



Ref: KSFC/HO/GM(IA)/419/2017-18/C-7882

Date:02.02.2018

**C I R C U L A R N O . 1 0 0 0**

Sub : Modified Schemes for financing Construction & Real Estate (CRE) Projects.

A Note was placed before the Board Sub-Committee in its meeting held on 18.11.2017 in the light of Implementation of Real Estate Regulations & Development Act' 2016 (RERA) and Karnataka Real Estate (Regulation & Development) Rules' 2017 in order to modify the schemes for financing Construction & Real Estate (CRE) projects which comes under the perview of RERA Act.

After deliberations, the Board Sub-Committee has made the following suggestions :

a) The Corporation can continue to finance the smaller projects which does not require registration under RERA.

b) The loan application of projects coming under the Act should be issued only after ensuring that the project is approved by the RERA.

c) While accepting the application, the compliance to RERA will have to be examined in detail. A copy of documents submitted to the RERA should be verified along with documents submitted to KSFC to ensure that both are same.

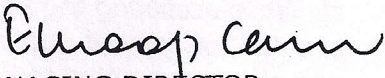
d) The collateral security requirements will have to be ensured on the following lines :

- For layout development projects, where the land is owned by the developer and is mortgaged as primary security, the minimum collateral security of 25% of the loan amount may be insisted upon.
- For residential apartment projects, where the developer owns the land and mortgage the land to KSFC, minimum collateral security of 50% of loan amount may be insisted upon.
- For joint development projects, where the land owners secure their rights on the land along with developer, minimum collateral security of 50% of the loan amount may be insisted upon.

- For joint development projects where the land owner signs the documents as consenting witness but does not mortgage the land rights, the loan should be secured by 100% collateral security.
- In respect of layout development projects, the loan will be computed based on development cost with a margin of 25% and overall DER not exceeding 2:1.
- In respect of residential apartment projects, where the developer owns the land, the loan amount will be computed based on cost of development, construction and equipments, with a margin of 25% and overall DER not exceeding 2:1.
- In respect of joint development projects, the loan will be decided on the basis of cost of construction excluding the proportionate share of land owners rights with a margin of 25% and overall DER not exceeding 2:1.
- Minimum promoters contribution of 20% should be Insisted upon. For the pupose of deciding the DER, the advances collected from allottees will be taken as equity.
- While computing the cost of construction eligible for financing, proportionate cost relating to the plots / apartments where the sale agreement is already entered into should be excluded.

Incorporating the above suggestions, the modified schemes for financing Construction & Real Estate Projects is detailed in Annexure-A and general guidelines along with salient features of RERA Act is in Annexure-B.

The contents of the circular shall be brought to the notice of all the concerned in your office / department.

  
MANAGING DIRECTOR

TO :

All HODs at Head Office,  
All the BMs/AGMs/DGMs of BOs,  
All the AGMs of IACs.

~~.....~~  
General Managers  
Executive Directors

## I. SCHEME FOR FORMATION OF RESIDENTIAL/COMMERCIAL/INDUSTRIAL LAYOUTS

(A) OBJECTIVE : The objective of the Scheme is to provide financial assistance for development of vacant land into residential / industrial / commercial layouts.

### (B) PROJECT COST :

(i) Land : The land cost will not be taken for Project Cost. The value of the land as per the valuation policy will be taken for security purpose. It is mandatory to register the mortgage securing the land in favour of KSFC for the loan.

(ii) Development Cost : Expenditure towards levelling of land, formation and asphaltting of roads, storm water drain, underground drainage, providing water lines, electricity lines, compound walls and other relevant expenditures can be considered for deciding the loan amount.

(iii) Deposit : Preliminary and pre-operative expenditure (including interest during implementation is as per the norms of the Corporation) will be provided in the project cost. This will not be considered for financing.

### (C) MEANS OF FINANCE :

(i) Promoter's contribution in the form of capital should be fixed at minimum 20% of the project cost.

(ii) Booking advance up to 20% of the project sale realisation may be considered in the means of finance.

(iii) Term loan shall be maximum 75% of the development cost as indicated at B(ii) above.

