies.

NEITHER EXISTING TOOL WATCHING THE FILE IS BUILT FOR WHAT FAILS AT SANCTION

Neither of the two tools already watching every housing loan file would catch the failures this report documents, either -- see the exhibit below.

TWO TOOLS ALREADY WATCH THIS FILE. NEITHER IS BUILT TO CATCH A FORGED TITLE OR A BAD VALUATION.

TOOL	WHAT IT ACTUALLY MEASURES	WHAT IT MISSES
Credit bureau score (CIBIL)	Repayment history and existing exposure (Super-Prime 791-900 down to Sub-Prime)	No file-level input -- a forged title or an uninspected valuation is invisible to it
Capital risk-weight rule	**35%**[19], **50%**[19], or **75%**[19] by loan size and loan-to-value band alone	No check on whether the valuation behind that LTV band was itself done correctly

RBI Master Direction -- NBFC-HFC (Reserve Bank) Directions, 2021, Section 6.2 (risk-weight schedule). · *Source: ZenLearn Research*

THE POINT

The category where the money is concentrated -- loan-portfolio fraud -- has no published figure for housing finance, precisely where Upper-Layer asset quality is now moving the wrong way; neither tool already watching the file is built to catch why.

02 The rule already exists; three failure types explain 64% of the 112 documented cases

> The rule that would stop most of these failures is specific and already on the books; the court record shows it being missed at the file level for over a decade.

5
CASES WHERE A COURT EXAMINED THE SANCTION-STAGE FILE AND FOUND IT IN ORDER

The Reserve Bank's Master Direction for housing finance companies is exact on this point. A housing finance company sanctioning a construction loan must obtain a copy of the sanctioned building plan before disbursing -- and disbursal must be strictly linked to construction progress, with no upfront payout for an incomplete project.

Wherever a title document or a third-party valuation is submitted as security, the lender has a duty to verify it is genuine.

20 Nov 2025
NHB RE-ISSUED THE STAGE-LINKED DISBURSAL RULE TO ALL HFCS

This is not a dormant rule. The National Housing Bank re-issued it to every registered HFC on **20 November 2025** -- prompted by a Karnataka High Court order five months earlier, in a dispute over a builder-subvention scheme.

A rule in force since 2021 (tracing to a 2013 predecessor) needed a fresh circular because it was still being missed often enough, and recently enough, to force the regulator's hand.

WHERE THE MISSES CLUSTER: THREE SIGNAL FAMILIES EXPLAIN 64% OF THE VERIFIED CASE SET

64%
OF 112 CASES SHOW A FORGED TITLE, AN UNVERIFIED VALUATION, OR A DISBURSAL-STAGE BYPASS

29%
OF CASES INVOLVE A FORGED TITLE OR SALE DEED

The court and tribunal record shows exactly where the misses cluster: three signals -- a forged title or sale deed, a valuation issued without genuine verification, and disbursal made without checking construction stage -- together cover **64%** of the 112 documented cases (below).

In one representative case, a Delhi High Court plaintiff describes bank officials bringing loan papers for signature outside the normal process, 'in connivance with the officials' of the lender. In another, a CBI prosecution recounts an empanelled valuer and advocate who 'failed to point out the actual ownership of the property' on a loan later found fraudulent.

Each of the **112 cases** was independently sourced and verified against its primary court record before inclusion. The exhibit below shows where cases were set aside and why: most excluded cases are genuine housing-loan disputes — but about servicing, recovery, or SARFAESI procedure after disbursal, not about the sanction-stage file.

OF 162 CASES REVIEWED, 112 MET THE VERIFICATION STANDARD -- EXCLUDED CASES LACKED EVIDENCE, NOT DOCUMENTED FAILURE

CATEGORY	COUNT	DISPOSITION
Verified: sanction-stage failure documented	75	Included (original round)
Excluded: wrong loan type / not a lending matter	22	Never a housing-loan candidate (SME, agri, disciplinary, unrelated)
Excluded: post-sanction -- SARFAESI or recovery procedure dispute	13	Recovery-stage procedural fight (notice defects, auction process); not an appraisal failure
Excluded: post-sanction -- other (foreclosure charges, title-return delay, arbitration)	15	Real housing-loan dispute, but the complaint is about servicing, not the sanction-stage file
Excluded: court found the sanction-stage file in order	5	The sanction-stage file was specifically examined and found in order
Excluded: other (builder-only disputes, duplicates, ambiguous)	32	No lender appraisal question in the record, or the case duplicates a verified entry
Subsequently verified and included	37	Included; each independently fetched and verbatim-verified, but not screened against this funnel's candidate pool

162 cases were independently sourced and reviewed; 75 met the standard of a documented sanction-stage failure — a court or tribunal record where the specific miss (forged title, inflated valuation, disbursal without stage verification) is stated on the record. 37 additional cases were independently sourced and verified on the same standard. **112 cases** documented in total (75 + 37).

HOW THE FAILURES DISTRIBUTE: ACROSS LENDER CATEGORIES AND A DECADE OF COURT DECISIONS

Two cuts of the **112 cases**, shown below, change how the pattern should be read. By lender category: the documented failures are predominantly a bank phenomenon -- HFCs account for **15%** combined across upper and middle layers.

By year: this is a live problem, not a legacy one fading with better systems -- court decisions from 2022 onward cover **46%** of the cases, sitting close behind the entire 2006-2021 period combined.

A handful of cases were filed where a court examined the sanction-stage file and found it in order. In one, cooperative bank staff were accused of negligence in a housing-society loan, but the court found they had obtained a legal opinion and valuation report before sanctioning.

These are included because the unit counted is the documented file, not the accusation — their presence prevents the 112 from being read as a one-sided search for failures.

COURT DECISIONS SPAN A DECADE -- SANCTION-STAGE FAILURE IS NOT A RECENT PHENOMENON

PERIOD	CASES	SHARE OF 112
2006-2021 (16 years)	60	**54%**
2022-2026 (5 years)	52	**46%**

Decision year is the last dated event recorded in each case's own citation (typically the judgment or order date). · *Source: ZenLearn Research*

NINE SIGNALS RECUR ACROSS 112 DOCUMENTED FAILURES -- ALL PRESENT AT SANCTION, ALL DETECTABLE BEFORE DISBURSEMENT

SIGNAL	WHAT THE FILE FAILED TO CATCH	CASES	SHARE OF 112
Valuer inflation or no site visit	Valuation or legal opinion issued without genuine verification	39	35%[19]
Forged title / sale deed	The ownership document itself was forged or fabricated	33	29%
Forged income documents	Salary certificate or Form-16 fabricated to manufacture eligibility	31	28%
Title or encumbrance not checked	Prior mortgage or defect on the property missed	24	21%
Identity or ghost-borrower impersonation	Applicant's identity impersonated or fictitious	23	21%
Staff collusion at sanction	Lender officials implicated alongside the borrower	16	14%
Disbursal without stage verification	Funds released before construction progress was checked	12	11%
Multiple financing, same collateral	Same property pledged to more than one lender	10	9%
Mortgage not perfected	Equitable mortgage or title chain never completed	8	7%

A case can carry more than one signal; percentages do not sum to **100%**. Cases verified against Indian court and tribunal records on the public record; individual citations appear at point of use in the body text above.

