



Bank Home Loans

Dos and Don'ts of Availing a Home Loan

A customer complaint caught our attention lately on an online redressal forum. Naturally, the consumer was very upset, as he wrote, "Despite my paying about Rs.20, 000 every month for two years (on a loan of Rs 20.40 lakh), my loan is shown outstanding still at a high of Rs 20,000 lakh." This type of consumer outbursts is common in such forums. Of all, a lot are genuine and talk about deficient customer service among others. Also, many such complaints arise because of the lack of awareness about the home loan business. If you have taken a home loan or plan to take one, you can avoid a lot of hassles and bitter exchanges if you are equipped with the relevant information. To make it convenient for our consumers, our Financial Desk has evaluated 12 banks and has found the best bank to avail a home loan. Besides, the below guide is a comprehensive compilation of dos and don'ts of availing a home a loan.

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Of the total 12 evaluated banks, 9 are in the government sector and 3 are in the private banking sector. Besides educating consumers on the nitty gritty of availing the home loan, we also want to make consumers aware of the best bank in offering home loans. The following chart is a ready-reference for those wanting a home loan.



Eligibility age

Individuals with more than 18 years of age are eligible to apply for the home loan from the banks/housing finance companies. The maximum age is around 70 years.

Maximum loan amount

Generally, banks have three slabs of loan structure. 1) Up to Rs.30-35 lakh, 2) Up to Rs.75.00 lakh and, 3) Above Rs.75.00 lakh depending on one's eligibility of income and the rate of interest offered to the prospective borrower.

Margin (borrower's stake)

This is one variable that often confuses consumers. Margin is the amount of contribution which is brought in by the prospective borrower as proof of his stake in the business transaction. It is nothing but his involvement in the investment /loan process.

Processing charges

It is a one-time charge levied by the financier towards the labor of processing the loan documents. As a cost to be borne by the prospective borrower even if in the final stages of the loan process, the loan is not sanctioned by the financier. It also includes documentation charges, stamp duty, etc.

Rate of interest

This is the more influential variable in the eyes of the consumer as it affects his/her EMI in the long-running home loan. For this study, we have taken the rate of interest on home loans offered above Rs.75 lakh, as below this price, there would be very few flats available for a 2BHK in Delhi/NCR.

Repayment period

Consumers are looking for the longest period in a home loan as it directly has an effect on the EMI which is payable every month. This is one of the influential variables in arriving at a loan decision. A longer repayment period will least affect the liquid cash holding to meet monthly family expenses.

Insurance cover

Nowadays, lenders are persuading the borrowers to go in for an insurance policy to protect the outstanding home loan in the event of the accidental demise of the borrower. So that in that unfortunate event, the home loan gets closed from the death claim filed by the legal heirs. In that case, the liability need not fall on the surviving family. This is consumer-friendly but comes at a price to be paid by him.

CV RECOMMENDATION
Best Buy- Oriental Bank of Commerce (OBC)



Bank Home Loans:

CV Weightage (criteria) Points 100	Home Loans by Banks	Oriental Bank	PNB	Punjab & Sind Bank	State Bank of India	
5	Minimum Eligibility Age	18 (3)	Any (5)	Any (5)	18 (3)	
5	Maximum Eligibility Age *	75 (3)	Any (5)	Any (5)	70 (3)	
15	Maximum Loan (Rs. in lakhs)	Any (15)	Any (15)	Any (15)	Any (15)	
10	Margin (%)	20 (10)	20 (10)	25 (7)	20 (10)	
10	Processing charge (%)	0.50 (4)	0.35 (7)	0.25 (7)	0.35 (7)	
15	Max. Rate of Interest in %	8.80 (15)	8.85 (15)	8.75 (15)	8.85 (15)	
4	Max. Repayment period (in months)	480 (4)	360 (2)	360 (2)	360 (2)	
3	Collateral cover (optional)	Yes (3)	Yes (3)	Yes (3)	Yes (3)	
3	Insurance cover (optional)	Yes (3)	Yes (3)	Yes (3)	Yes (3)	
5	No of purposes of home loan	7 (3)	4 (1)	1 (1)	1 (1)	
25	Consumer Feedback	21	17	19	17	
	Total	84	83	82	79	

Notes :

- 1 The maximum loan and ROI are applicable for above Rs. 75 lacs for salaried resident individuals for ready-built houses/flats
- 2 The rate of interest is on a floating basis & is linked to MCLR of individual banks
- 3 Information given here have been resourced from the website and brochures where full information was provided therein as on 04-07-2019
- 4 * The maximum age is to be as on the date of the maturity period of the loan

Home loan in India

A home loan is a loan product where the lender provides funding for purchase or construction of a house/ residential property. The housing loan may also be availed either for buying a new flat or resale of a residential house. One can also avail a housing loan, to buy a plot of land and carry out construction on the same, which is called the composite loan.