### (D) SECURITY :

(i) Primary Security : Primary security of the land and the sites proposed to be formed. Valuation of the land should be as per the valuation guidelines detailed in the Lending Policy.

(ii) Collateral Security : Exclusive collateral security to the extent of minimum 25% of the loan amount should be insisted upon. The guidelines for acceptance, valuation and method of securing collateral security are as per the lending policy applicable.

(iii) Personal Guarantee of the proprietor / partners / directors shall be obtained.

*Note : Generally, Joint Development Layout projects shall not be encouraged.*

## II. SCHEME FOR RESIDENTIAL APARTMENTS / COMMERCIAL COMPLEX / OFFICE SPACES WHERE THE LAND IS OWNED BY DEVELOPER.

(A) OBJECTIVE : The objective is to provide financial assistance for construction of residential apartments, group housing and residential villas, commercial complex or office spaces on build and sale model.

### (B) PROJECT COST :

(i) Land : The land cost will be considered in the project cost at purchase price plus registration expenses if registration is within 18 months from the date of application. If it is more than 18 months, it will not be taken for project cost, but only taken as additional security. Land cost will not be considered for finance.

(ii) Construction cost : Construction cost will be worked out as per the detailed estimates. The appraising officer should verify the detailed estimates and satisfy that the costs are reasonable.

(iii) Plant & machinery / equipments : As per the details supported by alternative quotations. The appraising officer to ensure that the rates quoted are reasonable and competitive.

(iv) Preliminary and pre-operative expenditure including interest during implementation is as per the norms of the Corporation.

### (C) MEANS OF FINANCE :

(i) Promoter's contribution shall be minimum 20% of the project cost in the form of capital.

(ii) Booking advance / deposits may be assessed based on the individual projects with a maximum ceiling of 20% of the sale realisation of the project.

(iii) Term loan will be computed based on cost of construction, cost of plant & machinery/equipments. Maximum loan will be limited to 75% of the estimated cost of construction / plant & machinery / equipments.

### (D) SECURITY :

(i) Primary Security : Mortgage of the project land and proposed apartments as primary security. The valuation of the land will be as per the guidelines given in the Lending Policy.

(ii) Collateral Security : Exclusive collateral security to the extent of minimum 50% of the term loan. The guidelines for acceptance, valuation and method of securing collateral security as per the Lending Policy applicable.

(iii) Personal Guarantee of the proprietor / partners / directors shall be insisted upon.

### III. SCHEME FOR JOINT DEVELOPMENT PROJECTS :

For the purpose of financing the joint development projects have been classified into two groups namely;

- (1) Joint development where the owners of the land join in the documentation and secure their land in favour of the Corporation.
- (2) Joint Development where the land owners join as a consenting witness but do not secure their land rights.

#### **(1) Joint Development where the owners of the land join in the documentation and secure their land in favour of the Corporation.**

##### (A) PROJECT COST :

- (i) The land cost will not be taken for project cost. The value of the land (including owners share) will be taken as security since the owners secure the land to KSFC.
- (ii) Construction cost : Construction cost will be worked out for the entire project including owners share as per the detailed estimates. The appraising officer should verify the detailed estimates and satisfy that the costs are reasonable.
- (iii) Plant & machinery / equipments : As per the details supported by alternative quotations. Appraising officer to ensure that the rates quoted are reasonable and competitive.
- (iv) Preliminary and pre-operative expenditure including interest during implementation is as per the norms of the Corporation.

##### (B) MEANS OF FINANCE :

- (i) Promoter's contribution : Minimum 20% of the project cost.
- (ii) Advance / Deposits from customers : 20% of realisation of sale price.
- (iii) Term loan of 75% of the proportionate cost of construction relating to developer's share. Construction cost falling to owner's share will not be financed.

##### (C) SECURITY :

- (i) Primary security of the land including the owners land rights.
- (ii) Exclusive collateral security to the extent of 50% of the loan amount.
- (iii) Personal Guarantee of the proprietor / partners / directors shall be insisted upon.

**(2) Joint Development where the land owners join as a consenting witness but do not secure their land rights to the Corporation**

**(A) PROJECT COST :**

(i) The cost will not be taken for project cost. The proportionate land share of the developer will be taken for security purpose.

