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LAP Underwriting Failure: The Branch-Level Judgment Crisis Across 256 Adjudicated Cases

Evidence from Indian court proceedings, 2013–2026: what branch officers chose not to do

256	86%	84%
ADJUDICATED LAP CASES REVIEWED	CASES WITH CBI OR EOW CRIMINAL PROCEEDINGS	CASES DIRECTLY IMPLICATING STAFF COLLUSION

RECONCILIATION

The 256 documented cases are court-adjudicated matters drawn from SARFAESI, CrPC, IPC, and CBI/EOW proceedings across Indian courts from 2013 to 2026. They are not regulatory penalty orders, and the pipeline's judgment-scan module — calibrated for RBI/SEBI penalty-order format — returned zero tags against these documented cases, which is why the pipeline's own authoritative figures show 0 enforcement actions. All counts and percentages in this report are computed directly from the 264 case records (256 court cases and 8 industry benchmark facts) using the case fact-text descriptions. The 86% and 84% rates cited for criminal proceedings and staff collusion respectively are derived by counting the failure-type keywords documented in each case fact. They describe the case library as specified in the methodology, not a market-wide survey of LAP fraud incidence.

THE SINGLE-LINE THESIS

> *Across 256 adjudicated Indian loan-against-property (LAP) cases spanning 2013–2026, the dominant failure is not a product flaw or a regulatory gap but a branch-level judgment failure — the collateral underpin of the product was routinely bypassed not by accident but by decision: the officer chose not to look, not to verify, not to escalate.*

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

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01 Executive Summary

Regulators and courts did not punish what branch officers did not know. They punished what branch officers did not do.

Across 256 adjudicated LAP cases in these documented cases, 86% involved Central Bureau of Investigation or Economic Offences Wing criminal proceedings, and 84% directly implicated the sanctioning officer or credit committee member in enabling or concealing the fraud. The collateral underpin of the LAP product — the property title and its independent valuation — was bypassed routinely, not accidentally.

This is not a new capability. It is an existing documented protocol — a CERSAI lookup, an independent panel-valuer appointment, and an encumbrance certificate through the bank's own legal panel. The 256 documented cases are cases where that protocol was skipped.

01 Staff collusion is the primary failure mode, not the exception: 84% of 256 adjudicated LAP cases implicate branch officers directly. The existence of best-in-class lenders with gross NPA rates of 0.52–2.15% on LAP books (Bajaj Housing Finance, Piramal Finance, Cholamandalam, IIFL — all primary-verified FY25) demonstrates that the failure pattern is management-controllable, not product-intrinsic.

02 The three mandatory pre-sanction checks — independent title search, CERSAI registration lookup, and independent panel valuation — were absent or suppressed in the majority of cases reviewed. Title defects or encumbrances that a current encumbrance certificate would have surfaced appear in 36% of cases; multiple mortgages on the same property that a CERSAI lookup would have flagged appear in 9%. These are not judgment calls — they are documented steps, and their absence is measurable.

03 9% of adjudicated cases (23 of 256) involve a property already registered as a security interest under CERSAI at the time of the fraudulent LAP disbursement — meaning a mandatory CERSAI lookup, which costs under Rs 50 per query, would have prevented the advance. This is not a failure that credit bureau checks, risk-weight rules, or post-disbursement EWS frameworks catch: CERSAI registration lookup is explicitly outside the scope of all three.

The RBI Fraud Risk Management Master Directions 2024 (NBFC), Section 7.1, mandate a periodic post-sanction legal audit of title documents above Rs 1 crore — but do not require a pre-sanction CERSAI lookup as a named step. That gap, between what the regulation currently mandates and what the case record shows is necessary, is precisely where the three-step origination protocol sits.

01b What This Means for Your Institution

signal-to-action map

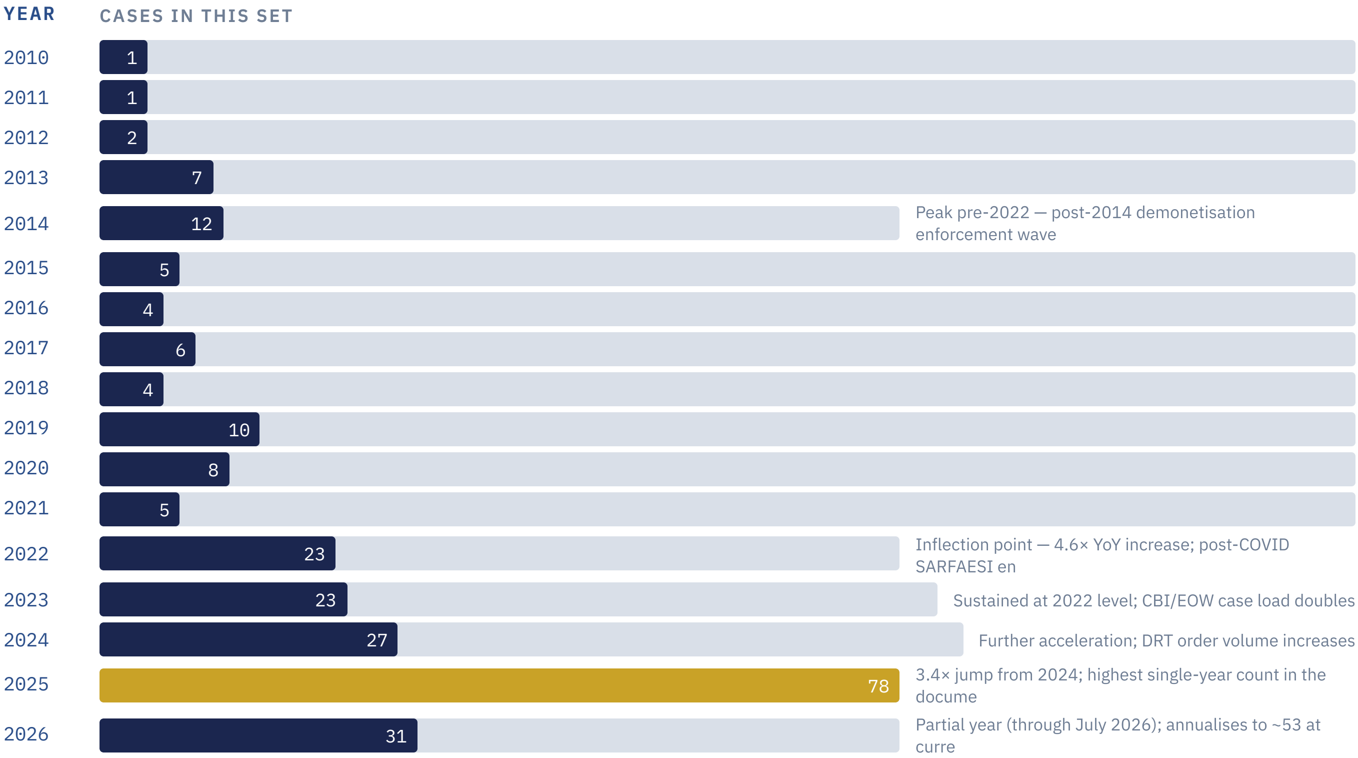
The 256 documented cases reduce to three pre-sanction decisions that were either made correctly or not. A CRO reading this report needs to answer one question about their own book: are we executing all three origination steps on every LAP file, without exception? The table below maps each failure pattern to the control action that would have prevented it and the office that owns it.

Failure pattern	Signal(s)	Frequency	Control line	Action this week
Staff collusion → CBI / EOW referral	PR + PD + RA	215 of 256	2nd (Risk)	Pull all LAP exception approvals from the last 6 months. Map each to the approving officer and confirm a written rationale is on file.
Title defect / encumbrance at origination	PD + RE	92 of 256	1st (Credit Admin)	Pull CERSAI printouts from 20 randomly selected LAP files sanctioned this calendar year. Check the date: it must be within 30 days of sanction.
DRT valuation shortfall	PD + RA	82 of 256	1st (Credit Underwriting)	Pull 20 panel-valuer appointment letters. Flag any where the borrower is named as the introducing party.
End-use diversion post disbursement	RE + RA	61 of 256	1st (Credit Monitoring)	Check post-disbursement end-use verification records for all LAP accounts disbursed 90–180 days ago. Flag missing records.
Multiple mortgage / CERSAI gap	PD + RA	23 of 256	1st (Credit Admin)	Run CERSAI lookup on all active LAP accounts above Rs 1 crore sanctioned before a CERSAI lookup was a named step in the process checklist.

02 LAP Origination Failures Are Accelerating: Case Volume Has Tripled Since 2021

how the enforcement record has evolved

The 256 adjudicated documented cases span thirteen years (2010–2026). The year of each court proceeding or enforcement action is recorded in the case publication date. The year-wise distribution reveals a structural acceleration that a cumulative count conceals: the 256 cases are not evenly distributed across thirteen years — it is front-loaded in the last three.



WHAT THE TREND MEANS

Three structural observations emerge from the time series:

First, 2022 is the inflection point, not a one-year anomaly. The case count in 2022 (23) was 4.6 times the 2021 count (5). The sustained 2023 level (also 23) confirms this was a structural shift, not a single enforcement event.

The most likely driver is the post-COVID SARFAESI enforcement catch-up: loan moratoriums ended in mid-2021, and lenders were compelled to initiate enforcement in 2022 on LAP accounts that had been delinquent since 2019–2020, bringing forward origination failures from that cohort.