VERIFIED FAILURES SPAN ALL LENDER CATEGORIES -- NO SINGLE LENDER TYPE HOLDS THE FAILURE

CATEGORY	CASES	SHARE OF 112
Scheduled Commercial Bank	91	81%
Housing Finance Company -- Upper Layer	9	8%
Housing Finance Company -- Middle Layer	8	7%
Lender not named in the judgment	2	2%
Other / AIFI (e.g. HUDCO)	2	2%

1. Lender category classified from each case's named primary lender against RBI's 16 Jan 2025 Upper-Layer NBFC list (LIC Housing Finance, Piramal Capital & Housing Finance, PNB Housing Finance, Bajaj Housing Finance). All other HFCs are Middle Layer by elimination.
2. The erstwhile HDFC Ltd — India's largest HFC before its July 2023 merger into HDFC Bank — is classified Upper Layer by disclosed scale, since it no longer appears on a post-merger list.
3. A handful of cases name multiple co-defendant lenders in a single consolidated petition; classified by the first-named lender only.
4. Two cases do not name the lending institution in the judgment and are shown separately rather than force-classified.

THE POINT

Two signals -- a forged title and an unverified valuation -- carry most of the problem; a platform that verified only these two at sanction stage would address the majority of the documented failures.

03 Detection is the one stage in the control chain with no published housing-specific standard

> Prevention, investigation, adjudication, and recovery all have explicit rules or a visible record. Detection is the one stage where India has never published what a housing-specific check should look like.

Prevention is well specified: an independent, professionally qualified valuer, CERSAI filing with 'meticulous compliance,' a sanctioned plan and stage-linked disbursal (Section 02). Investigation is too -- a mandatory, time-bound staff-accountability examination in every fraud case, board-approved.

DETECTION: NO PUBLISHED HOUSING-SPECIFIC STANDARD -- ONLY SCATTERED RATING-AGENCY THRESHOLDS

0

PUBLISHED HOUSING-SPECIFIC EARLY-WARNING INDICATORS (VS. 45 FOR CORPORATE LOANS)

Detection is the gap. The 2024 Fraud Risk Management Directions make an early-warning framework mandatory for HFCs but delegate the actual indicator list to each company: 'NBFCs shall identify appropriate early warning indicators.' No housing-specific list has been published by the Reserve Bank or the National Housing Bank -- a reversal from how the Reserve Bank handled corporate lending a decade earlier (below).

FIVE CONTROL LAYERS EXIST; ONLY THE FIRST THREE FIRE BEFORE A RUPEE IS DISBURSED

STAGE	STATUS	EVIDENCE
Prevention	Explicitly ruled	Independent valuer requirement, sanctioned-plan and stage-linked disbursal rules, CERSAI filing duty
Detection	Delegated, no published standard	2024 rule mandates an early-warning framework but leaves the indicator list to each company; no housing-specific list published (contrast: 45 items published for corporate loans in 2015)
Investigation	Explicitly ruled	Mandatory, time-bound staff-accountability examination in every fraud case
Adjudication	Slow, per the case record	38 convictions, 16 upheld findings, 4 where individual culpability was not established but the file failure was documented, 54 still charged or prima facie, of 112 court-documented cases
Recovery	Capacity-constrained	**178,172**[20] DRT cases and **66,876**[20] SARFAESI applications pending nationally (14 Nov 2025); realised recovery fell year-on-year in FY25 after rising in FY24

Sources: RBI HFC Master Directions 2021, RBI Fraud Risk Management Directions 2024, RBI loan-fraud framework 2015, Rajya Sabha written reply 14 Nov 2025. · ZenLearn Research

Rating agencies have filled this gap without waiting for the regulator. For each HFC in this report's peer sample, at least one agency (CARE Ratings, CRISIL) has published specific, numeric thresholds -- the point at which a metric triggers a watch or downgrade action (below).

The Reserve Bank has never published equivalent thresholds industry-wide; these exist only company by company, buried in individual rating rationales.

EACH LENDER'S RATING AGENCY HAS PUBLISHED EARLY-WARNING THRESHOLDS -- NO INDUSTRY AGGREGATE EXISTS

COMPANY	AGENCY	THRESHOLD	DIRECTION
Mahindra Rural Housing Finance	CARE Ratings	Gross Stage 3 > **20%**[21], sustained	Downgrade trigger
Shubham Housing Development Finance	CARE Ratings	AUM-to-tangible-net-worth > 5x, sustained	Downgrade trigger
Niwas Housing Finance	CRISIL	Gross NPA > **5%**, extended period	Downgrade trigger
Niwas Housing Finance	CRISIL	Gross NPA < **1.5%**[38], consistent	Upgrade trigger

Verbatim thresholds from each company's own most recent CARE/CRISIL rating rationale (fetched primary sources, see references). Source: ZenLearn Research.

1. **Gross Stage 3** — loans classified as credit-impaired under Ind AS 109; the accounting equivalent of gross NPA for companies on the new framework.
2. **Gross NPA** — loans overdue by 90+ days, classified as non-performing under RBI income recognition norms.
3. **AUM-to-tangible-net-worth** — total loan book divided by paid-up equity minus intangibles; a measure of financial leverage.
4. **Sustained / Extended period / Consistent** — persisting across two or more consecutive quarterly reviews in the agency's assessment.
5. **Downgrade / Upgrade trigger** — the level at which the agency will revise its current rating if the metric holds there.

These are company-specific credit-rating triggers, not a housing-loan sanction-stage indicator list -- they measure portfolio outcome (what asset quality already looks like), not file-level process (what was checked before the loan was sanctioned). The gap this report documents is the latter, and no rating agency threshold substitutes for it; shown here only to establish that numeric, company-specific early-warning thresholds are already a normal, published part of the housing-finance market -- just never assembled into one industry-wide, process-level standard.

ADJUDICATION: 54 OF 112 DOCUMENTED CASES ARE STILL AT TRIAL

54 of 112

CASES REMAIN AT CHARGED OR PRIMA-FACIE STAGE -- DOCUMENTED, NOT YET RESOLVED

Adjudication is where the court record becomes the evidence: 54 of the 112 documented cases (**48%**) are still at the charge or prima-facie stage, not a comment on any individual's guilt, but a measure of how long institutional resolution takes once a sanction-stage failure surfaces in court (below).

RECOVERY: DRT REALISATION FELL IN FY25 DESPITE A GROWING BACKLOG

178,172[20]

CASES PENDING BEFORE INDIA'S DEBT RECOVERY TRIBUNALS AS OF NOV 2025

Recovery is capacity-constrained -- and the problem runs deeper than the backlog: realised recovery through the tribunals fell in FY25 after rising in FY24, even as the pending caseload grew (below).

DRT RECOVERY FELL IN FY25 DESPITE A GROWING BACKLOG -- THE POST-DISBURSEMENT SAFETY NET IS WEAKENING

Rs crore.

1. **1,78,172**[20] DRT cases and **66,876**[20] SARFAESI applications pending nationally as of November 2025; year-by-year backlog breakdown not published.
2. Source: Rajya Sabha written parliamentary reply, 14 Nov 2025. · ZenLearn Research

RBI's own supervisory leadership has said as much directly.

> REGULATORY VOICE
>
> Deputy Governor Swaminathan J warned that two patterns are unacceptable:
>
> ***'weak underwriting in pursuit of quick growth'***
>
> coupled with excessive and unsustainable interest rates -- at times masked as upfront charges or processing fees
>
> ***'financial inclusion cannot be used as a pretext for financial exploitation'***
>
> *'The same address told NBFC boards that 'liquidity and credit risks must be rigorously assessed and managed' as a board-level, not merely operational, responsibility.'*
>
> — Deputy Governor Swaminathan J, Reserve Bank conference of NBFCs, Chennai, 28 March 2025

Section 06 takes this further: what a housing-specific detection standard should actually contain, and which function inside the institution should own it.

> THE POINT
>
> A failure that goes undetected at sanction, because no housing-specific check exists, can then take years to resolve once it does surface -- the two thinnest stages sit back to back.