(ii) Construction cost : Construction cost will be worked out for the entire project including owners share as per the detailed estimates. The appraising officer should verify the detailed estimates and satisfy that the costs are reasonable.

(iii) Plant & machinery/equipments : As per the details supported by alternative quotations. Appraising officer to ensure that the rates quoted are reasonable & competitive.

(iv) Preliminary and pre-operative expenditure including interest during implementation is as per the norms of the Corporation.

**(B) MEANS OF FINANCE :**

(i) Promoter's contribution : Minimum 20% of the project cost.

(ii) Advance / deposit from customers : 20% of realisation of sale price.

(iii) Term loan of 75% of the proportionate cost of construction relating to developer's share. Construction cost falling to owner's share will not be financed.

**(C) SECURITY :**

(i) Primary security : Land – proportionate share of the developer as per the Joint Development Agreement.

(ii) Exclusive collateral security of 100% of the loan amount. The guidelines for acceptance, valuation and method of securing collateral security as per the Lending Policy applicable.

(iii) Personal Guarantee of the proprietor / partners / directors shall be insisted upon.

**IV. CORPORATE LOAN FOR CONSTRUCTION ACTIVITY :**

(A) OBJECT : The object of the scheme is to provide financial assistance to construction activity such as commercial complexes, residential apartments, group housing, apartments, residential layouts etc. The loan will not be project specific, but will be based on the requirement for projects in the pipeline.

(B) ELIGIBLE BORROWERS : An individual, partnership firm, private limited company or companies incorporated under Companies Act that have been in operation for at least five years and have a proven profit record for at least the previous three years, AND should not be in default with commercial banks and financial institutions.

(C) EXTENT OF FINANCE :

(i) Up to Rs.200.00 lakhs in case of proprietary and partnership concerns and Rs.500.00 lakhs in case of private and public limited companies.

(ii) The loan amount shall not exceed 20% of the average sale recorded in the previous three years  
OR / AND

(iii) Shall not exceed 20% of the estimated investments in the projects / orders on hand.

(C) SECURITY : The loan should be secured by 100% collateral security to the satisfaction of the Corporation.

(D) REPAYMENT PERIOD : Maximum repayment period is limited to five years including a moratorium of three years.

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## ANNEXURE – B

### GENERAL GUIDELINES FOR FINANCING CRE PROJECTS

1. The eligible borrowers shall be an individual / registered partnership firm / LLP / Company incorporated under Companies Act / Registered Trust.
2. Maximum loan amount for proprietary / partnership firm is Rs.800.00 lakhs and for companies upto Rs.2000.00 lakhs.
3. DER : Maximum 2:1.
4. Repayment period : Maximum 60 months including a moratorium period of upto 36 months depending on the project.
5. The project shall be registered with RERA Authority with requisite approved building plans / licence issued by competent authority and possession of commencement certificate.
6. The promoters / builders shall submit all the documents as per Form-A (copy enclosed) which has to be submitted to the RERA Authorities for registration (indicating project financier details in any other details column).
7. Copy of declaration as per Form-B (copy enclosed) submitted by the promoter to RERA has to be made available to Project Clearance Committee. Registration certificate issued by RERA as per Form-C (copy enclosed) shall be submitted at the time of documentation / before first release.
8. The promoter shall also disclose the project financier details in the project website as per RERA requirement before availing loan assistance from the Corporation.
9. While computing the cost of construction eligible for financing, proportionate cost relating to the plots / apartments where the sale agreement is already entered into should be excluded.
10. A condition should be stipulated that before accepting advance from any customer, promoter should obtain NoC in writing from KSFC. Advance received in excess of 20% of price of plot / apartment should be repaid to the Corporation towards repayment of principal.
11. While appraising the project, customer advance may be assessed looking at the individual project. Advances upto 20% may be taken in the means of finance. At the disbursement stage, advance collected, the list of customers from whom the advance is collected should be obtained to ensure that the total advances are within the assessment made and provided in the means of finance.