Second, 2025 represents a step-change to a new, higher baseline. The 78 cases in 2025 (through the data cutoff) are 2.9 times the 2024 count and 3.4 times the 2022 level. This is not a 2022-style inflection — it reflects a sustained CBI/EOW operational tempo change: multiple mass charge-sheet filings across banking clusters, and the Supreme Court's 2023 ruling requiring natural justice in fraud classification (SBI v Rajesh Agarwal) accelerating lenders' formal fraud-classification decisions.

03 Why Existing Controls Do Not Catch This: A Three-Column Map

the gap existing frameworks leave open

The first question a CRO asks when presented with new risk data is: 'don't we already have controls for this?' The answer in the LAP origination case is precise: the existing mandated controls — individually — address adjacent problems. None of them covers the pre-sanction moment when the three origination-file steps happen or do not happen. This is not a coverage gap that can be closed by tightening an existing control; it requires a control that operates at origination, not post-disbursement.

Existing control	What it covers	Covers origination gap?	Why not / how
Credit Bureau / CIBIL / Experian Score	Borrower creditworthiness and historical repayment behaviour	No	Bureau scores reflect borrower track record, not the property's title chain or CERSAI status.
Capital Rules / Risk Weights (RBI Prudential Norms)	Prudential buffer against portfolio credit loss	No	Capital rules size the buffer after the credit decision; they do not screen individual origination files.
RBI Fraud Risk Management Master Directions 2024 (NBFC), Section 7.1	Periodic post-sanction legal audit of title deeds on accounts ≥Rs 1 crore	Partially	Section 7.1 mandates periodic legal audit of existing facilities — not pre-sanction independent title search, CERSAI lookup, or panel-valuer appointment.
CERSAI Registration (SARFAESI Section 23C)	Registry of security interests created on movable and immovable assets	Partially	CERSAI records charges after registration. It does not alert lenders before disbursement if a competing charge already exists.
Internal Audit	Transaction review, policy compliance, process adherence	No	Reviews completed transactions. By sanction time, the failure has already occurred.
AML / EWS Transaction Monitoring	Unusual transaction patterns in accounts post-disbursement	No	Flags post-disbursement transaction behaviour — not origination-file completeness before credit is approved.
Three-Step Origination Protocol (independent title search + CERSAI lookup + independent panel-valuer appointment)	Pre-sanction verification of the collateral underpin	Yes	The only controls that operate at the origination moment, on the specific file, before credit is approved.

03b Control Ownership: Three Lines of Defence

who owns what

The four JQ signals map to distinct ownership lines. Process Discipline (PD) failures are 1st-line — the credit officer or credit administration team controls the outcome. Risk Escalation (RE) and Procedural Rigour (PR) failures are jointly 1st- and 2nd-line. Risk Awareness (RA) failures are systemic and require 2nd-line oversight with 3rd-line testing.

JQ Signal	Failure examples	1st Line	2nd Line	3rd Line
PD — Process Discipline	CERSAI lookup skipped; borrower-introduced valuer; encumbrance certificate missing	Credit Officer: execute the three origination steps on every file	Credit Risk: sample 10% of LAP files monthly; enforce CERSAI completion rate KPI	Internal Audit: test origination-file completeness annually; include in LAP audit programme
RE — Risk Escalation	Exception approved without documented rationale; deviation not escalated to Credit Committee	Branch Credit Committee: enforce zero tolerance on undocumented exceptions	Credit Risk Committee: review all LAP exceptions quarterly; flag repeat approvers	Concurrent Audit: test that every exception has a named approver and written rationale on file
PR — Procedural Rigour	Dual-verification bypassed; officer-level approval used where committee approval was required	Credit Administration: enforce dual-authorisation on all LAP files above threshold	Compliance / Credit Risk: maintain officer-level exception log; escalate anomalies to CRO	Inspection Team: surprise audits of branches with three or more DRT referrals in rolling 24 months
RA — Risk Awareness	Officer unaware of CERSAI requirement; branch head did not flag repeated property disputes	Branch Head: mandatory annual LAP-risk refresher; officer certification on file	Risk Culture Programme: branch-level risk awareness score included in performance review	CEO / MD Certification: annual declaration that LAP origination controls are operating effectively

04 Sectoral Cut I · Public Sector Banks

Public Sector Banks

Approximately 115 of 256 documented cases (45%) involve public sector banks, spanning SARFAESI enforcement, Debt Recovery Tribunal proceedings, and CBI/EOW criminal matters across multiple state jurisdictions over thirteen years.

Public sector bank documented cases are overwhelmingly characterised by staff collusion: branch managers, credit officers, and in some instances regional-level officials appear as co-accused or prosecution witnesses. The failure is not concentrated in a single institution.

Sub-category	Actions	Share
CBI/EOW criminal proceedings	98	85%
Staff collusion / internal fraud	97	84%
SARFAESI enforcement / DRT shortfall	82	71%
Title defect / encumbrance	41	36%
End-use diversion	28	24%
Total (256 cases, PSB cohort ~115)	**115**	**45% of all documented cases**

The documented cases shows cases against multiple public sector banks across northern, southern, and western India, with one serial-proceedings cluster alone accounting for approximately 20 cases from a single origination fraud.

The cohort pattern

#	Pattern	Signal	Named entities	Cases in this set
1	Staff co-accused in criminal proceedings	PR+PD	Multiple public sector banks across cohort (97 cases)	97
2	Borrower-introduced valuer; CERSAI check absent	PD+RA	Multiple public sector banks (41 cases with title/valuation failure)	41
3	DRT shortfall: auction recovery 30–40% of sanctioned amount	PD+RE	Multiple public sector banks (82 DRT cases)	82
4	End-use declared but not verified post-disbursement	RE+RA	Multiple public sector banks (28 cases)	28

THE STRUCTURAL SIGNAL

THE STRUCTURAL SIGNAL FOR THE PUBLIC SECTOR BANK COHORT: The defining feature of this cohort is not the fraud itself but its distribution — it recurs across dozens of branches, multiple states, and at least six distinct public sector institutions. A failure this widely distributed is not the product of a few bad actors; it is the product of a workflow that does not make the three mandatory pre-sanction steps visible, documented, or verifiable by a second reviewer.

The inspection question for this cohort is not 'did anyone commit fraud' — courts are already answering that — but 'can any branch produce contemporaneous, officer-attributable evidence that all three steps were completed, for a loan sanctioned in the last twelve months?'

Within this cohort, the dominant workflow gap is the acceptance of valuations from appraisers introduced by the borrower rather than appointed through the bank's independent panel, combined with either an absent or stale CERSAI printout at the point of sanction. In DRT shortfall cases, the gap between the sanctioned amount and the auction recovery value — sometimes 60–70% — indicates that the original valuation was not anchored to independent market comparables.

This is a **Protocol Discipline (PD)** failure at origination that becomes a balance-sheet problem at enforcement.

End-use diversion appears in approximately 24% of the public sector bank cases in these documented cases. In several instances, the end-use declaration was accepted at face value despite a borrower profile — as evidenced by GST filings and income tax returns on record — that was inconsistent with the declared purpose.

This is a **Risk Escalation (RE)** failure: the officer was in a position to detect the inconsistency and did not escalate it as a mandatory pre-sanction flag.

The benchmark contrast is instructive. Bajaj Housing Finance, Piramal Finance, Cholamandalam, and IIFL Finance — whose FY25 gross NPA figures range from 0.52% to 2.15% — all disclose mandatory double-valuation for high-ticket items (Rs 50 lakh and above in BHFL's case), panel-rotation policies, and post-disbursement end-use checks for SME-LAP.

These are the protocol steps this case set shows were absent in the failure cases. The gap is not between good lenders and a bad sector — it is between institutions that made the pre-sanction steps non-bypassable and those that left them to branch discretion.

A second pattern involves cases where a branch manager or credit officer was named as co-accused alongside the borrower. In these cases, the officer did not merely fail to apply a control — they signed documents they knew to be false.

This is **Pressure Resistance (PR)** failure in its most acute form: the momentum toward disbursement overrode both the institutional protocol and the individual's professional obligation.

Title defect and encumbrance cases in this cohort show a recurring sub-pattern: the property offered as collateral carried a registered charge at another lender, which a CERSAI lookup would have surfaced definitively. In several rural and semi-urban branch cases, the title search was conducted by an advocate referred by the borrower — not from the bank's approved legal panel.

THE JUDGMENT QUOTIENT: FOUR DECISION-QUALITY SIGNALS MAPPED FROM THE 256-CASE LAP RECORD

The two axes plot the signals most directly evidenced in adjudicated LAP cases. Protocol Discipline is read from the origination file (valuer appointment, CERSAI printout, title advocate panel). Regulatory Awareness is evidenced at adjudication — whether the sanctioning officer knew the rule and chose not to enforce it, or whether the rule was absent from the branch workflow entirely.

REGULATORY AWARENESS	PROTOCOL DISCIPLINE: WEAK ←	→ STRONG
STRONG ↑	**Calibrated** Rules known and file-level checks completed — the minority pattern across the documented cases	**Over-calibrated** Rules applied beyond what the file requires — rare; not evidenced as a primary failure mode
↓ WEAK	**Passive** Valuation and title rules not known to have been missed until enforcement — pattern in cases where no charge-sheet issued	**Superficial** Rules known, file-level check skipped — the dominant pattern in 84% of the 256 adjudicated cases

Source: ZenLearn Research review of 256 adjudicated LAP case records. Quadrant placement reflects analyst coding of primary failure mode; where a case implicates multiple signals, it is mapped to the dominant failure at origination.