04 Origination controls in international context: the standard India has not set, and the patterns that persist without it

> The relevant international comparison for this topic is not how countries split post-fraud liability; it is whether any housing lender publishes and maintains a housing-specific detection standard the way India does not.

THE REGULATORY GAP: WHAT FANNIE MAE PUBLISHES AND INDIA HAS NOT

Fannie Mae -- the Federal National Mortgage Association -- is the United States government-sponsored enterprise that sets underwriting standards for residential mortgage loans purchased from American lenders. As the world's largest single buyer of mortgage credit, it has operational reasons to publish and maintain a housing-specific fraud-detection standard, and it does.

The Reserve Bank has published one detailed early-warning list in its history -- the 2015 corporate-loan framework, discussed in Section 03. It has never published a housing-loan equivalent; the 2024 rule leaves the actual indicator list to each company individually.

30-day
FANNIE MAE'S MANDATORY FRAUD SELF-REPORT WINDOW

Fannie Mae takes the opposite approach. It publishes, and actively revises, a category-organised list of specific fraud red flags for mortgage origination -- appraisal inconsistencies, financial-statement irregularities, property-condition mismatches -- each with named, concrete examples.

One representative line: a property's appraised value being 'significantly higher than the value per unit or per square foot of comparable properties.' Fannie Mae also requires any lender that finds a reasonable basis for suspected fraud to report it within **30 days**[8] of that finding. India's own comparable clock -- **14 days**[2] -- starts only once an incident has already been formally classified as fraud, a later and more discretionary trigger.

THREE JURISDICTIONS HAVE PUBLISHED ORIGINATION-FRAUD DETECTION STANDARDS; INDIA HAS NONE FOR HOUSING LOANS

	RBI, CORPORATE LOANS (2015)	RBI / NHB, HOUSING LOANS (2024)	FANNIE MAE, HOUSING LOANS (US)	APRA, HOUSING LOANS (AUSTRALIA)	FCA, HOUSING LOANS (UK)
Published indicator list	Yes -- 45 items	No -- delegated to each lender	Yes -- category-organised, named examples	No -- capital-buffer model instead	No -- single affordability rule instead
Housing/retail-specific	No	N/A (none published)	Yes	Yes	Yes
Mechanism	Red-flag detection list	Delegated to each lender	Red-flag detection list	2.5pp serviceability buffer + income verification	Binding affordability-evidence rule (MCOB 11.6.5R)

THREE JURISDICTIONS HAVE PUBLISHED ORIGINATION-FRAUD DETECTION STANDARDS; INDIA HAS NONE FOR HOUSING LOANS (CONTINUED)

	RBI, CORPORATE LOANS (2015)	RBI / NHB, HOUSING LOANS (2024)	FANNIE MAE, HOUSING LOANS (US)	APRA, HOUSING LOANS (AUSTRALIA)	FCA, HOUSING LOANS (UK)
Enforcement visible on the public record	N/A	NHB re-issuance, Nov 2025	30-day mandatory self-report	N/A	1 investigation opened in 2025 (18 total, 2018-2025)

Sources: RBI 'Framework for dealing with loan frauds', 7 May 2015; RBI Fraud Risk Management Directions for NBFCs, 15 Jul 2024; Fannie Mae Selling Guide A3-4-03 and 'Potential Red Flags for Mortgage Fraud', April 2025; APRA prudential guidance for residential mortgage lending; FCA Handbook MCOB 11.6.5R and FOI data via Thirdfort (2025). · ZenLearn Research

OFFICER JUDGMENT IS A MEASURABLE VARIABLE

This is not just an India pattern. The US government's own inquiry into the 2008 financial crisis found abandoned underwriting discipline at origination -- not securitisation or capital markets -- was the root cause: 68%[17] of 'option ARM' loans originated in early 2005 carried low- or no-documentation requirements.

Origination-stage underwriting quality is a distinct, government-investigated, measurable category internationally, not an assertion specific to this report.

The same holds outside crisis-scale events. A 2017 study by Fisman, Paravisini and Vig[26] used mandatory officer-rotation records at a large Indian state-owned bank -- over 2,000 branches, 4,270 distinct officers, 1999-2005 -- to create quasi-random officer-borrower matching.

IN-GROUP OFFICER ASSIGNMENT · EFFECT ON LENDING AND DEFAULT

METRIC	SHARED CASTE / RELIGION	MINORITY-RELIGION BORROWERS
Total lending	+18.6% ↑	+43% ↑
Borrowers approved	+6.2% ↑	—
Default / overdue rate	−14.5% ↓	−43% ↓

Effect of in-group officer assignment relative to out-group baseline. Overdue = debt >60 days past due; baseline rate ~2%. Effect on repayment persists after the in-group officer is rotated out.

Source: Fisman, Paravisini & Vig (2017), 'Cultural Proximity and Loan Outcomes', American Economic Review 107(2). General secured lending at a large Indian public-sector bank; not restricted to housing loans.

The mechanism was cultural proximity -- shared caste or religion reducing information friction at the file-review stage, not mere favoritism. The evidence for this: repayment improvements persisted even after the in-group officer was rotated out and replaced by an out-group one, ruling out a pure relationship effect.

Officer-level identity drives a measurable portion of the Indian bank credit decision[26] -- which is what makes Section 02's failure patterns a judgment problem, not only a compliance problem.

THE SAME TWO FAILURE PATTERNS, CONFIRMED INTERNATIONALLY

60-100%

US APPRAISAL-VALUE INFLATION FOUND BY HUD'S INSPECTOR GENERAL, VS 3-4% ACTUAL AREA APPRECIATION

Appraisers reported property values 60-**100%** above cost in markets growing only 3-**4%** annually -- a ~20x gap that directly enabled fraudulent loan origination.[29]

1 in 6

UK ADULTS WHO ADMIT MISLEADING A MORTGAGE LENDER ABOUT INCOME (CIFAS SURVEY)

Some surveyed admitted they were willing to inflate their declared income by as much as **£10,000** and forge payslips to support it. Cifas's own National Fraud Database recorded **1,594** false mortgage applications in 2024 -- up **5%** on 2023 -- representing **7%** of all false-application cases filed to the database that year.[30]

The same two failure types -- valuer inflation and misrepresented income -- recur wherever a regulator has looked closely enough to measure them. The pattern in FATF's Netherlands case is the one this corpus documents repeatedly under Signal MFC and Signal VAL.[31]

THE SAME TWO FAILURE TYPES, CONFIRMED INDEPENDENTLY WHEREVER A REGULATOR HAS MEASURED THEM

JURISDICTION / SOURCE	FINDING	FIGURE
FinCEN (US Treasury)	Appraisers named as suspected participants in sampled mortgage-fraud SARs	~**13%** of narratives
HUD Inspector General (US)	Appraiser-claimed value increase vs. actual appreciation, reverse-mortgage refinances	60-**100%** claimed vs. 3-**4%** actual
Cifas (UK)	Adults who admit misleading a mortgage lender about income	1 in 6
Cifas (UK)	False mortgage applications recorded, 2024	**1,594** (+**5%** YoY)
FATF (Netherlands case study)	Front-man buyer + colluding licensed valuer inflated post-renovation valuation; bank granted mortgage on false valuation before default	Documented typology
FATF (global typology)	Nominee/benami borrowers and fabricated income used to simulate creditworthiness and deceive lenders -- named 'Mortgage Schemes' typology	Named international typology
This report's own corpus (India)	Uninspected or falsified valuation, of 112 documented cases	**39 cases -- 35%**[19]

Figures are not measured the same way (SAR-sampled narratives, forensic refinance review, self-report survey, adjudicated court cases) and should be read as independent confirmations of the same two failure types, not a strict cross-country ratio comparison.