12. While disbursing the sanctioned amount, corporation may release the eligible funds to the separate Bank Account maintained for the project by the promoter as per RERA which may enable easy monitoring of flow of funds. Ensure that separate Bank Account is opened as mandated in the Act. The amount available in the separate Bank Account shall be noted before any release and the progress in the project implementation shall be assessed by the Technical Officer before first release in order to ensure FIC by the promoter excluding payments made by the allottees. The disbursement of loan will be made only through ESCROW account.
13. Monthly Bank Statements of the separate Bank Account for the preceding month to be collected in order to analyse the flow of funds in comparison with project implementation and to exercise due diligence in flow of funds. Collect the monthly print out from the website of the project in which details as declared by the promoter with regard to developments from time to time on implementation of the project and allotment details are available. Quarterly reports regarding implementation of the project to be filed before RERA authority shall be made available to the Corporation by the promoter.
14. Corporation can continue to finance the smaller projects which does not require registration under RERA.
15. The rate of interest applicable are as per Circular No. 999 dated 24.01.2018 and subsequent updates.

**SALIENT FEATURES OF RERA ACT :**

- The Act defines the structure, roles and responsibilities of various bodies that will govern the Real Estate Act.
- It includes the procedures for the registration of new real estate projects, promoter and agents along with their roles and responsibilities.
- Defines the penalties that will be imposed in case of any violation by the promoters, agents or buyers.
- Act will effectively safeguard buyers' interest. Buyers money will remain safe as builders will have to lock 70% of the funds in an ESCROW Account and will be used only for the construction of the respective projects.
- Builders will have to sell units on carpet area basis as against existing super built up area basis, thereby transparency in the transaction.

The registration with RERA Authority is not required for the projects :

- Where the area of land proposed to be developed does not exceed 500 sq.mtrs (5380 sq.ft) or the number of apartments proposed to be developed does not exceed EIGHT units inclusive of all phases.
- Project completion certificate has been received prior to commencement of this Act.

- For the purpose of renovation or repair or redevelopment which does not involve selling or new allotment of any apartment, plot or building as the case may be under Real Estate Project.

The promoters with a Real Estate Project excluding the above criteria shall make an application for registration with the Authority in a prescribed format along with the details as per Form-A. On receipt of the application, the Authority grant registration valid for a period till completion of the project as declared by the promoter. The details of the project shall also be made available to the general public by creating a separate web site. The proposed project shall be developed and completed by the promoter in accordance with the sanctioned plans as approved by the Competent Authorities.

The promoter cannot issue any kind of advertisement or called for a booking of a plot, apartment without first registering the project with RERA. No real estate agent shall facilitate sale or purchase of plot, apartment or building without obtaining registration. Under the new Act, the real estate developer shall not accept more than 10% of the cost of the plot or apartment as advance payment from a person without entering into a written agreement for sale and register such agreement for sale under the law applicable. The promoter is required to deposit 70% of the amount realised for the real estate projects from the allottees from time to time in a separate bank account maintained in a scheduled bank to cover the cost of construction and shall be used only for that purpose [Sec.4(1)(D)]. The promoter shall withdraw the amount from the separate account to cover the cost of the project in proportionate to the percentage of completion of the project.

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[See sub-rule (2) of Rule 3]

## APPLICATION FOR REGISTRATION OF PROJECT

To

The Real Estate Regulatory Authority (Name of Place)

Sir,

[I/We] hereby apply for the grant of registration of [my/our] project to be set up at ..... Tehsil .....  
 District ..... State .....