Home loans in India are provided by the lenders on the agreement value of the house or market value whichever is lower. In the case of home loan for resale of flats, most lenders get the property valued independently and they will provide the housing loan based on their

value rather than the cost mentioned in the purchase agreement. Also note that banks now consider other charges like stamp duty, registration charges, etc. while considering the home loan amount eligibility. Home loans are repaid through monthly installments (EMI) spread over the years. Some of the banks provide housing loans even for a tenure extending up to 35-40 years. The maximum tenure of any loan and home loan specifically is also restricted by the borrower's age at the end of the tenure of the loan so as to ensure that the loan gets fully paid by or before the retirement age (nowadays, 70 years maximum age is also allowed to coincide with the maturity of the loan).

A Comparative Chart

	Central Bank	Uco Bank	HDFC Bank	Karur Vysya	Bank of India	Union Bank	BOB	Axis Bank
	18 (3)	21 (1)	18 (3)	Any (5)	Any (5)	21 (1)	21 (1)	21 (1)
	Any (5)	70 (3)	65 (1)	Any (5)	Any (5)	Any (5)	70 (3)	65 (1)
	Any (15)	Any (15)	Any (15)	Any (15)	500 (1)	Any (15)	1000 (3)	Any (15)
	20 (10)	20 (10)	25 (7)	30 (3)	20 (10)	20 (10)	20 (10)	25 (7)
	0.50 (4)	0.50 (4)	0.50 (4)	0.10 (10)	0.25 (7)	0.50 (4)	0.25 (7)	1 (1)
	8.50 (15)	8.75 (15)	8.85 (15)	11.65 (2)	8.85 (15)	8.80 (15)	9.60 (5)	9.10 (10)
	360 (2)	360 (2)	360 (2)	300 (1)	360 (2)	360 (2)	360 (2)	360 (2)
	Yes (3)	No (1)	No (1)	Yes (3)	Yes (3)	Yes (3)	Yes (3)	Yes (3)
	Yes (3)	No (1)	Yes (3)	Yes (3)	Yes (3)	No (1)	Yes (3)	No (1)
	2 (1)	5 (3)	3 (1)	6 (3)	4 (1)	4 (1)	5 (3)	9 (5)
	17	14	17	17	14	14	16	9
	78	69	69	67	66	61	56	55

Choosing Your Home Loan Lender

Buying a home is a dream for everyone but the real estate prices have made buying property difficult for most of us. It may happen that you have been thinking for quite some time to buy a property but your bank balance is not allowing you to do so. If that is the case, you can go ahead and take home loans that you can pay over a while and also own your dream home. While doing the same, you should keep in mind the following steps:

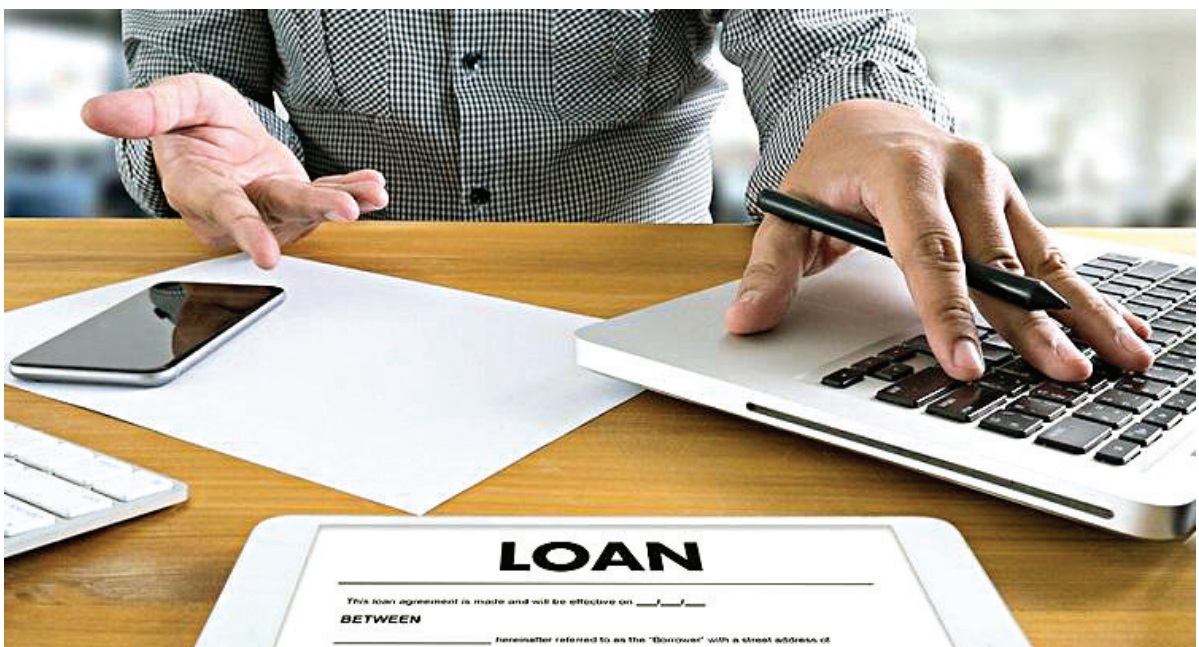
➤ **Low-rate of interest:** The foremost thing to be kept in mind is that one should never finalize a lender based on interest rates alone. Most of us choose a home loan lender based on interest rates, that the cheapest is the best. Though the importance of rate of interest cannot be belittled, other parameters can tilt the scale in favor of another lender offering an improved loan product or ensuring quick and dedicated post-sales service.

- **Should I go for a fixed interest or floating interest rate?** This can primarily be classified into two categories based on interest rates i.e. fixed rate and floating rate of interest. There are very few lenders in India who offer pure fixed rates where the rate of interest remains constant for the entire tenure of the home loan as most lenders have an interest reset clause of 3 to 5 years. In floating rate home loans, the rate of interest on such loans is subject to change whenever there are changes in the repo rates announced by RBI or any changes in Base Rate/ Marginal Cost of Funds based Lending Rate (MCLR) of the bank which is again based on market conditions. The borrower should opt for fixed interest rates only if she/he is certain that the rate of interest is the lowest in the interest cycle and market reports indicate that the interest rate could farm up in the future.

- **Type of interest rate:** While you are going to take a home loan, you need to decide the type of interest rate you want to pay to the bank. The banks will offer you an option of a fixed rate or a floating rate. Home loans with fixed interest rates mean that the interest rate is fixed for the entire tenure of the loan, without any change whatsoever.
- **Paying more interest than the loan amount:** Many borrowers do not realize that repayments of a home loan will be more than double the loan amount. The longer the tenure, the higher will be the interest payments and higher will be the chance that you will pay more interest than the principal. For example, a loan of Rs. 25 lakh from a private lender such as NBFC at 13.25 pa interest rate for 25 years will have EMI of Rs 28, 600. On the other hand, a private bank loan of Rs. 40 lakh at 8.85% pa interest rate will have Rs. 35, 600 EMI for 20 years.
- **Why home loan dues with the banks get reduced at a very slow pace initially?** No matter how high or low is your EMI, its interest component will be very high in the initial years of repayment. When higher is the rate of interest or loan tenure, the slower is the reduction in principal in the first few years of the loan.
- **Why banks insist on changing loan tenure instead of EMI?** Every time the RBI cuts interest rates, you are made to believe that your EMI will come down. But this is not always the case. Lenders prefer to shorten the tenure than changing the EMI. The reason is convenience. This saves them the hassles of readjusting the EMI, changing the ECS mandate and accepting new post-dated cheques (PDCs). But the interest benefit will be passed on to your loan account by debiting less interest than before.
- **Collateral cover:** Banks generally do not insist on collateral security these days except in cases where the main security cover is inadequate or the applicant-borrower does not have the eligibility in terms of take-home pay or the minimum service. The types of securities which banks generally ask for are- life insurance policies, flat/house belonging to either the applicant-borrower or co-obligate/ third party security, etc.