FinCEN Mortgage Loan Fraud SAR reports.[28] · HUD OIG HECM appraisal review.[29] · Cifas National Fraud Database and consumer survey.[30] · FATF Real Estate Money Laundering typology report.[31]. · *Source: ZenLearn Research*

HOW OTHER JURISDICTIONS HAVE TRIED TO CLOSE THE GAP

Other regulators take a third approach: building the safeguard into the affordability math itself. Australia's APRA directs banks to build a minimum 2.5-point interest-rate buffer into serviceability assessments at origination, and separately requires independent income verification.

The UK's FCA takes yet another: a single binding rule (MCOB 11.6.5R) requires a lender to demonstrate, on independently-sourced evidence, that a customer can afford a mortgage before it is sanctioned.

> **1**
> FCA MORTGAGE-FRAUD INVESTIGATION OPENED IN 2025, DESPITE A BINDING AFFORDABILITY RULE

But a binding rule is not an enforced one. The FCA opened just one mortgage-fraud enforcement investigation in 2025, down from a peak of five in 2019 -- against a binding affordability rule that has applied to every regulated UK mortgage the whole time.

The pattern this report documents for India -- a specific rule, thinly enforced at the file level -- recurs even in a jurisdiction with a single, unambiguous rule and a dedicated conduct regulator.

05 Nearly identical GNPA figures reveal nothing about the wildly different sanction-stage checks lenders actually disclose running

> Twelve housing lenders report similar, healthy asset-quality ratios. What each says about how it actually runs underwriting — KYC coverage, valuation controls, fraud checks — is a different picture: no two describe the same controls, and none publishes what those controls check for.

12
HOUSING LENDERS BENCHMARKED ON DISCLOSED ASSET QUALITY AND PROCESS LANGUAGE

Across the twelve lenders reviewed, disclosed housing-loan asset-quality figures sit in a narrow, generally low band. Where the lenders diverge is in what they choose to say about process. Aavas Financiers discloses that its KYC and credit-appraisal checks now run at **100%** coverage using an AI-driven process, stated explicitly against what it describes as an earlier, sample-based approach -- an unusually direct admission of what its prior verification process did not cover.

Sammaan Capital, the renamed Indiabulls Housing Finance, frames its post-restructuring credibility around management experience rather than a redesigned process: its own investor disclosures state 'management has seen cycles, learnt from mistakes, knows the dos & don'ts.' Separately, the company reported a **Rs 7,145 crore**[7] consolidated loss for FY26, attributed to the restructuring, alongside a freshly-reset loan book it describes as carrying zero non-performing assets. This report's anchor HFC's own disclosure is process-forward, describing a fraud-risk and vigilance framework operating 'at the time of origination... with support of analytical tools' -- but, like every peer reviewed, it does not publish an externally auditable list of what those tools check for.

FOUR PATTERNS FROM 112 CASES THAT NO EXISTING ASSET-QUALITY METRIC WOULD SURFACE

Four patterns emerge from the **112 cases** that none of the metrics already watching a housing loan file would surface.

64%
OF CASES SHOW A PROTOCOL DISCIPLINE FAILURE -- THE DOMINANT, MOST EVIDENCED SIGNAL

The first is the most frequent: a specific protocol step was missed -- not because the policy didn't exist, but because the step wasn't logged as done at the file level. Title, valuation, and disbursal-stage protocols were absent in 72 of **112 cases** (**64%**), as Section 02 detailed.

The second is visible in the shape of the National Housing Bank's November 2025 circular: it re-issued an existing rule rather than writing a new one. The disbursal-stage requirement wasn't unclear; it was already published and still not consistently followed.

The third shows up at the adjudication stage rather than the sanction stage: only 38 of **112 cases** reached conviction. That is not a comment on individual guilt -- it is a measure of how rarely a red flag that did surface led to a documented escalation and resolution at the institutional level.

The fourth is in this report's own case record. A case in the 112 documents a junior loan officer describing, under oath, how approval pressure from a senior influenced the decision at sanction -- a check that should have caught the problem was instead overridden at the point of institutional pressure.

THE JUDGMENT QUOTIENT: A FRAMEWORK FOR NAMING AND MEASURING EACH OF THE FOUR PATTERNS

ZenLearn's Judgment Quotient (JQ) is a four-signal framework -- developed across ZenLearn's research programme, not built for this report alone -- that names and measures exactly these four patterns.

- **Protocol Discipline** (was the specific step actually followed)
- **Regulatory Awareness** (did the lender know the rule it missed)
- **Risk Escalation** (was a visible red flag acted on)
- **Pressure Resistance** (did the decision hold when it was under pressure)

All four signals are read off this report's own case record -- each one evidenced in the 112 documented housing cases, not asserted.

The quadrant below plots the two most directly-evidenced signals against each other.

THE JUDGMENT QUOTIENT: FOUR DECISION-QUALITY SIGNALS MAPPED FROM THE 112-CASE RECORD

The four marks are read directly off the 112 documented cases -- Protocol Discipline and Regulatory Awareness plot the case signals. Risk Escalation is evidenced at the adjudication stage. Pressure Resistance is evidenced in a related ZenLearn research report (MSME lending).

REGULATORY AWARENESS		
STRONG ↑	**Calibrated** Rule known and followed -- the minority pattern in this corpus	**Over-calibrated** Rule known, applied rigidly beyond what the file needs
↓ WEAK	**Passive** Rule not known to be missed until a case surfaces -- and 54 of 112 cases have not yet resolved	**Superficial** Rule known (NHB re-issued it in Nov 2025) but the file-level check still skipped -- the dominant pattern
	WEAK ←	→ STRONG
	PROTOCOL DISCIPLINE	

EXTERNAL VALIDATION: INDIVIDUAL LOAN OFFICER IDENTITY EXPLAINS MORE OF LOAN PERFORMANCE THAN THE BANK OR THE BORROWER

A study of over **7,000** corporate loan officers at major US corporate lending departments (1994-2012) found that officer identity alone -- not the bank, not the borrower -- explains far more of the variation in loan pricing and performance than which bank made the loan, and this influence has not shrunk despite decades of lending automation.[34]

> **1 in 5**
> MODEL-DRIVEN CREDIT-RATING CHANGES REVERSED BY THE LOAN OFFICER (BROWN ET AL., ACROSS 9 BANKS)

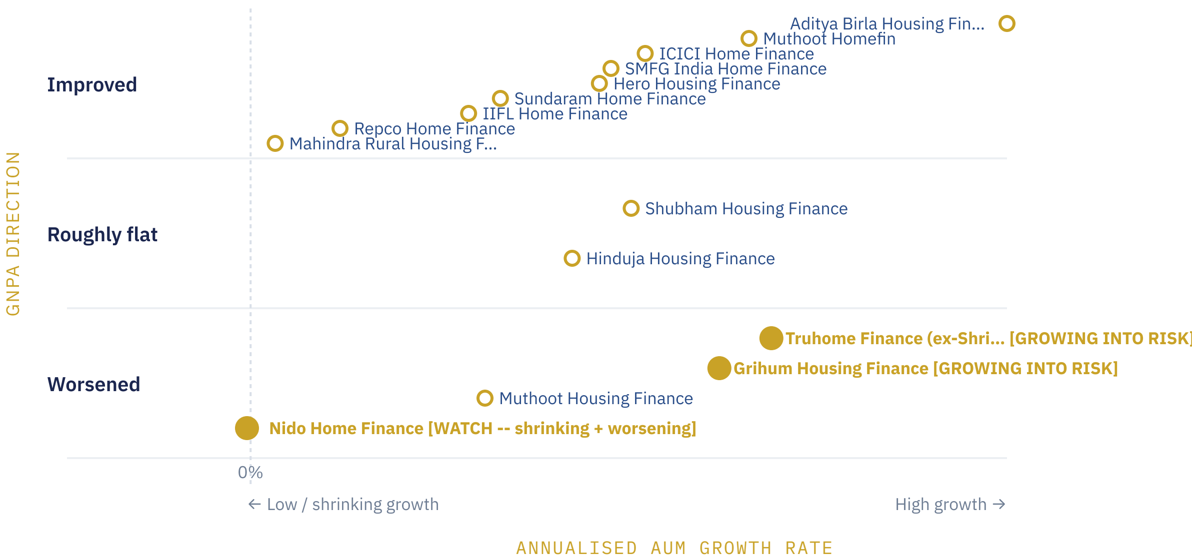
A separate study of **6,669** credit assessments across nine banks, all using an identical quantitative rating model, found loan officers reversed one in five model-driven rating changes -- with limited power to predict how the loan actually performed, more like discretionary insurance for existing clients than genuine risk correction.[35]