## 1. The requisite particulars are as under:

- (i) Status of the applicant - [individual/company/proprietorship firm/societies/partnership firm/Competent Authority etc.];
- (ii) In case of individual.—
  - (a) Name
  - (b) Father's Name
  - (c) Occupation
  - (d) Address
  - (e) Contact Details (Phone number, E-mail, Fax Number etc.)
  - (f) Name, photograph, contact details and address of the promoter OR  
 In case of [firm/societies/trust/company/limited liability partnership/Competent Authority etc.]—
    - (a) Name
    - (b) Address
    - (c) Copy of registration certificate as [firm/societies/trust/company/limited liability partnership/Competent Authority etc.]
    - (d) Main objects
    - (e) Contact Details (Phone number, E-mail, Fax Number etc.)
    - (f) Name, photograph, contact details and address of [chairman/partners/directors] and authorised person etc.
- (iii) PAN No. of the promoter;
- (iv) Name and address of the bank or banker with which account in terms of sub-clause (D) of clause (1) of sub-section (2) of Section 4 will be maintained;
- (v) Details of project land held by the applicant ;
- (vi) Brief details of the projects launched by the promoter in the last five years, whether already completed or being developed, as the case may be, including the current status of the said projects, any delay in its completion, details of cases pending, details of type of land and payments pending etc.  
 .....
- (vii) Agency to take up external development works [Local Authority/Self Development];
- (viii) Registration fee by way of a demand draft/bankers cheque dated drawn on ..... bearing no. .... for an amount of

Rs..... /- calculated as per sub-rule (3) of Rule 3 or through online payment as the case may be..... (give details of online payment such as date paid, transaction no. etc.);

(ix) Any other information the applicant may like to furnish.

2. [I/We] enclose the following documents, namely. —

- (i) authenticated copy of the PAN card of the promoter;
- (ii) annual report including audited profit and loss account, balance sheet, cash flow statement, directors report and the auditors report of the promoter for the immediately preceding three financial years and where annual report is not available, the audited profit and loss account, balance sheet, cash flow statement and the auditors report of the promoter for the immediately preceding three financial years;
- (iii) authenticated copy of the legal title deed reflecting the title of the promoter to the land on which development of project is proposed along with legally valid documents for chain of title with authentication of such title;
- (iv) details of encumbrances on the land on which development of project is proposed including details of any rights, title, interest, dues, litigation and name of any party in or over such land or no encumbrance certificate from an advocate having experience of at least ten years or from the revenue authority not below the rank of tehshildar, as the case may be;
- (v) where the promoter is not the owner of the land on which development of project is proposed details of the consent of the owner of the land along with a copy of the collaboration agreement, development agreement, joint development agreement or any other agreement, as the case may be, entered into between the promoter and such owner and copies of title and other documents reflecting the title of such owner on the land on which project is proposed to be developed;
- (vi) an authenticated copy of the approvals and commencement certificate from the Competent Authority obtained in accordance with the laws as may be applicable for the real estate project mentioned in the application, and where the project is proposed to be developed in phases, an authenticated copy of the approvals and commencement certificate from the Competent Authority for each of such phases;
- (vii) the sanctioned plan, layout plan and specifications of the proposed project or the phase thereof, and the whole project as sanctioned by the Competent Authority;
- (viii) the plan of development works to be executed in the proposed project and the proposed facilities to be provided thereof

- including fire-fighting facilities, drinking water facilities, emergency evacuation services, use of renewable energy;
- (ix) the location details of the project, with clear demarcation of land dedicated for the project along with its boundaries including the latitude and longitude of the end points of the project;
  - (x) proforma of the allotment letter, agreement for sale, and the conveyance deed proposed to be signed with the allottees;
  - (xi) the number, type and the carpet area of apartments for sale in the project along with the area of the exclusive balcony or verandah areas and the exclusive open terrace areas with the apartment, if any;
  - (xii) the number and areas of garage for sale in the project;
  - (xiii) the number of open parking areas and the number of covered parking areas available in the real estate project;
  - (xiv) the names and addresses of his real estate agents, if any, for the proposed project;
  - (xv) the names and addresses of the contractors, architect, structural engineer, if any and other persons concerned with the development of the proposed project;
  - (xvi) a declaration in Form 'B'.

3. [I/We] enclose the following additional documents and information regarding ongoing projects, as required under Rule 4, and under other provisions of the Act or the rules and regulations made thereunder, namely.—

- (i)
- (ii)
- (iii)

.....

4. [I/We] solemnly affirm and declare that the particulars given herein are correct to [my/our] knowledge and belief and nothing material has been concealed by [me/us] therefrom.