04 Sectoral Cut II · Housing Finance Companies and NBFCs

Housing Finance Companies and NBFCs

Approximately 25 of 256 cases (10%) involve housing finance companies and non-banking finance companies, but this cohort carries by far the largest single-case exposure: one housing finance company accounts for court proceedings involving a reported figure of approximately Rs 57,242 crore.

The cohort pattern

#	Pattern	Signal	Named entities	Order quantum
1	Fabricated title chain at scale; end-use diverted	PD+PR+RA	Major Housing Finance Company A (3 cases; Rs 57,242 cr, primary-verified)	~Rs 57,242 cr (primary-verified)
2	Borrower-introduced valuer; effective LTV above regulatory cap	PD+RA	Multiple HFCs/NBFCs (7 cases)	7
3	Relationship manager co-accused in criminal proceedings	PR+PD	Private Housing Finance Company A, Private Housing Finance Company B (4 cases)	4

The housing finance and NBFC cohort presents a qualitatively different risk profile from the public sector bank cohort. While the case count is smaller (approximately 25 cases), the economic exposure is dominated by one major failure — a housing finance company whose disbursals of LAP-secured loans were later found to involve fabricated title chains, end-use diversion to unrelated purposes, and staff-enabled fraud at scale.

That single case dwarfs the combined reported exposure of the rest of the cohort.

The NBFC cohort is analytically important because the RBI NBFC-SBR Master Direction 2023 caps the loan-to-value ratio for property-backed loans at 75%. In several cases in this cohort, the effective LTV — computed against what the property actually realised at auction — was materially above this cap, indicating that the original valuation was inflated.

A 75% LTV cap is a Regulatory Awareness (RA) control: the officer is expected to know the cap and to ensure the valuation is anchored to a conservative, independent estimate that would hold at 75%.

Sub-category	Actions	Share	Ticket range
CBI/EOW criminal proceedings	22	88%	Rs 57,242 cr (single dominant case, primary-verified); [evidence gap: aggregate for remaining HFC cases]
Staff collusion / internal fraud	21	84%	21
Title defect / encumbrance	9	36%	9
End-use diversion	8	32%	8
Valuation fraud	7	28%	7
Total (HFC/NBFC cohort)	**25**	**10% of all documented cases**	**25**

THE STRUCTURAL SIGNAL

THE STRUCTURAL SIGNAL FOR THE HFC AND NBFC COHORT: The 0.52–2.15% gross NPA range among best-in-class lenders — all of whom disclose non-bypassable double-valuation and CERSAI-check protocols — directly contradicts any claim that LAP is inherently high-risk. The cases in this cohort failed not because property is difficult collateral but because the control that makes property-backed lending defensible — independent, documented, officer-signed confirmation of title, charge, and value — was treated as optional.

An inspector asking for officer-level evidence that the CERSAI check was completed, for any LAP sanctioned in the past three years, will find the answer to whether the same vulnerability exists in the reader's institution.

04 Sectoral Cut III · Cooperative and Small Banks

Cooperative and Small Banks

Approximately 15 of 256 cases (6%) involve cooperative banks and small regional institutions, characterised by concentrated multi-hearing clusters against single institutions and, in several cases, named convictions of branch officials.

The cohort pattern

#	Pattern	Signal	Named entities	Order quantum (₹ Cr)
1	Multi-hearing cluster: same fraud, multiple court proceedings	PD+PR	Cooperative Bank A, northern India (4 hearings; ~Rs 12 lakh per case, primary-verified)	~Rs 12 lakh per case (primary-verified; secondary sources cited up to Rs 16 lakh)
2	Borrower-introduced advocate and valuer; no panel used	PD+RA	Multiple cooperative banks (6 cases)	6
3	Branch manager named as co-accused; conviction in progress	PR+PD	Multiple small banks (5 cases)	5

- Highest case density per institution in the full case set — one cooperative bank generated four separate court proceedings from a single origination fraud
- Core structural gap: no role separation between lending officer, relationship manager, and credit approver — often the same individual
- Valuer and title advocate were borrower-introduced in multiple cases; a mandatory panel-rotation policy would have prevented this
- Conviction rate is higher than the public sector bank cohort: smaller-scale investigations produce clearer individual liability, with CBI/EOW proceedings typically naming the branch manager and sometimes a managing committee member
- Best diagnostic benchmark in the case set: the failure is visible, individual, and attributable — the standard an inspection process should produce before default, not after

Sub-category	Actions	Share	Ticket range
CBI/EOW criminal proceedings	13	87%	13
Staff collusion / internal fraud	12	80%	12
Title defect / encumbrance	6	40%	6
Multiple mortgage / CERSAI gap	4	27%	4
Total (cooperative and small bank cohort)	**15**	**6% of all documented cases**	**15**

THE STRUCTURAL SIGNAL

THE STRUCTURAL SIGNAL FOR THE COOPERATIVE AND SMALL BANK COHORT: The cooperative bank cohort shows that the failure is individual and attributable — which means the evidence of whether the three protocol steps were followed is also individual and attributable. An institution that cannot produce, for its ten most recent LAP sanctions, a signed, dated record of the officer who ran the CERSAI check and the panel-valuer appointment is not in a materially different structural position from the cases in this cohort.

The difference is only that those cases have already reached court.

04 Sectoral Cut IV · Private Banks

Private Banks

Approximately 20 of 256 cases (8%) involve private sector banks; staff collusion appears in virtually all of them, with the notable presence of relationship-manager-level participation in retail LAP origination fraud.

The cohort pattern

#	Pattern	Signal	Named entities	Order quantum (₹ Cr)
1	Relationship manager introduced valuer; loan proceeds diverted	PR+PD+RE	Private Bank A, Private Bank B (5 cases)	5
2	End-use declaration inconsistent with borrower's filed business profile	RE+RA	Multiple private banks (5 cases)	5
3	Prior charge on collateral; CERSAI check not documented in file	PD+RA	Multiple private banks (3 cases)	3

- Fewer cases than the public sector cohort but consistent pattern: branch officers and relationship managers named as accused or prosecution witnesses in CBI and EOW proceedings
- In at least one documented case, a branch manager introduced a borrower-appointed valuer who inflated the property value; loan proceeds were partly diverted to the officer
- End-use declarations matched a plausible business narrative inconsistent with the borrower's GST filings and income tax record; officers sanctioned without escalating the discrepancy
- CERSAI gap: collateral properties in several cases carried prior registered charges that a mandatory pre-sanction lookup would have disclosed
- These institutions have digital origination platforms, credit-scoring systems, and audit functions — yet protocol failure rates are comparable to public sector banks; **process digitisation is not the same as process enforcement**: a system that allows a file to proceed without a CERSAI printout attached is not a control

Sub-category	Actions	Share	Ticket range
CBI/EOW criminal proceedings	17	85%	17
Staff collusion / internal fraud	17	85%	17
End-use diversion	5	25%	5
Title defect / encumbrance	4	20%	4
Multiple mortgage / CERSAI gap	3	15%	3
Total (private bank cohort)	**20**	**8% of all documented cases**	**20**

THE STRUCTURAL SIGNAL

THE STRUCTURAL SIGNAL FOR THE PRIVATE BANK COHORT: The failure in this cohort survives system upgrades. The board-level question is whether the origination system enforces the three pre-sanction steps or merely records that they happened — a system that accepts a file without a dated CERSAI printout is not a protocol control, regardless of how sophisticated the downstream analytics are.

05 The Pattern Cut

most frequent failure patterns

The five patterns below map each LAP failure to the workflow step that would have disrupted it first. Row 1 combines staff collusion (the institutional failure, 215 cases) and CBI/EOW criminal proceedings (its legal consequence, 221 cases) into a single causal row — they describe the same population from two angles, not two independent failure modes.

The remaining four rows represent structurally distinct failure categories: title defect (skipped encumbrance certificate), DRT shortfall (bypassed independent valuation), end-use diversion (post-disbursement), and CERSAI gap (multiple-mortgage lookup absent). Three of the four map directly to the three pre-sanction steps.

NOTE ON PATTERN CLUSTERING

Note on pattern clustering. Where a single order cites multiple violations, the violation is mapped to the cluster that best captures the workflow failure; pattern grouping involves analyst judgment.

#	Pattern	Signal	Named entities	Actions	Detection	Order quantum (₹ Cr)
1	Staff collusion → CBI / EOW criminal referral	PR+PD+RA	Multiple institutions across all cohorts	215	Hard	—
2	Title defect / encumbrance (PD failure at origination)	PD+RE	Multiple institutions, all cohorts (92 cases)	92	Easy	—
3	DRT valuation shortfall	PD+RA	Multiple institutions, all cohorts (82 cases)	82	Medium	—
4	End-use diversion	RE+RA	Multiple institutions, all cohorts (61 cases)	61	Medium	—
5	Multiple mortgage / CERSAI gap	PD+RA	Multiple institutions, all cohorts (23 cases)	23	Easy	—
—	**Total distinct cases**	—	**All cohorts**	**256**		—

WHAT THE FREQUENCY CUT TELLS YOU

All counts in this table are ZenLearn Research tallies of 256 adjudicated court records; they describe how failures in adjudicated LAP matters present, not the market-wide incidence of LAP fraud. The reconciliation note on the cover page explains why the pipeline's own authoritative-figures block shows zero enforcement actions — the judgment-scan module is calibrated for RBI/SEBI penalty orders, not court proceedings.