THE GROWTH-QUALITY CORRELATION: FASTEST-GROWING LENDERS WERE MOST LIKELY TO SEE GNPA WORSEN

Cross-referencing each company's own disclosed AUM growth against its GNPA direction (detailed table on next page) surfaces a pattern the table above cannot show (below). Most fast-growing lenders show no visible quality cost.

Two do not, and one shrinking book deteriorates anyway -- the growing-into-risk pattern this report's own thesis about sanction-stage discipline under volume pressure would predict, confirmed in a minority of cases, not asserted across the sample.

FASTEST-GROWING COMPANIES WERE MOST LIKELY TO SEE GNPA WORSEN -- AUM GROWTH RATE AND ASSET QUALITY ARE NOT INDEPENDENT



Source: ZenLearn Research.

AUM growth computed from each company's own disclosed figures at two dates, same reporting basis only -- standalone and group/consolidated figures are never mixed (SMFG India Home Finance, for example, discloses both a standalone subsidiary AUM and a larger parent-group AUM; only the standalone-to-standalone comparison is used here). Measurement windows range from 0.5 to 3.**8 years** across companies, reflecting each company's own disclosed reporting dates -- growth rates are annualised specifically so windows of different length are comparable. Companies without a same-basis, 6-month-or-longer spread, or without a match in the 21-company GNPA table, are excluded rather than estimated.

'GROWING INTO RISK' = annualised growth of **25%** or higher combined with worsening GNPA over the same window; this pattern is descriptive, not causal -- it does not establish that growth caused the asset-quality decline, only that both moved together in these two cases.

Most lenders in the sample improved their headline GNPA, but Mahindra Rural Housing Finance is the exception worth naming: its own rating agency notes the FY25 'improvement' was driven by a write-off jump (**Rs 134 crore** to **Rs 460 crore**) alongside a net loss and shrinking branch count -- provisioning and contraction, not a cleaner book.

Truhome Finance's own rating agency discloses a second confirming number the headline GNPA does not show: its two-year lagged (vintage) NPA ran at **3.0%**[38] as of March 2025, roughly double the **1.5%**[38] headline GNPA for the same date -- a gap CRISIL attributes to write-offs and restructuring masking underlying stress, on the same book that was growing fastest in the sample.

Vastu Housing Finance stated it tightened credit underwriting mid-FY25, sharply cutting approval rates, after delinquencies in its vehicle-finance book peaked at **3.3%**[45] -- a rare instance of a lender naming underwriting tightening as the explicit response to a stress signal, rather than leaving a reader to infer it from the numbers alone.

MOST HOUSING LENDERS IMPROVED THEIR HEADLINE GNPA -- BUT THE IMPROVEMENT IS UNEVEN ACROSS COMPANIES AND SBR LAYERS

LENDER	EARLIEST DISCLOSED GNPA	LATEST DISCLOSED GNPA	DIRECTION
This report's anchor HFC	**0.95%** (Mar-24)	**0.77%** (Mar-25)	Improved
Mahindra Rural Housing Finance	**10.46%** (Mar-23)	**8.26%** (Jun-25)	Write-off driven (not genuine)
GIC Housing Finance	**3.03%** (Mar-25)	**3.96%** (Mar-26)	Worsened (ECL method change)
Repco Home Finance	**5.8%** (Mar-23)	**3.16%** (Q2-FY26)	Improved (4-yr de-risking)
SMFG India Home Finance	**6.2%** (Mar-22)	**2.4%**[44] (Mar-25)	Improved sharply (ex-Fullerton)
Sundaram Home Finance	**2.2%** (Mar-23)	**1.63%** (Jun-25)	Improved (ticked up Mar-25)
Aditya Birla Housing Finance	**3.2%** (Mar-23)	**0.7%**[9] (Mar-25)	Improved sharply
IIFL Home Finance	**3.1%**[10] (Mar-22)	**1.74%** (Dec-24)	Improved (ticked up Mar-24)
India Shelter Finance	**2.1%** (FY22)	**1.0%** (FY25)	Improved (fraud unit disclosed)
Truhome Finance (ex-Shriram Housing Finance)	**0.9%**[15] (Mar-23)	**1.5%**[38] (Mar-25)	Worsened (Warburg FY25 ownership)
Vastu Housing Finance	**1.12%** (Mar-24, consol.)	**1.46%** (Mar-25, consol.)	Worsened (controls tightened)
Hinduja Housing Finance	**2.39%** (Mar-24)	**2.5%** (Jun-25)	Roughly flat
Shubham Housing Finance	**1.2%**[9] (Mar-24)	**1.3%**[15] (9MFY26)	Roughly flat
Muthoot Housing Finance	**0.79%** (Mar-24)	**1.29%** (Mar-25)	Worsened (no auditor fraud flags)
Godrej Housing Finance	**0.004%** (FY24)	**0.29%** (Sep-25, combined)	Rising (book still very young)

Source: Company annual reports, investor presentations, and CARE/ICRA/CRISIL/Infomerics rating rationales. Figures are Gross NPA or Stage 3 as disclosed; definitions vary -- read direction of travel. 6 of 21 benchmarked HFCs omitted (plain Improved/Worsened, no new signal). All 15 shown are Middle Layer per RBI Scale-Based Regulation. · ZenLearn Research

06 A controlled internal standard can target the two signal families present in 56% of the documented case set

The highest-leverage next step is not a new regulation -- the Reserve Bank's housing finance rules already cover the ground -- it is a controlled, institution-specific pre-sanction assurance standard, targeting the recurring failure families this report documents, applied as a gate before disbursal rather than found afterward in a court record.

56%

OF DOCUMENTED CASES CARRY A FORGED-TITLE OR VALUER-INFLATION SIGNAL

Section 02 named the rule; Section 04 named the missing detection standard (Fannie Mae's category-organised, actively-revised red-flag list). The gap between the two is operational, not legal.

The recommended next step targets Section 02's signal families, prioritised by frequency in the case set: title-chain re-verification and valuer-inflation checks first (present in **56%** of documented cases); a construction-progress-linked disbursal-stage gate next; and narrower checks for multiple-financing, identity, and mortgage-perfection risk (below). Built as a controlled, versioned, institution-specific standard on Fannie Mae's model but held internally, it converts a principles-based delegation ('identify appropriate early warning indicators') into an instrument a credit officer, an auditor, and an inspector can all point to.

Ownership sits with credit risk, not compliance. The failure patterns happen at sanction, inside the credit-appraisal workflow -- a compliance function that reviews policy after the fact cannot catch a forged title or an uninspected valuation before disbursal.