Other Less Influential Variables of Home Loan

- **Eligibility income:** Various banks have their methods/standards for calculating eligibility. You should do some shopping to check which bank is offering you higher loan eligibility. Coupling with your spouse's income may also be a good option to increase your home loan eligibility. Home loan eligibility depends on various factors such as income (banks generally keep the EMI to income ratio at 0.45 to 0.50); tenure of the loan (the longer tenure you opt for, the more is your





home loan eligibility and less will be your EMI); interest rate offered (if your interest rates are on a lower side, then the loan eligibility will be higher and vice versa); and existing loans (in case you have any existing loans, then the loan eligibility amount will come down to keep the EMI to income ratio around 0.50). This is not perceived to be an important or influential variable and hence has not been allotted any points. Further, the borrower can only increase his eligible income by clubbing his spouse/close relatives.

- **Yearly service charges:** These are recurring charges the borrower has to pay to the financier for annual maintenance expenses for the home loan, annual charges for obtaining search report of his property from the office of the sub/registrar, property inspection charges, obtaining valuation report of the property from approved valuers, etc.
- **Guarantee/third party surety:** Banks/financial institutions in certain circumstances ask the prospective borrowers to provide a third party's surety with an adequate net worth (a man of means) to bolster the security value of the loan transaction. Providing such a third party guarantee to the satisfaction of the lender sometimes would prove difficult, but not impossible.
- **Online facility:** Some of the lenders are offering online services for loading application form and

scanning of uploaded documents, which saves a lot of physical labor involved in obtaining documents and securing them in hard-bound files. Whether it also needs to be consumer-friendly with the quick sanction and some concession in the rate of interest offered to online borrowers is debatable. This is the new trend amongst lenders especially amongst the financial institutions and privately-owned banks.

- **Time is taken for sanction:** The importance of response time from the lender cannot be over-emphasized as this brings in more customers to the lenders by word-of-mouth. A quick sanction will bring in more customers to the bank based on customer's delight, which banks/financial institutions so often talk about.

Tax Benefits of Taking Home Loans

➤ SECTION 80 C

Under Section 80C of the Income Tax Act (as amended up to date), any principal repayment made towards a home loan of a self-occupied property, up to a maximum of Rs.1,50,000 per assessment year is exempt (under the overall deduction under Section 80C up to Rs.1.50 lacs for the financial year 2019-20. Co-owners of the property, who are also joint borrowers to a home loan, can individually claim deduction up to the amounts they have repaid to the loan.



➤ SECTION 24

Under this section, interest paid on the loan taken for carrying out repairs/ renewal/reconstruction of a property which is owned and is occupied for self-possession or is owned but not self-occupied (staying in rented accommodation instead) can be claimed relief as exempt from gross total income of up to Rs.30, 000 per year. If such property has been acquired/ constructed as a house before 01.04.1999, the exemption is up to Rs.30,000 per year and if such acquisition/construction of the house is made after 01.04.1999, then it is exempt from the gross total income of up to Rs.2,00,000 per year (applicable for the Financial Year 2019-20). Co-owners of the property who are also joint borrowers to the home loan can also claim an exemption to the extent of their share in the loan component.

➤ SECTION 80EE

This is a new section under the IT act providing for additional home loan interest paid a benefit in taxation for first-time homebuyers of up to Rs. 50, 000 per assessment year beginning from AY 2020-21 (ending March 2020 for FY 2019-20). This benefit is available for homebuyers provided the home loan amount does not exceed Rs. 3, 50, 0000 and the property value must be within Rs. 50, 00000.

When You Are Not Eligible for a Home Loan

- 1) No home loan would be available just for buying a plot of land without any construction plan thereafter.
- 2) No home loan would be made available for commercial purposes and for speculative gains.
- 3) No home loan would be given to buy/construct properties located in unauthorized colonies or not approved by the government/ municipal authorities.
- 4) No home loans would be given against properties bought/constructed meant for residential purposes but was to be used for commercial purposes. If the land parcel is enjoying mixed land use, then in that case, you can get a home loan but you will have to pay interest at commercial rates as applicable to real estate.