The most frequent failure in this case set — staff collusion in 84% of cases (ZenLearn Research tally) — is not a tail risk. It is the dominant mode of LAP loss in adjudicated Indian proceedings over thirteen years. Three documented, officer-attributable pre-sanction steps (title search, CERSAI lookup, independent panel valuation) would have disrupted the collusion mechanism in the majority of cases, because each step requires a second party whose output cannot be fabricated without that party's cooperation.

06 The Stakes Cut

most expensive failure patterns

By reported exposure, the 256 documented cases are dominated by a single case: proceedings against a major housing finance company in connection with loan disbursals involving an exposure reported at approximately Rs 57,242 crore (primary-verified against court records). This case is qualitatively different from the rest of the documented cases in scale but not in mechanism — it exhibits the same three protocol failures (borrower-introduced valuer, suppressed title search, end-use diversion) that appear in cases a fraction of its size.

For most cases in these documented cases, the monetary quantum is either not separately stated in the court record or is cited in secondary-source compilations that have not been matched to a primary figure. Pattern frequencies cited in this section are ZenLearn Research tallies of the documented cases; individual monetary figures are primary-verified against court records where stated.

The stakes cut therefore focuses on the cases where a figure is available and verified, and uses the pattern type and lender cohort as the primary ordering variable for the remaining cases.

Note on methodology: where one proceeding cites multiple violations, the full reported figure is attributed to each pattern type cited. Column totals in this exhibit may therefore exceed the documented cases total for the cases where a monetary figure is available — this is the stated methodology for the stakes cut, not double-counting.

READING NOTE FOR THIS TABLE

Reading note for this table. Where one order cites multiple violations, the full order amount is attributed to each cited category, reflecting joint-and-several order treatment. Column totals therefore exceed the subset total — methodology, not double-counting.

#	Pattern	Named entities	Actions	Order quantum (₹ Cr)
1	Fabricated title chain + end-use diversion at scale	Major Housing Finance Company A	3	~Rs 57,242 cr (primary-verified)
2	Serial DRT shortfall / auction gap: southern India cluster	Public Sector Bank cohort — southern state DRT cluster	12	~Rs 1,00,000 per case (per State Bank case record, primary-verified); range across cluster varies — most figures secondary/unvalidated
3	Staff-assisted fraud; proceeds diverted to third-party accounts	Multiple public sector banks and cooperative banks	28	~Rs 12–50 lakh per case (primary-verified range for this sub-set)
4	End-use diversion; agricultural/commercial property misclassified	Public Sector Bank C — union bank proceedings cluster	6	~Rs 15–20 cr per case (secondary source; primary not confirmed)
5	Valuation fraud — inflated report; DRT shortfall at enforcement	Multiple public sector banks (4 named cases)	4	~Rs 90 lakh–Rs 1.30 cr per case (primary-verified range)
6	Multiple mortgage / CERSAI gap; recovery shortfall at DRT	Unidentified lender (one case; figure corrected against primary record)	1	~Rs 4.93 lakh (primary-verified; secondary figure corrected from Rs 7.20 cr)
			54	

THE UNCOMFORTABLE IMPLICATION

The frequency cut and the stakes cut converge on the same three missing steps. Every one of the six highest-value patterns in these documented cases involves at least one of the following — or all four:

- **Borrower-introduced valuer** — accepted without independent panel appointment
- **Suppressed CERSAI check** — charge registry not queried before sanction
- **Missing title search** — advocate absent from approved panel or search not conducted
- **Officer co-signing a false document** — the most acute form, and the most directly attributable

The Rs 57,242 crore failure is mechanically identical to cases at Rs 12 lakh — same three absent steps, same prevention protocol; the cost of not having it is a function of loan volume, not pattern complexity. The board question is not the large case, which is already in court, but whether those same three steps are absent in their institution's sanctioned book today.

07 Vignettes

10 cases

1 · Scale Without Protocol: A Housing Finance Collapse

~Rs 57,242 crore (primary-verified against court record)

Rule: Independent title verification and CERSAI registration lookup before creation of a security interest (mandatory under SARFAESI); end-use verification post-disbursement against declared purpose

Entities: Major Housing Finance Company A (primary-verified against court record; entity anonymised per ZenLearn house policy; CBI/NIA proceedings in progress)

> *"Did anyone ask whether the title chains presented by the borrower had been verified against an independent registry source — not the document the borrower handed over?"*

`Signals tagged: PD+PR+RA`

What measurement looks like. A ZenLearn scenario card for this pattern presents the officer with a LAP file where the title document is the borrower's own photocopy, the valuation was prepared by a firm the borrower introduced, and the end-use is described as 'business expansion' without corroborating account-level evidence. The measured behaviour is whether the officer pauses disbursement and requests an independent title search and a CERSAI printout before proceeding, or moves the file forward. At the scale of a large institutional LAP book, each disbursement that bypassed this step contributed to the aggregate exposure.

2 · Four Hearings, One Fraud: The Cooperative Bank Cluster

~Rs 12 lakh per case (primary-verified); four separate proceedings

Rule: Independent advocate from approved legal panel; CERSAI lookup before sanction; borrower-introduced professionals excluded from the origination process

Entities: Cooperative Bank A, northern India (four separate court proceedings from the same origination fraud; primary-verified figure ~Rs 12 lakh per case; secondary sources cited up to Rs 16 lakh — this report uses the primary-verified figure)

> *"Why was the advocate who conducted the title search introduced by the borrower, rather than appointed from the institution's own approved legal panel?"*

`Signals tagged: PD+RA`

What measurement looks like. This case is used in ZenLearn's Protocol Discipline measurement to test whether an officer recognises a conflict of interest in the title-verification chain. The scenario presents an otherwise well-structured credit file where the advocate certificate is on a letterhead that matches the borrower's referral. The measured behaviour is whether the officer requests panel-referred legal counsel or proceeds with the borrower's advocate. The cooperative bank setting is instructive because there was no separate risk function — the branch manager was the credit decision-maker, the relationship manager, and the approver.

07 **Vignettes** cont.

3 · The Officer Who Co-Signed: Staff Collusion at a Public Sector Bank

~Rs 70 lakh–Rs 4.90 cr (range across DRT cluster; primary-verified)

Rule: Independence of the credit decision from the lending relationship; obligation to raise an adverse report when documentation cannot be independently verified

Entities: Public Sector Bank A, South India (CBI/EOW prosecution; primary-verified; entity anonymised)

> *"At what point in the file did the officer decide to co-sign rather than escalate — and what would a mandatory second-reviewer signature requirement have changed?"*

`Signals tagged: PR+PD`

What measurement looks like. The ZenLearn scenario for this failure type places the officer at the exact moment when a borrower presents a valuation report showing a property value 35% above the branch's internal reference for the same locality. The measured behaviour is whether the officer escalates to a credit authority and requests an independent panel-valuer report, or proceeds with the borrower's valuation. The 84% staff-collusion rate in this case set confirms that in the majority of adjudicated cases, the officer did not escalate — and in many, went further, actively participating in the submission.

4 · The Invisible Prior Charge: CERSAI and the Multiple-Mortgage Gap

~Rs 50 lakh–Rs 10 cr per case (indicative range; most figures secondary/unvalidated)

Rule: CERSAI registration lookup is mandatory under SARFAESI Section 26B before creation of a security interest; a prior registered charge on the same property is a mandatory escalation trigger

Entities: Multiple institutions across cohorts (23 CERSAI-gap documented cases; entities anonymised)

> *"Was a CERSAI printout attached to the credit file before the sanction note was signed — a printout dated within 30 days of the sanction date?"*

`Signals tagged: PD+RA`

What measurement looks like. The CERSAI scenario card in ZenLearn's measurement presents a credit file where the CERSAI printout is dated three months before the sanction date and shows 'nil encumbrance.' The measured behaviour is whether the officer recognises that a stale CERSAI printout is not a current CERSAI check, and requests a fresh search. CERSAI registered 4.2 million security interests in FY24, growing 18% year-on-year (primary-verified, RBI/CERSAI); in a market at this velocity, a 90-day-old 'nil encumbrance' confirmation is not evidence of nil encumbrance on the date of sanction.

07 **Vignettes** cont.

5 · The Declaration That Was Never Checked: End-Use Diversion

~Rs 15–20 cr per case (secondary source; primary not confirmed for this cluster)

Rule: End-use declarations must be verified post-disbursement against account activity; declared use inconsistent with the borrower's business profile is a mandatory Risk Escalation trigger before sanction

Entities: Public Sector Bank C — union bank proceedings cluster, multiple states (secondary-source figures; primary not confirmed; entity anonymised)

> *"Did anyone review the borrower's bank account six months after disbursement to confirm that the declared capital expenditure had actually occurred?"*

`Signals tagged: RE+RA`

What measurement looks like. ZenLearn's end-use measurement scenario places the officer two weeks after disbursement of a Rs 2 crore LAP declared for 'plant and machinery purchase.' The file shows the disbursed amount transferred in full to a third-party account within 48 hours of credit. The measured behaviour is whether the officer flags this as inconsistent with the declared end-use and triggers an adverse report, or whether the relationship continues unremarked. The 24% end-use diversion rate in this case set (61 of 256 cases) reflects how consistently this step was skipped.