Credit risk owns the standard and its periodic revision; internal audit tests file-by-file adherence.

EACH OF THE NINE SIGNAL FAMILIES MAPS TO A PRE-SANCTION GATE THAT CAN BE OPERATIONALISED NOW

SIGNAL FAMILY	CASES	RECOMMENDED GATE
Forged title / valuer inflation	63 of 112 (**56%**)	Independent title-chain re-verification and valuer site-visit confirmation, logged per file
Disbursal-stage bypass	12 of 112 (**11%**)	Construction-progress evidence required before each disbursal tranche, per the existing HFC MD rule
Income-document forgery	31 of 112 (**28%**)	Independent income-source verification beyond the document face
Multiple financing, identity, mortgage perfection	38 of 112 (**34%**)	CERSAI cross-check and identity re-verification at sanction

Case counts are from this report's 112-case verified corpus; a case may appear in more than one family. · *Source: ZenLearn Research*

SEVEN LEADING INDICATORS THAT GIVE A BOARD 60-90 DAYS OF WARNING BEFORE GNPA MOVES

INDICATOR	WHAT IT MEASURES
Valuer site-visit completion rate	Share of sanctioned files with a logged, dated valuer site-visit record
Disbursal-stage evidence rate	Share of disbursal tranches released with construction-progress evidence on file
Title-verification cycle time	Average days from title submission to independent verification completed
Red-flag escalation rate	Share of red flags raised during appraisal that are escalated to a decision, rather than closed without action
Adjudication cycle time	Average days from a suspected sanction-stage failure being flagged internally to resolution or escalation -- the same clock the 54-of-112-still-pending finding in Section 03 measures externally, in court
Encumbrance cross-check hit rate	Number of files where a CERSAI or encumbrance cross-check surfaces a prior claim
Suspected-fraud reporting lag	Share of fraud-suspected files reported to the regulator within a defined internal window, mirroring Fannie Mae's 30-day rule

None of these require new data collection -- each is a byproduct of running the pre-sanction standard this section recommends. · *Source: ZenLearn Research*

THE POINT

The two signals present in **56%** of the documented cases point to the same fix: an independent, logged, pre-sanction check on title and valuation, owned by credit risk and tested by internal audit -- not a new rule, an internal way to enforce the one that exists.

07 Clean pools exist and are well-documented -- but they are not a random sample of what gets sanctioned

> Rating agencies independently verify that many housing-loan pools perform cleanly for years. Five companies in this report's peer sample have recent PTC rating rationales from CRISIL or ICRA -- independent assessors with no incentive to overstate pool quality, since a mis-rated pool is a reputational cost to the agency, not just the originator. The pattern across them is consistent: low-to-zero delinquency and a seasoning record of one and a half to over four years, with one pool disclosing **1,982** individual contracts with zero 90+ dpd delinquency.

THE SELECTION PROBLEM: A RATED POOL IS A LENDER'S BEST LOANS -- NOT A RANDOM SANCTION FILE

But a securitized pool is a lender's own selection of its best-performing loans for sale to investors. The checks these agencies apply -- bureau score, loan-to-value, seasoning, geographic concentration -- happen downstream of sanction, on the loans a lender chooses to showcase.

This proves clean pools exist and are common enough to fund a securitization market; it does not prove they are representative of the average sanctioned file. That limit applies to every number in this section.

THE BUREAU-WIDE BASELINE: SIX STRAIGHT QUARTERS OF STEADY IMPROVEMENT

An unbiased baseline exists alongside this. CRIF High Mark's 'How India Lends' report publishes a national, bureau-wide Portfolio-at-Risk (PAR) series for home loans every quarter -- drawn from the full active loan universe reported to the credit bureau, not a lender-selected sample.

As of March 2026, national home-loan PAR has improved steadily across all three delinquency buckets over the prior six quarters -- PAR 31-90 declined from **2.4%**[44] in September 2024 to **1.9%**[44] by March 2026 (below). Read against this baseline, the PTC pools above are not an unusual outcome: they sit inside a national portfolio that is already mostly clean on a bureau-reported basis, and getting cleaner.

NATIONAL HOME-LOAN PAR HAS IMPROVED STEADILY OVER SIX QUARTERS -- THE BUREAU-WIDE BASELINE THE POOL COMPARATOR ABOVE CANNOT PROVIDE

PERIOD	PAR 31-90	PAR 91-180	PAR 180+
Sep-24	2.4%[44]	0.3%	1.8%
Jun-25	2.2%	0.3%	1.8%
Sep-25	2.2%	0.3%	1.9%[44]
Dec-25	2.1%	0.3%	1.9%[44]
Mar-26	1.9%[44]	0.2%[44]	1.7%[44]

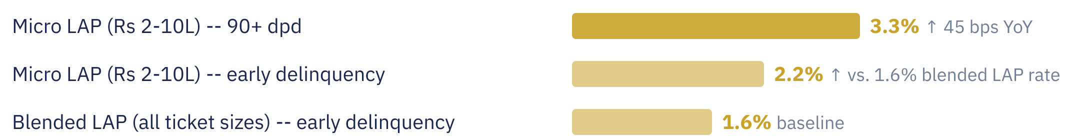
CRIF High Mark, 'How India Lends' -- Credit Landscape in India. Sep-24, Jun-25, Sep-25: September 2025 edition, p.9 ('Home Loans - Portfolio Snapshot'). Dec-25, Mar-26: March 2026 edition, p.7 ('Home Loans - Portfolio Snapshot'). PAR = Portfolio at Risk, share of outstanding portfolio value in each days-past-due bucket, drawn from the full bureau-reported active loan universe (**Rs 44.4 lakh** crore outstanding, 235.7 lakh active loans as of Mar-26) -- not a lender-selected sample, unlike the PTC pool comparator above. All five buckets show stable-to-improving delinquency; PAR 31-90 declined from **2.4%**[44] (Sep-24) to **1.9%**[44] (Mar-26).

WHERE THE AGGREGATE BREAKS DOWN: RISING STRESS IN THE SMALLEST-TICKET SEGMENTS

A second independent bureau confirms the aggregate picture and adds a segment-level nuance CRIF's national number cannot show on its own (below): the overall delinquency rate is improving, but the improvement is not uniform -- stress is rising in the smallest-ticket segments even as the headline figure falls.

Micro loan-against-property (**Rs 2-10 lakh**) shows the same pattern more sharply (below). The aggregate is healthy; the segment most exposed to smaller, less-documented borrowers is the one showing rising stress.

MICRO-LAP DELINQUENCY RUNS ABOVE THE BLENDED LAP BASELINE -- STRESS IS CONCENTRATED IN THE SMALLEST, LEAST-DOCUMENTED BORROWERS



Source: CRIF High Mark, How India Lends -- March 2026 edition. Early delinquency = PAR 31-90; 90+ dpd = PAR 91+. · ZenLearn Research

The regulator has, in fact, already started collecting a version of the data this report argues is missing. NHB's own Report on Trend and Progress of Housing in India, 2024-25 lists 'Monthly reporting of Delinquent accounts' among the advisories it issued to HFCs during the year -- meaning delinquency data at the individual-account level is now flowing into the regulator on a monthly cadence.