Dated:

Place:

Yours faithfully,

Signature and seal of the applicant(s)

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FORM B

[See sub-rule (4) of Rule 3]

DECLARATION, SUPPORTED BY AN AFFIDAVIT, WHICH SHALL BE  
SIGNED BY THE PROMOTER OR ANY PERSON AUTHORISED BY  
THE PROMOTER

Affidavit-cum-Declaration

Affidavit-cum-Declaration of Mr./Ms. .... promoter of the  
proposed project/duly authorised by the promoter of the proposed project,  
*vide its/his/their* authorisation dated .....

I, ..... promoter of the proposed project/duly authorised by the  
promoter of the proposed project do hereby solemnly declare, undertake and  
state as **under**:

1. That I/promoter have/has a legal title to the land on which the  
development of the project is proposed

OR

..... have/has a legal title to the land on which the  
development of the proposed project is to be carried out

AND

a legally valid authentication of title of such land along with an  
authenticated copy of the agreement between such owner and  
promoter for development of the real estate project is enclosed  
herewith.

2. That the said land is free from all encumbrances.

OR

That details of encumbrances ..... including details of  
any rights, title, interest or name of any party in or over such  
land, along with details.

3. That the time period within which the project shall be completed  
by me/promoter is .....
4. That seventy per cent of the amounts realised by me/promoter for  
the real estate project from the allottees, from time to time, shall  
be deposited in a separate account to be maintained in a  
scheduled bank to cover the cost of construction and the land cost  
and shall be used only for that purpose.
5. That the amounts from the separate account, to cover the cost of  
the project, shall be withdrawn in proportion to the percentage of  
completion of the project.
6. That the amounts from the separate account shall be withdrawn  
after it is certified by an engineer, an architect and a chartered

accountant in practice that the withdrawal is in proportion to the percentage of completion of the project.

7. That I/promoter shall get the accounts audited within six months after the end of every financial year by a chartered accountant in practice, and shall produce a statement of accounts duly certified and signed by such chartered accountant and it shall be verified during the audit that the amounts collected for a particular project have been utilised for the project and the withdrawal has been in compliance with the proportion to the percentage of completion of the project.
8. That I/promoter shall take all the pending approvals on time, from the Competent Authorities.
9. That I/promoter have/has furnished such other documents as have been prescribed by the rules and regulations made under the Act.
10. That I/promoter shall not discriminate against any allottee at the time of allotment of any apartment, plot or building, as the case may be, on any grounds.

Deponent

**Verification**

The contents of my above Affidavit-cum-Declaration are true and correct and nothing material has been concealed by me therefrom.

Verified by me at ..... on this ..... day of .....

Deponent

FORM C

[See sub-rule (1) of Rule 6]

REGISTRATION CERTIFICATE OF PROJECT

This registration is granted under Section 5 of the Act to the following project under project Registration Number.....

(Specify Details of Project including the project address)

1. (in the case of an individual) Mr./Ms. .... son of Mr./Ms. ...., Taluk ....., District ....., State .....

OR

(in the case of a firm or society or company or Competent Authority) ..... firm or society or company or

Competent Authority ..... having its registered office or principal place of business at .....

2. This registration is granted subject to the following conditions, namely. —
  - a. The promoter shall enter into an agreement for sale with the allottees as provided in Annexure-A;
  - b. The promoter shall execute and register a conveyance deed in favour of the allottee or the association of the allottees, as the case may be, of the apartment or the common areas as per Section 17;
  - c. The promoter shall deposit seventy per cent of the amounts realised by the promoter in a separate account to be maintained in a schedule bank to cover the cost of construction and the land cost to be used only for that purpose as per sub-clause (D) of clause (1) of sub-section (2) of Section 4 of the Act;
  - d. The registration shall be valid for a period of ..... years commencing from ..... and ending with ..... unless renewed by the Real Estate Regulatory Authority in accordance with Section 6 of the Act read with Rule 7 of these rules;
  - e. The promoter shall comply with the provisions of the Act and the rules and regulations made thereunder;
  - f. The promoter shall not contravene the provisions of any other law for the time being in force in the area where the project is being developed.
3. If the above mentioned conditions are not fulfilled by the promoter, the regulatory authority may take necessary action against the promoter including revoking the registration granted herein, as per the Act and the rules and regulations made thereunder.

Dated:

Place:

Signature and seal of the  
Authorised Officer,  
Real Estate Regulatory Authority