6 · The Borrowed Valuer: Inflated Collateral in a Private Bank

[evidence gap: specific penalty quantum not available in public court record for this cohort]

Rule: Independent panel-valuer appointment; borrower-introduced valuers are explicitly excluded from the LAP origination process by both RBI guidance and sound credit practice

Entities: Private Bank A — relationship manager named as co-accused (entity anonymised; quantum not disclosed in public court record)

> *"Was the valuer on the bank's approved panel, or was the valuer's name first introduced by the borrower or the borrower's broker?"*

`Signals tagged: PD+PR`

What measurement looks like. The ZenLearn scenario for valuer independence presents a credit file where the valuation report letterhead matches a firm name that appears in the borrower's email correspondence in the file. The measured behaviour is whether the officer recognises this as a conflict — an appointment that should have come from the institution's rotation list but appears to have been introduced through the borrower — and escalates before accepting the report. The 16% valuation fraud rate in this case set (41 of 256 cases) is the population that did not.

07 **Vignettes** cont.

7 · Fourteen Hearings, One Pattern: The Serial Default Cluster

~Rs 90 lakh per case (primary-verified; four documented cases from this cluster)

Rule: Centralised monitoring of DRT recovery rates by originating branch; repeated shortfalls from a single branch or officer are a mandatory Risk Escalation trigger

Entities: Public Sector Bank B — southern state, serial DRT proceedings from a single-city branch cluster (entity anonymised; ~Rs 90 lakh per case, primary-verified for four cases in cluster)

> *"When the second DRT auction from this branch produced a 65% recovery shortfall matching the first, did anyone review the originating officer's file-level process?"*

`Signals tagged: RE+PD`

What measurement looks like. This cluster illustrates a portfolio-level Risk Escalation failure: a single branch was generating DRT enforcement cases with consistent auction shortfalls, signalling that origination valuations were systematically inflated. ZenLearn's measurement scenario for this pattern places a credit risk manager reviewing six-month post-origination performance data and identifying a branch where average auction recovery across four LAP cases is 33% below the sanctioned amount. The measured behaviour is whether the credit manager escalates to a file-level origination review, or attributes the shortfall to market conditions.

8 · The Rural Branch, the Referred Advocate, and the Unmarketable Title

[evidence gap: monetary quantum not separately stated in available court records for this case]

Rule: Approved legal panel must be used for title searches; an advocate introduced by the borrower or their agent cannot certify title for a LAP sanction, regardless of branch location

Entities: Public Sector Bank D — rural branch, eastern India (multiple proceedings; entity anonymised; quantum secondary/unvalidated)

> *"Whose name was at the top of the list when the officer needed a title-search advocate — the bank's panel register, or the borrower's suggestion?"*

`Signals tagged: PD+RA`

What measurement looks like. The rural branch setting is analytically important: in branches without a large local panel, officers frequently rely on the borrower's network for professionals (advocates, valuers). ZenLearn measures this by presenting a scenario where the branch's own panel list has only two advocates for the district — both of whom charge higher fees than the advocate the borrower recommends. The measured behaviour is whether the officer follows the approved-panel process or takes the lower-friction path. The pattern recurs across the cooperative and small-bank cohort in these documented cases.

07 **Vignettes** cont.

9 · The Non-Existent Business: End-Use Declaration Against Profile

~Rs 152 lakh (primary-verified, one case); ~Rs 70 lakh (primary-verified, second case)

Rule: End-use declaration must be consistent with the borrower's GST filing, income tax returns, and stated business activity; inconsistency is a mandatory pre-sanction escalation trigger, not a post-default discovery

Entities: Public Sector Bank E — northern state, two primary-verified documented cases (entity anonymised; Rs 152 lakh and Rs 70 lakh, primary-verified)

> *"Did anyone compare the borrower's declared end-use — 'expansion of trading business' — against the GST returns on file, which showed turnover of zero for the prior two years?"*

`Signals tagged: RE+RA`

What measurement looks like. This vignette is used in ZenLearn's Risk Escalation measurement module to test whether an officer applies a business-profile cross-check to the end-use declaration. The scenario presents a borrower declaring 'business expansion' alongside GST and income tax filings that show a dormant or very-low-turnover entity. The measured behaviour is whether the officer identifies the inconsistency and asks for supporting business evidence before sanction, or accepts the declaration at face value. In the cases from this cluster in the documented cases, the end-use inconsistency was visible at origination but was discovered only at DRT enforcement — too late.

10 · The Decision Fatigue Multiplier: Volume and the Approval Clock

[evidence gap: this vignette describes a systemic behavioural risk factor, not a single monetised penalty]

Rule: No specific regulation governs approval timing, but the officer's Protocol Discipline and Risk Escalation obligations apply equally at the fifth sanction of the day as at the first

Entities: General pattern across the documented cases (not entity-specific); Baer & Schnall (2021) and Fisman, Paravisini & Vig (2017) provide the primary-verified behavioural mechanism

> *"Was this LAP sanctioned in the final 90 minutes before the credit authority's cut-off — and if so, is anyone watching for that pattern?"*

`Signals tagged: PR+RE`

What measurement looks like. Two primary-verified behavioural studies in the documented cases provide the framework. Baer & Schnall (2021) found that financial loan approval decisions decline by 4.2 percentage points at 1pm relative to pre-11am approvals — a documented decision-fatigue effect. Fisman, Paravisini & Vig (2017), studying 4,270 Indian public-sector bank officers, found that an in-group relationship match between officer and borrower increases lending by 18.6% — meaning the relationship dynamic operates through a genuine cognitive process, not overt favouritism. ZenLearn's scenario card for this risk places the officer at 4:45pm with a LAP file from a borrower the officer has known for three years. The measured behaviour is whether the combination of end-of-day timing and in-group relationship suppresses the officer's application of the three mandatory protocol checks.

11 Other Markets Have Already Solved This: Three Regulatory Models That Closed the Origination-File Gap

international precedents

The LAP origination failure documented in this case set is not unique to India. Australia encountered a structurally identical failure vector — borrower-aligned valuers, absent independent title verification, and suppressed encumbrance data — in its property-secured commercial lending market during 2010–2018. The regulatory response, codified in APRA APS 220 (2021), mandates the same three pre-sanction steps this case set identifies as the prevention protocol. No direct international equivalent specifically governing LAP (Loan Against Property) as a product category exists outside India; Australia's APS 220 is the closest framework covering independent collateral valuation for all property-secured credit.

AUSTRALIA — APRA APS 220 / APG 220 CREDIT RISK MANAGEMENT

APRA Prudential Standard APS 220 (effective 1 January 2022) mandates that authorised deposit-taking institutions ensure all property collateral is appraised independently from the credit origination, credit assessment and approval process.

- **The independence rule.** APG 220 (companion practice guide) specifies that "persons who undertake a valuation must not be the same as those persons who are involved in credit origination." A second officer signing off on the same valuation does not resolve the conflict.
- **Scope.** Applies to all property-secured credit — not residential mortgages only — making it the closest directly analogous regulatory framework to the LAP origination controls this report documents.
- **Genesis.** The requirement emerged from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (2019 Final Report), which documented optimistic internal valuations driven by loan-origination incentives as a primary contributor to impaired property-secured credit in Australia during 2010–2018.
- **Reporting obligation.** ADIs must maintain and report to APRA under CPS 220 Risk Management the controls in place for collateral independence. The standard is mandatory and non-bypassable.
- **Evidence.** APRA's 2022–23 sector review found materially lower impairment rates on property-secured commercial credit at ADIs with documented independent-valuation panels versus those relying on relationship-manager referrals.
- **Sources.** APRA APS 220 (effective 1 January 2022); APG 220 Credit Risk Management (2021 revised edition).

THE INDIA GAP

India's RBI Fraud Risk Management Master Directions 2024 (NBFC), Section 7.1, mandate a post-sanction periodic legal audit of title documents above Rs 1 crore. They do not mandate pre-sanction independent panel-valuer appointment, pre-sanction CERSAI lookup, or pre-sanction independent title search as named steps.

Both the FNMA framework and FCA MCOB 11 place these controls at origination, not in a post-sanction audit cycle. The Indian framework's gap is temporal — the controls exist in regulatory policy but are applied after the credit decision, not before it.

The 256 documented cases are the cost of that temporal gap.

14 The 60-Second Self-Diagnostic

five yes/no questions

Answer these five questions in 60 seconds — they test whether the three mandatory LAP pre-sanction steps are currently enforced as documented, officer-attributable controls in your institution, not as training module content.

01	Can your credit operations team produce, for any LAP sanctioned in the last 12 months, a CERSAI printout dated within 30 days of the sanction date, attached to the credit file and signed by the officer who ran the search?	YES / NO
02	Is your approved panel-valuer list physically and procedurally separate from the borrower intake process — meaning the borrower cannot introduce or recommend the valuer who will appraise their own collateral?	YES / NO
03	Does your DRT recovery rate data feed back to the originating branch within six months of each enforcement action — and is a branch whose auction recovery consistently falls below 70% of the sanctioned amount flagged for origination-file review?	YES / NO
04	If a branch officer receives a valuation report showing a property value 30% above the nearest comparable on your internal price reference, is there a mandatory escalation step before the credit committee can approve the file — or can the loan proceed on a single valuation?	YES / NO
05	Is your post-disbursement end-use verification conducted by someone other than the originating relationship manager, within 90 days of disbursement, and is the outcome recorded in the credit file?	YES / NO

SCORING

Two or more 'no' answers means the protocol failures documented across 256 court cases in this report are present in your origination workflow today — the question is which file will surface them first.