FIVE INDEPENDENTLY-RATED POOLS IN THIS REPORT PEER SAMPLE SHOW LOW-TO-ZERO DELINQUENCY -- EVIDENCE THAT CLEAN FILES EXIST, NOT THAT THEY ARE TYPICAL

COMPANY	DEAL	RATING	SEASONING AT CUT-OFF	DELINQUENCY (90+ DPD)	OTHER DISCLOSED QUALITY SIGNAL
LIC Housing Finance	India Residential Mortgage Trust 2025-01	CRISIL AAA(SO)	53.4 months (WA)	0.00% (no overdues)	Avg ticket ~Rs 28 lakh, WA interest rate 9.75%
Aavas Financiers	Prime Home Loan Trust V	ICRA AAA(SO)	~19 months (WA)	0.00%	1,982 contracts; no single borrower >0.2%[44] of pool; bureau score ≥700 on every contract
IIFL Home Finance	(mortgage loan securitisation)	ICRA (reaffirmed)	not disclosed in this rationale	0.79% (loss-cum-90+); 0.73% (180+)	99.40%[41] cumulative collection efficiency
India Shelter Finance	RAFAEL 08 2021	ICRA AAA(SO) / A+(SO)	34 months (WA)	not disclosed at issuance (2021 rationale)	96% of contracts: bureau score >750; LTV ~37%
Repco Home Finance	PRATHAM 12 2025 (LAP pool)	ICRA AAA(SO), provisional	not disclosed	3.0%[38] assumed shortfall (rating agency's own base case, not observed)	Loan-against-property pool, not pure housing -- included for context, not averaged with the others

Figures are drawn directly from each transaction's own CRISIL/ICRA rating rationale, verbatim-quoted where stated in the source; where a rationale did not disclose a given metric (e.g. IIFL's seasoning, India Shelter's post-issuance delinquency), the cell is marked rather than estimated. Repco's pool is loan-against-property, not housing, and is shown for context only, not blended into the housing-specific pattern the other four rows show.

AGGREGATE STABILITY MASKS RISING STRESS IN THE SMALLEST-TICKET SEGMENTS -- DECEMBER 2025

SEGMENT	DELINQUENCY MEASURE	SEP-25 RATE	YOY CHANGE
Home Loan	90+ dpd (balance-level)	**0.7%**[9]	-11 bps (improved)
Housing loans, overall	Early delinquency (12-month vintage)	**0.4%**	-
LAP, overall	Early delinquency (12-month vintage)	**1.5%**[38]	-
Micro-LAP (Rs 2-10 lakh)	90+ dpd (balance-level)	**3.1%**[10]	+35 bps
Micro-LAP (Rs 2-10 lakh)	Early delinquency (12-month vintage)	**2.1%**	+18 bps

TransUnion CIBIL, Credit Market Indicator, March 2026 edition (data as of December 2025). Balance-level 90+ dpd: p.20; vintage early delinquency (90+ in **12 months** for home loan/LAP Dec-24 originations; 30+ in **6 months** for micro-LAP 3M ended Dec-24 originations): p.21. Micro-LAP defined as property loans with ticket size **Rs 2**L-10L; home loans and property loans with sanction amount less than **Rs 2 lakh** excluded. A second, independent bureau source from the one behind the national PAR series above -- shown separately because it measures a different thing (vintage-based early delinquency by ticket size) than CRIF's point-in-time portfolio snapshot. · *Source: ZenLearn Research*

THE POINT

Independent, rating-agency-verified evidence that clean housing-loan files exist across five securitized pools in this report's peer sample, using the same underwriting inputs (bureau score, LTV, seasoning) this report argues should be checked at sanction -- but drawn from a lender's own best-performing pools, not a random sample, so it proves the checks are possible, not that most files already pass them.

SD Self-Diagnostic

5 questions, sixty seconds

> Five questions a Chief Risk Officer can answer from memory in the next sixty seconds.

01	Could you produce, within five working days, file-level evidence -- a logged valuer site-visit record, disbursal-stage construction evidence, an independent title check -- for a sampled set of 50 recent housing-loan sanctions?	Y / N
02	If the National Housing Bank asked you to show compliance with its November 2025 stage-linked-disbursement circular, could you produce that evidence within a week for your builder-tied-up housing loans?	Y / N
03	Do your credit officers work from a specific, written list of housing-loan red flags -- or only a general fraud-risk policy that does not name housing-specific checks?	Y / N
04	Could you state your Gross Stage 3 trend for housing loans specifically, separate from your broader retail book, without pulling a report?	Y / N
05	If a title dispute surfaced today on a housing loan sanctioned two years ago, could you show which officer verified the encumbrance certificate, and when?	Y / N

Scoring. Two or more 'no' answers mean the pattern documented in this report -- a known rule, missed at the file level -- is not a hypothetical for your own book.

MM Maturity Model

where you are — and how to move up

> Most banks and NBFCs sit at Level 1–2. Find your row, read the evidence an inspector would actually get at that level, then the single move that advances you.

LVL	STAGE	WHAT AN INSPECTOR GETS	MOVE UP BY
1	**Completion-tracking dashboards** Credit officers have completed fraud-awareness modules; whether that completion changes what they check on a file is not measured.	A module-completion log. No file-level evidence of what was actually verified.	**Introduce a logged, dated valuer site-visit record and title-verification note on every sanctioned file, even before any broader system change.**
2	**Periodic knowledge testing** Officers are periodically tested on fraud-policy knowledge; actual sanction-stage behaviour on live files remains unmeasured.	A quiz score. Still no record of what happened on a specific file.	**Move from testing knowledge to sampling files: have internal audit review a rolling sample of sanctioned files against the published standard each quarter.**
3	**Scenario-sampled judgment** A sample of sanctioned files is periodically reviewed against a defined standard, generating point-in-time evidence of judgment quality.	A dated audit report covering a sample of files -- evidence exists, but only for the files reviewed.	**Extend sampled review to full-population, continuous logging of the five leading indicators in Section 06, so evidence exists for every file, not only the sampled ones.**
4	**Continuous judgment system** Every sanction-stage decision is checked against a published, specific, housing-loan indicator list and the result logged per file, per officer.	Individual-level, timestamped, inspection-defensible evidence for every file, on demand.	**Maintain and periodically revise the published standard itself, on the Fannie Mae model, as failure patterns shift.**

SB Scope Boundary

what this measures — and what it is not

> This report measures sanction-stage file quality at the point a housing loan is originated -- before disbursal. It is deliberately distinct from three adjacent tools.

TOOL / ENGINE	WHAT IT DOES	WHY THIS LAYER IS DISTINCT
RBI's Fraud Risk Management Directions (early-warning framework)	Detects fraud in a loan account after it is already live	Operates post-sanction; this report is about the file quality at the point of origination, before disbursal
Credit bureau scoring (TransUnion CIBIL, Experian, CRIF)	Assesses a borrower's creditworthiness from bureau history -- products include CIBIL's Credit Market Indicator, Experian's CreditExpert bureau data, and CRIF's national PAR series	A housing loan can pass every bureau check while the file itself is deficient -- a forged title or an uninspected property is invisible to a bureau score, which measures repayment history, not whether the property was verified before the loan was sanctioned
Loan-to-value and risk-weight capital rules	Determines how much capital a lender must hold against a loan of a given size	Independent of whether the appraisal that produced the loan-to-value figure was itself done correctly: RBI's own risk-weight schedule assigns 35%, 50%, or 75% purely by loan size and LTV band (Section 6.2 of the HFC Master Directions), with no provision checking whether the valuation underlying that LTV ratio was performed by an independent, competent valuer.
Loan Origination System (LOS) workflow and credit scorecard	Automates the sanction workflow -- credit bureau pull, LTV calculation, scorecard risk-grading, and committee routing	An LOS checks the borrower's credit profile and the loan's financial parameters; it does not check whether the valuer visited the site, whether the title is free of prior charges, or whether construction reached the required stage before a tranche was released -- these file-compliance checks sit outside every standard LOS workflow

CI The Cost of Getting It Wrong

the financial impact, sized

Rs 175 – 2,325 cr[14]

ILLUSTRATIVE STRESSED-ASSET RANGE ACROSS THE LOW / BASE / HIGH GNPA-PROXY SCENARIO

0.7%[9] – 3.1%[10]

GNPA-PROXY RATE RANGE APPLIED (HOUSING, LAP, NBFC RETAIL — ALL REAL, DISCLOSED FIGURES)

Rs 25k – 75k cr

ILLUSTRATIVE HOUSING BOOK SIZE RANGE (BRACKETS THIS REPORT'S ANCHOR HFC'S DISCLOSED AUM)

> No public, housing-specific fraud-incidence rate exists (Section 01's own finding), so this exhibit does not invent one. Instead it runs a Low / Base / High scenario using three real, disclosed GNPA figures as a bounded, labelled proxy for portfolio stress -- not a fraud-specific rate -- applied to illustrative book sizes.

LOSS DRIVER	THE NUMBER	WHAT MOVES IT
LOW — Housing Loan GNPA (0.7%[9], Mar-25 disclosed)	Rs 175 – 525 cr[14]	Stressed-asset exposure if fraud-linked stress tracked the housing book's own disclosed GNPA rate
BASE — Loan Against Property GNPA (1.2%[9], Mar-25 disclosed)	Rs 300 – 900 cr	The adjacent product often underwritten by the same desk; signal overlap with housing files in the case corpus
HIGH — NBFC retail-loan GNPA (3.1%[10], Mar-25 disclosed)	Rs 775 – 2,325 cr	The broader NBFC retail-lending environment housing finance companies sit within

Formula & Methodology

`Illustrative exposure = AUM tier x GNPA-proxy rate`

- AUM tiers used: **Rs 25,000** / **50,000** / **75,000** crore (bracketing the anchor HFC book)
- Rate range: **0.7%**[9] (LOW) to **3.1%**[10] (HIGH)
- The magnitude column combines each scenario rate with the smallest and largest AUM tier to give a range

ASSUMPTIONS

- All three rates (**0.7%**[9] LOW, **1.2%**[9] BASE, **3.1%**[10] HIGH) are real, disclosed GNPA figures from the RBI Financial Stability Report, June 2025 -- none is invented, and none is a fraud-specific rate
- This exhibit does not claim that GNPA stress equals fraud loss; it uses the only real, bounded, sourced range available to illustrate scale across a Low/Base/High scenario band, and states that limitation plainly rather than substituting a fabricated fraud-incidence rate

BB Board Briefing

lift-and-drop for the board pack

SITUATION

India's housing finance rules already require a sanctioned building plan, stage-linked disbursal, and independent, verified valuation before a housing loan is sanctioned.

The public court record shows 112 documented cases where one or more of these checks was missed, across nearly every major bank and housing finance company, with a forged title, an unverified valuation, or a disbursal-stage bypass present in **64%** of cases.

The National Housing Bank re-issued the core disbursal rule to every housing finance company as recently as November 2025, after a fresh High Court case -- the rule was known and still being missed.

IMPLICATION

No housing-specific early-warning standard is published in India the way one is for corporate loans (2015); the 2024 rule leaves each housing finance company to build its own internal standard. Abroad, Fannie Mae, a US mortgage-market standard setter, publishes and actively maintains a comparable list -- but publication exposes control logic, which is itself a reason an Indian lender may prefer a controlled, internal, versioned standard over a public one.

Once a sanction-stage failure does surface, resolution is slow: 54 of 112 court-documented cases remain at a charged or prima-facie stage, and national debt-recovery capacity is under sustained strain.

Question for management. Can management produce evidence of title verification, valuation, and disbursal-tranche checks for a sampled set of the last 50 housing-loan sanctions, within five working days?

Recommended next step. Approve a controlled, versioned, institution-specific pre-sanction assurance standard -- prioritising the two most frequent signals, forged title and valuer inflation -- owned by credit risk and tested by internal audit; require the results at the next Risk Management Committee meeting.

CL Closing

This report started from a narrow question: does the Indian public record show the same kind of sanction-stage housing-loan failure that a prior ZenLearn analysis found in SME and retail lending. It does, and the scale is now measured directly, not asserted: 112 court-documented cases, fetched and verbatim-quoted, spanning nearly every major bank and housing finance company, not a handful of isolated incidents.

First, the rule is not the problem. The Reserve Bank's housing finance directions are specific about what a lender must check before sanctioning and disbursing a housing loan. The National Housing Bank's own November 2025 circular proves the rule is still being enforced, not abandoned.

Second, the checking is the problem. Three failure types -- a forged title, an unverified valuation, and a disbursal-stage bypass -- account for **64%** of the 112 documented cases, and none requires a new regulation to catch; each requires a specific, logged check that most lenders' public disclosures do not describe having.

Third, the measurement is the problem. Bank loan-portfolio fraud is a published, three-year-trended number. The equivalent figure for housing finance companies -- including the Upper-Layer cohort where asset quality is now moving the wrong direction -- has never been published in any of those three years.

A lender, a regulator, or a board member reading only the public disclosures available today has no way to see the pattern this report documents from the court record alone.

The fix scales from the evidence, not around it: a published, specific, periodically-revised standard, owned by credit risk and tested by internal audit, built on the two most frequent signals in this report's case set first, turning a rule that already exists into a check a credit officer actually runs before the loan is disbursed.

RS

Research Series

This brief is part of ZenLearn Research's structured stream on judgment risk in Indian regulated financial institutions. Briefs are listed in expected order of release.

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About ZenLearn

ZenLearn is an AI-powered Decision Intelligence platform for preventive-stage credit risk. It analyzes your institution's own credit files, sanction notes, committee decisions, and internal policies to identify weaknesses in underwriting judgment before loans are disbursed. By surfacing hidden risk signals, policy deviations, and recurring decision patterns, ZenLearn helps improve sanction quality, reduce avoidable losses, and strengthen regulatory preparedness — all while running entirely within your own infrastructure, with no customer data leaving the bank.

Judgment Intelligence starts where L&D leaves off. Most institutions already measure whether training was attended; Judgment Intelligence measures whether judgment actually improved. Delivered within Microsoft Teams or Slack, it captures frontline and committee responses to realistic scenarios in under ninety seconds, producing timestamped, tamper-evident evidence that supports internal governance, inspection readiness, and audit defensibility without introducing another enterprise application.

The underlying measurement framework, Judgment Quotient (JQ), is a rigorous, evidence-based methodology for quantifying institutional decision quality. As the framework matures, it will provide a common language for measuring judgment risk across credit, compliance, operational risk, and governance.

Delivery evidence. ZenLearn's judgment-measurement construct has been delivered in production: a DRA certification pilot with a Blackstone-backed ARC cohort recorded an 80–90% pass rate and a 4.6/5 participant NPS.

> **To go further.** To commission a Judgment Risk Map pilot on a sample of your contested-claims adjudications, or to request the underlying primary-source pack behind this report, write to rohit@zenlearn.ai. A personalised response is sent within 24 hours.

Prepared by **Rohit Kumar** · **ZenLearn Research**

Founder, ZenLearn Research · MBA, IIM Mumbai

Former Head of Business, Eko India

ex-CFO: Blackstone IARC, Pristyn Care, GE A&C SE Asia · Engine development, Tata Nano programme

Window: Court and regulatory record reviewed through 15 July 2026; case corpus spans judgments dated from the early 2010s through 2025; regulatory citations current to the NHB circular of 20 November 2025.

Contact: rohit@zenlearn.ai · zenlearn.ai/research · Proprietary & Confidential