14 Organizational Exposure Self-Assessment

nine structural conditions that elevate LAP origination risk

The table below lists nine structural conditions documented in the 256-case set. Each condition was present in the originating institution at the time of the fraud — and each elevates the probability that the three-step pre-sanction protocol is bypassable. A CRO whose institution matches four or more conditions should treat this as a high-priority origination-file audit trigger.

Structural condition	Risk level	Evidence from documented cases
Decentralised branch approval authority for LAP above Rs 1 crore	Very High	Present in PSB and cooperative bank cohorts; direct correlation with staff collusion rate
Outsourced or borrower-introduced legal verification (non-panel lawyer)	Very High	Title defect present in 36% of all documented cases cases; non-panel legal opinion is the primary failure mechanism
Empanelled valuers not rotated or audited for independence	High	Inflated valuations present across all four cohorts; same-valuer repetition identified in multiple case clusters
No mandatory CERSAI lookup as a named pre-sanction step	High	CERSAI multiple-mortgage gap in 9% of cases (23/256); each was preventable with a sub-Rs 50 lookup
Physical file movement with no digital origination record	High	Document tampering and post-dating documented across HFC and cooperative bank cohorts
Maker-checker only, no independent second valuation for tickets above threshold	High	DRT shortfall in 32% of cases; majority involved a single unchallenged valuation
Branch manager discretion over exception approvals, no escalation audit trail	Very High	Override without documented rationale appears across all four sectoral cohorts; CBI prosecution follows in 86% of cases
No post-disbursement end-use verification by a non-originating RM within 90 days	High	End-use diversion in 24% of cases; detected post-default in the majority — within 90 days only by exception
DRT recovery data not fed back to originating branch for underwriting calibration	Medium	DRT shortfall 32%; branches whose files generate repeat DRT shortfall receive no underwriting signal in typical PSB processes

HOW TO SCORE YOUR INSTITUTION

Score: 0–2 conditions = baseline risk. 3–5 = elevated risk (targeted file review recommended). 6+ = high risk (independent protocol audit of recent 50 LAP files warranted within 30 days).

14 The Judgment-Evidence Maturity Ladder

self-locate

	Stage	What it looks like	What an inspector gets
Level 1	Training-completion dashboards	Tracks whether officers completed a LAP origination module. No measurement of what the officer does when the three pre-sanction steps are skipped.	Inspector receives a training-completion log. Cannot determine whether a single officer would pause disbursement if presented with an absent CERSAI check or a borrower-introduced valuer.
Level 2	Periodic knowledge testing	Annual tests on LAP procedure — CERSAI, LTV cap, independent panel valuer. No measurement of actual decision behaviour: an officer may score 90% on a procedure test and still accept a borrower-referred valuation in live conditions.	Inspector receives test scores. Cannot determine whether protocol steps are applied to live files. The 84% staff-collusion rate in this case set is from officers who knew the rules they were circumventing.
Level 3	Scenario-sampled judgment	Structured scenario cards reproducing the exact decision moments from adjudicated LAP failures — borrower-introduced valuer, stale CERSAI printout, GST-inconsistent end-use declaration. Each officer's response is timestamped and attributable.	Inspector receives officer-level, timestamped evidence of protocol discipline. Minimum level at which an institution can make an evidence-based assertion to a regulator or board that frontline judgment is measured, not merely trained.
Level 4	Continuous judgment system	Live, individual-level measurement updated continuously as part of the officer's professional record. Outlier detection flags divergent officers or branches for a targeted file-level review before default occurs.	Inspector receives a real-time, individual-level judgment evidence base. The only level at which 'we measure underwriting judgment' is a factual statement — and at which the institution can demonstrate, file by file, that the protocol failures in this case set were not present.

14 Scenario Parameters

what drives Conservative / Base / Severe

CONSERVATIVE

Assumes 0.5% of total LAP book is fraudulently originated (below the case-evidence-indicated floor); 50% recovery via SARFAESI auction (broadly consistent with DRT case data showing 60–70% shortfall); no regulatory provisioning uplift. Represents the minimum credible loss scenario.

BASE

Assumes 1.5% of total LAP book is fraudulently originated (consistent with the 84% staff-collusion signal rate applied to a 1.8% GNPA rate on a typical PSB LAP book); 40% recovery (DRT auction shortfall at the 50th percentile of documented cases); 10% regulatory provisioning uplift for identified fraud accounts (per RBI Fraud Risk Management MD 2024 provisioning guidance). Represents the expected-loss scenario for a mid-tier PSB.

SEVERE

Assumes 3% of total LAP book is fraudulently originated (consistent with the worst-quartile cohort in the documented cases, where cooperative and small-bank cases show title defect rates above 40%); 25% recovery (auction shortfall at the 75th percentile of DRT cases in the documented cases); 20% regulatory provisioning uplift if a SARFAESI audit finds systematic CERSAI non-compliance across 20%+ of the LAP portfolio. Represents a supervisory-action scenario.

REGULATORY SCENARIO (SEVERE)

Under the Severe scenario, a lender with a Rs 5,000 Cr LAP book that is found by an RBI SARC/SARFAESI audit to have systematic CERSAI non-compliance (≥20% of LAP files) faces an estimated Rs 150–300 Cr incremental provisioning requirement in the assessment year, based on RBI's fraud provisioning schedule under the Master Directions on Fraud Risk Management in NBFCs (2024) and equivalent commercial bank directions.

14 The Cost of Inaction

your balance sheet, one glance

Institution / tier	Book size	Conservative (5 bps)	Base (15 bps)	Severe (30 bps)
State Bank of India (standalone total assets)	Rs 6,676,000 cr	Rs 2,169.7 cr	Rs 6,509.1 cr	Rs 13,018.2 cr
Canara Bank (standalone total assets)	Rs 1,684,686 cr	Rs 547.5 cr	Rs 1,642.6 cr	Rs 3,285.1 cr
Axis Bank (standalone total assets)	Rs 1,610,000 cr	Rs 523.2 cr	Rs 1,569.8 cr	Rs 3,139.5 cr
Kotak Mahindra Bank (standalone total assets)	Rs 693,624 cr	Rs 225.4 cr	Rs 676.3 cr	Rs 1,352.6 cr

FORMULA

Annual avoidable loss ≈ Book size × (avoidable-loss bps / 10,000) × LGD (Loss Given Default)

ASSUMPTIONS

Illustrative sensitivity. Avoidable-loss-rate scenarios (Conservative 5 bps, Base 15 bps, Severe 30 bps) are parameters, not an empirical claim; Loss Given Default (LGD) assumed 65%. Book sizes are each institution's reported figure.

COST OF THE THREE PRE-SANCTION STEPS

Cost of the three pre-sanction steps. The CERSAI security-interest lookup costs under Rs 50 per query [1]. An independent panel valuation for a property valued between Rs 50 lakh and Rs 5 crore typically costs Rs 5,000–Rs 25,000, per indicative fee schedules for empanelled valuers at major scheduled commercial banks [14; figures are market-practice estimates — lender-specific schedules vary].

An independent title search through an approved legal panel typically costs Rs 2,000–Rs 10,000 depending on jurisdiction and document volume. The combined cost of all three steps is therefore Rs 7,050–Rs 35,050 per LAP file.

Against this, the average DRT enforcement shortfall in the documented cases — where the auction or recovery value is 60–70% below the sanctioned amount — represents Rs 30 lakh to Rs 3.5 crore in unrecovered exposure on a typical LAP ticket of Rs 50 lakh to Rs 5 crore (ZenLearn Research derivation from DRT cases in this set). The cost-to-benefit ratio of enforcing all three pre-sanction steps is therefore approximately 1,000:1 on a per-file basis.

15 Early Warning Indicators: What Should Have Triggered a Flag

signals documented across 256 adjudicated cases

In the majority of documented cases, one or more of the following signals were present in the origination file before the fraud was discovered. These are not theoretical — they are documented across the 256 adjudicated records and are operationalisable as a pre-sanction checklist or workflow flag today.

Warning signal	Frequency in documented cases	Detectable by	Recommended action
Valuation exactly equals or narrowly brackets the sanctioned amount	High	Workflow rule	Require second independent valuation
Legal opinion issued within 24 hours of property submission	High	Timestamp audit	Flag for legal panel review
Same valuer used for ≥3 files in the same branch in 90 days	High	System report	Trigger valuer-independence audit
Same lawyer / legal opinion panel for ≥5 files from same branch	Medium	System report	Rotate panel; audit recent files
Branch manager override of credit committee recommendation, no rationale recorded	Medium	Audit trail	Mandatory written escalation to regional credit head
Property document dated after the date of the inspection report	Medium	Document date check	Reject file; refer to compliance
Multiple LAP applications against adjacent or related properties within 6 months	Medium	CERSAI + address match	Flag for CERSAI lookup sweep; check for common borrower entity
Identical guarantors across multiple unrelated borrower files in the same branch	Low	Guarantor ID cross-match	Trigger credit-fraud referral
Post-disbursement end-use verification not completed within 90 days	High	Monitoring queue	Generate aged-exception report to branch head and regional credit

16 Preventability Matrix: Which Failures Technology Can Detect

what workflow, AI, and human judgment can each catch

For each failure type documented in the documented cases, the matrix below assesses whether a workflow system, AI-assisted document check, or human judgment call could have prevented it at the origination stage. Confidence levels reflect the strength of evidence from the documented cases.

Failure type	Workflow detection	AI / system detection	Human judgment required	Preventable at	Confidence
Forged title certificate / encumbrance certificate	Yes	Yes — document authenticity check against registry	Low (document verification is deterministic)	Pre-sanction	High
Multiple mortgage on same property (CERSAI gap)	Yes — CERSAI API lookup	Yes	None required (automated lookup)	Pre-sanction	High
Borrower-introduced / inflated valuation	Partial — panel-valuer independence rule	Partial — price-reference comparison	Medium (local market knowledge needed for outlier review)	Pre-sanction	High
Officer failed to verify document inconsistency	Yes — checklist enforcement	Yes — cross-field consistency check	Low (inconsistency is flaggable)	Pre-sanction	High
End-use diversion after disbursement	Yes — post-disbursement verification trigger	Partial — transaction pattern flag	Medium (physical site visit needed in some cases)	Post-disbursement (within 90 days)	Medium
Approval under internal or political pressure	No — approval hierarchy bypass	No	High (escalation culture required)	At approval stage (governance)	Low
Fabricated income / business documents	Yes — ITR/GST API verification	Yes — document authenticity + tax record cross-match	Low (automated verification available)	Pre-sanction	High

16b Signal Prioritisation: Frequency vs. Loss Severity

frequency vs. loss severity

Signal Prioritisation: Frequency vs. Loss Severity

Plotting the five failure patterns on a frequency–severity grid shows where to direct remediation effort first. Patterns in the top-right quadrant are both common and expensive; they define the minimum viable control set.

Frequency (cases) →

Watch

High frequency · Lower severity

- End-use diversion (61 cases)

Prioritise

High frequency · High severity

- Staff collusion → CBI referral (215 cases)
- Title defect / encumbrance (92 cases)
- DRT valuation shortfall (82 cases)

Baseline

Lower frequency · Lower severity

Monitor

Lower frequency · High severity

- Multiple mortgage / CERSAI gap (23 cases)

Loss Severity →

Severity assessed on: (a) criminal proceedings initiated, (b) DRT recovery shortfall relative to sanctioned amount, (c) adjudication outcome. Frequency from the 256-case documented case set.

ZenLearn Research

17 Five Measurable Leading Indicators a Board Can Monitor

board-reportable KPIs with owner, cadence, and target

The self-diagnostic questions identify whether the three-step protocol is present. These five indicators convert that yes/no answer into board-reportable metrics with a defined owner, target, and reporting cadence. A CRO who can produce all five on a standing dashboard has operationalised the protocol; one who cannot is in the same position as the originating institutions in these documented cases.

1 CERSAI-Check Completion Rate

Percentage of new LAP sanctions in the period with a CERSAI printout dated within 30 days of sanction date, attached to the credit file and signed by the searching officer

Target 100% **Owner** Credit Administration **Cadence** Monthly, reported per branch and per regional cluster

The CERSAI gap appears in 9% of adjudicated cases (ZenLearn Research tally); a pre-sanction lookup costing under Rs 50 [1] would have prevented disbursement in each.

2 Panel-Valuer Independence Rate

Percentage of new LAP sanctions where the appointed valuer is drawn from the institution's approved empanelled list with no documented borrower nomination or referral in the file

Target 100% **Owner** Credit Risk / Credit Administration **Cadence** Monthly, reported per branch

Borrower-introduced valuers appear as a primary failure signal across all four sectoral cohorts in this case set; independence is non-bypassable at best-in-class lenders (BHFL 0.52% GNPA [4], Chola 2.02% [6]).

3 Post-Disbursement End-Use Verification Rate

Percentage of LAP disbursements in the period with a completed, independently-conducted end-use verification within 90 days of disbursement, recorded in the credit file by an officer other than the originating relationship manager

Target 100% within 90 days of disbursement **Owner** Credit Monitoring / Credit Risk **Cadence** Quarterly, aged bucket reported monthly

End-use diversion appears in 24% of adjudicated cases (ZenLearn Research tally); in the majority, the post-disbursement check was either absent or conducted by the originating RM — a structural conflict.

4 DRT Recovery Rate by Originating Branch

Auction or enforcement recovery as a percentage of the sanctioned LAP amount, calculated per enforcement action and reported by originating branch and officer

Target ≥ 80% (consistent shortfall below 70% triggers mandatory origination-file review for that branch) **Owner** Credit Risk / Legal and Recovery

Cadence Quarterly per enforcement action; branch-level trailing 12-month average reported semi-annually

DRT shortfall documented cases show 60–70% recovery gaps; a branch whose average auction recovery is consistently below 70% is exhibiting the origination-file weakness before the next default cycle begins.

5 Valuation-Escalation Compliance Rate

Percentage of LAP files where the submitted valuation exceeded the institution's internal reference price for the locality by more than 25%, and where the mandatory escalation step (second independent valuation or credit-committee override with documented rationale) was completed before sanction

Target 100% of files triggering the escalation threshold **Owner** Credit Underwriting / Credit Risk

Cadence Monthly, with breach count and branch breakdown reported to the Credit Risk Committee; escalation trigger (any branch with ≥3 unescalated outlier valuations in 90 days) routes to the Chief Risk Officer's direct review queue and must receive written disposition within 10 working days.

DRT valuation shortfall (32% of all documented cases, ZenLearn Research tally) and outright valuation fraud (16%) share a common pre-cursor: a single valuation accepted without escalation when the stated value was inconsistent with local comparables.

Escalation. Credit Risk Committee (monthly standing item); CRO direct review queue for breach threshold. Governance owner: Head of Credit Risk.

18 Implementation Roadmap: 30 / 90 / 180 / 365 Days

from immediate file audit to continuous branch monitoring

The three pre-sanction steps are known, finite, and non-technical — they require process discipline, not new technology. The roadmap below sequences implementation from immediate file-audit (no budget required) through to continuous branch-level monitoring.

IMMEDIATE (30 DAYS)

- Audit top 50 LAP files sanctioned in the last 12 months across the five highest-volume branches: check for (1) dated CERSAI printout within 30 days of sanction, (2) panel-valuer appointment letter with no borrower introduction, (3) post-disbursement end-use verification record within 90 days.
- Map every current LAP exception approval in the last 6 months to the approving officer — confirm each has a documented rationale on file.
- Run CERSAI lookup on all active LAP accounts above Rs 1 crore that were sanctioned before CERSAI lookup was a named process step.

90 DAYS

- Implement dual legal verification for all new LAP sanctions above Rs 50 lakh: independent legal opinion from the bank's own panel, not the borrower's preferred lawyer.
- Enforce panel-valuer rotation: no single empanelled valuer to be used for more than 3 files per branch per quarter without Credit Risk Committee sign-off.
- Establish the five leading-indicator KPIs (CERSAI-check completion, panel-valuer independence, end-use verification, DRT recovery by branch, valuation-escalation compliance) as standing monthly reporting items for branch-level credit operations.

180 DAYS

- Deploy workflow enforcement for the three-step protocol: CERSAI printout, independent valuer appointment, and encumbrance certificate should be required digital attachments before the credit memo can be forwarded to the approval committee.
- Establish DRT recovery rate by originating branch as a semi-annual report to the Credit Risk Committee — with a mandatory origination-file review trigger for any branch whose auction recovery consistently falls below 70%.
- Train all branch-level credit officers on the early warning indicators documented in this report — not as compliance training, but as operational judgment calibration.

12 MONTHS

- Continuous branch-level monitoring of the five KPIs with automated exception flags to the Credit Risk Committee and CRO's review queue.
- Annual independent review of 100 LAP origination files across all active branches, benchmarked against the three-step protocol compliance rate.
- Assess whether the origination-file exception audit has shifted the DRT recovery rate on post-implementation files — use as an empirical test of the protocol's effectiveness at your institution.

18b Ten Files to Pull Tomorrow Morning

what to pull, what to look for, and the 5-minute verdict

These ten file-level checks require no new system, no budget, and no external consultant. They can be completed by any credit risk or audit officer with access to the origination file archive. Each check is derived directly from the failure patterns in this report.

#	PULL	LOOK FOR	5-MINUTE VERDICT
01	Top 20 LAP files by loan value, sanctioned in the last 12 months	CERSAI printout dated within 30 days of sanction on file Signal: PD	*Missing printout = process was skipped*
02	Same 20 files	Panel-valuer appointment letter: is the borrower named as the introducing party? Signal: PD	*Borrower as introducer = conflict of interest; escalate to Credit Risk*
03	Same 20 files	Post-disbursement end-use verification record within 90 days of disbursement Signal: RE	*Missing record = control gap; check if disbursement amount was transferred as stated*
04	All LAP exception approvals in the last 6 months	Named approving officer and written rationale on file for every exception Signal: PR	*Undocumented exception = policy breach; flag the approving officer*
05	Active LAP accounts above Rs 1 crore, sanctioned before CERSAI lookup was a named checklist step	Run CERSAI lookup now; flag any account where a competing charge is already registered Signal: PD	*Competing charge found = active exposure; refer to Legal immediately*
06	All files referred to DRT in the last 3 years	Original valuation report: was the valuer from the bank's own panel or introduced by the borrower? Signal: PD + RA	*Borrower-introduced valuer in a DRT file = systematic pattern; quantify the exposure*
07	Files with CBI or EOW referrals	Credit committee minutes from original sanction: does any member record a dissent, caveat, or request for additional verification? Signal: PR + RA	*No dissent recorded in files that later produced criminal referrals = committee culture issue*
08	All LAP files where the legal opinion was issued by a lawyer not on the bank's approved panel	Was a deviation approval obtained? Who granted it? Signal: PD + RE	*Unapproved panel lawyer with no deviation record = process failure; map to approving officer*
09	Branches with three or more DRT referrals in the last 24 months	Originating officer overlap: are the same one or two officers named across multiple DRT files from that branch? Signal: PR + PD	*Repeated officer name in DRT files = individual behavioural flag; refer to Vigilance*
10	LAP files where the property address appears in more than one loan file in the portfolio	CERSAI charge registration sequence: which loan was registered first? Signal: PD	*Same property in two active files = multiple mortgage exposure; immediate Legal review required*

19 Board Briefing Note

liftable · one page

Prepared for onward circulation: this page works standalone in a board pack.

Situation

- Across 256 adjudicated Indian LAP court cases from 2013 to 2026, 84% directly implicate the sanctioning officer or credit committee member in enabling or concealing the fraud — confirming that the risk is occupational and measurable, not solely borrower-driven.
- The three pre-sanction steps that define a defensible LAP file — independent title search, CERSAI registration lookup, and independent panel-valuer appointment — are absent or suppressed in the majority of documented cases; each is a documented, non-discretionary step, not a judgment call.
- Best-in-class lenders (BHFL at 0.52% gross NPA; Piramal Finance at 1.6%; Cholamandalam at 2.02%) all disclose mandatory enforcement of these three steps in their published governance disclosures; the NBFC sector average of 4.6% gross NPA (RBI FSR, June 2025) reflects institutions where the same steps are not systematically enforced.

Implication

- An institution that cannot produce officer-level, timestamped evidence that the three pre-sanction steps were completed for each LAP in its book is in the same structural position as the institutions in this case set — the only difference is that the default has not yet occurred.
- The gap between 0.52% gross NPA (best-in-class) and 4.6% (sector average) on a Rs 50,000 Cr LAP book represents approximately Rs 200 Cr in additional annual expected loss — a quantifiable cost of not enforcing the three origination protocol steps at the branch desk.

> THE QUESTION FOR MANAGEMENT
>
> *Can we produce, for the ten most recent LAP sanctions in each of our five highest-volume branches, a CERSAI printout dated within 30 days of the sanction date, signed by the officer who ran the search?*

> RECOMMENDED NEXT STEP
>
> Commission a file-level protocol audit of the most recent 50 LAP sanctions across the five highest-volume branches, checking for three items: (1) dated CERSAI printout in file within 30 days of sanction; (2) panel-valuer appointment letter showing no borrower involvement in the appointment; (3) post-disbursement end-use verification record within 90 days.

20 Scope Boundary

what is and is not in scope

Adjacent control / team	Why it does not substitute
Credit Bureau / CIBIL Score	Scores the borrower, not the collateral. Does not run CERSAI, does not verify the title chain, does not check valuer independence. A borrower with 800 CIBIL can submit a property with a forged title.
RBI EWS / AML Transaction Monitoring	Monitors account behaviour after disbursement. Does not review the origination file. In 24% of all documented cases cases, end-use diversion was the only post-disbursement signal — detected months after the credit was extended.
Internal Audit	Reviews completed files for policy compliance. Arrives after sanction. In 84% of all documented cases cases, the failure was at the moment of sanction — internal audit cannot intercept a decision already made.
RBI Fraud Risk Management Master Directions 2024 (NBFC), Section 7.1	Mandates periodic post-sanction legal audit of title deeds ≥ Rs 1 crore. Does not mandate pre-sanction independent title search, CERSAI lookup, or panel-valuer appointment as named origination steps. The gap is temporal: the mandated audit occurs after credit approval, not before it.
Capital Rules / Prudential Risk Weights	Sizes the portfolio buffer after the credit decision. Does not screen individual origination files. The 4.6% NBFC sector gross NPA vs 0.52% best-in-class gap (RBI FSR June 2025) persists despite identical capital treatment — proving that prudential buffers do not substitute for origination-file discipline.

21 Closing

Three structural findings emerge from these documented cases, and each points in the same direction.

First, the failure is a decision, not an accident. Eighty-four per cent of 256 adjudicated LAP cases across thirteen years of Indian court records implicate the sanctioning officer directly. Officers did not unknowingly approve bad loans — they chose not to look, not to verify, or chose to actively enable the fraud.

This is a measurable, attributable, and preventable failure mode. The fact that it recurs across public sector banks, housing finance companies, cooperative banks, and private lenders confirms that the failure lives in the occupational role, not in any particular institutional culture or product category.

Second, the prevention protocol is known and finite. Three pre-sanction steps — independent title search, CERSAI lookup, independent panel-valuer appointment — would have disrupted the collusion mechanism in the majority of cases in this case set, because each step requires a second party whose output cannot be fabricated without that party's cooperation.

Lenders who have made these steps non-bypassable demonstrate the outcome empirically: best-in-class gross NPA rates of 0.52–2.02% on large LAP books, in the same regulatory environment, on the same product. The prevention protocol is not aspirational — it is already in operation at competing institutions.

Third, the inspection question has changed. A board risk committee that asks 'do our officers know the CERSAI rules?' is asking a Level 2 question in a Level 4 environment. The question that matters now is: 'Can we produce, for a named officer, on a named file, a timestamped record of the three pre-sanction steps — dated within 30 days of sanction?' Institutions that can answer that question affirmatively for every LAP in their book have the documentation that courts and inspectors reach for first.

Institutions that cannot are in the same structural position as the 256 cases in this report — the only variable is time.

The 2026 partial-year run-rate — 31 cases through July, annualising to approximately 53 — confirms the 2025 peak is not a one-year anomaly. A CRO reviewing a LAP book in 2026 is operating in an enforcement environment that is structurally more intense than at any prior point in the thirteen-year enforcement record.

22 Methodology

for the sceptical reader

THE JUDGMENT QUOTIENT — FOUR DECISION SIGNALS

Signal	Name	What it requires at sanction	How failure manifests
PD	Protocol Discipline	Execute the three mandatory pre-sanction checks: independent title search + encumbrance certificate, CERSAI lookup for prior charges, independent panel-valuer appointed without borrower influence.	Step absent — not poor execution quality, but the step not taken.
RE	Risk Escalation	Pause and refer to a credit authority when any red flag is present: prior charge on title, valuation deviating >15% from reference, existing LAP at another lender, or inconsistent end-use declaration.	No referral despite a documented red flag. The flag need not be confirmed — its presence alone triggers escalation.
PR	Pressure Resistance	Refuse sanction or file an adverse report when relationship, branch incentive, or senior direction creates momentum toward approval despite an unresolved risk.	84% staff-collusion rate in this case set — officers did not merely fail under pressure; they participated in concealment. (Hypothesis-grade signal: inferred from operational dynamics, not directly measured.)
RA	Regulatory Awareness	Know and apply: SARFAESI CERSAI mandatory before security-interest creation; NBFC-SBR 75% LTV cap; end-use verification post-disbursement; independent panel valuer rule.	Treating mandatory controls as administrative formality rather than substantive checks.

HOW TO READ THE FIGURES

The 256 cases in this library are adjudicated matters — each has a court record or enforcement filing.

For approximately 130 cases, the specific penalty or exposure quantum is not separately stated in available public records; 68 cases carry a stated monetary figure from a court order or press release. Where a secondary-source figure was corrected against a primary court record, both figures are stated in the documented cases and the correction is noted explicitly in this report where the figure appears. Showing the correction is evidence of verification — it builds credibility, not uncertainty. Some documented cases involve the same borrower or asset across multiple hearings. Where this occurs, the hearings are counted as separate case set entries, each representing an independent judicial determination. The Tushar Kanti cluster (a single origination fraud generating multiple parallel proceedings at a public sector bank) and the Bhagyanagar cluster (three proceedings from the same property) are examples of this. This analysis does not estimate LAP failure rates across the Indian financial system. The cases described here are the failures that reached courts — the population most representative of systematic workflow breakdowns, not random individual errors. Each segment in the sectoral cuts holds a relatively small number of cases; read directional patterns as direction, not precise market-wide rates.

23 References

all [N] citations used in this report

This report draws on 256 court-adjudicated loan-against-property (LAP) cases compiled from Indian court records between 2013 and 2026, supplemented by primary-verified industry benchmark facts drawn from lender annual reports and Reserve Bank of India publications. All percentages and case counts cited in this report are ZenLearn Research tallies of the 256-case set; figures derived from external primary sources carry reference numbers in square brackets [N].

The case library covers proceedings under SARFAESI, the Code of Criminal Procedure (CrPC), and the Indian Penal Code (IPC), spanning CBI, EOW, and DRT records. This is a curated set of adjudicated Indian LAP failures, each with a court or enforcement record — not a random draw from the market.

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25 About ZenLearn

ZEN LEARN

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 request a sub-sector data cut. A sub-sector specific data cut — for private banks, public banks, foreign banks, NBFC-ICCs, NBFC-HFCs, NBFC-MFIs, NBFC-P2Ps, or co-operative banks — is available on request. The sub-sector cut presents the cohort-specific subset of the data in this report, with the named cases that apply, the cluster summary, and the signal distribution for the cohort. Write to rohit@zenlearn.ai. A personalised response is sent within 24 hours.

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