

## What is Home Loan?

Home Loan is a Secured Loan offered against the security of a house/property which is funded by the bank's loan, the property could be a personal property or a commercial one. The Home Loan is a loan taken by a borrower from the bank issued against the property/security intended to be bought on the part by the borrower giving the banker a conditional ownership over the property i.e. if the borrower is failed to pay back the loan, the banker can retrieve the loan money by selling the property.

A home equity loan (sometimes abbreviated HEL) is a type of loan in which the borrower uses the equity in their home as collateral. These loans are useful to finance major expenses such as home repairs, medical bills or college education. A home equity loan creates a lien against the borrower's house and reduces actual home equity.

Home equity loans are most commonly second position liens (second trust deed) although they can be held in first or, less commonly, third position. Most home equity loans require good to excellent credit history and reasonable loan-to-value and combined loan-to-value ratios. Home equity loans come in two types, closed end and open end.

Both are usually referred to as second mortgages, because they are secured against the value of the property, just like a traditional mortgage. Home equity loans and lines of credit are usually, but not always, for a shorter term than first mortgages. In the United States, it is sometimes possible to deduct home equity loan interest on one's personal income taxes.

There is a specific difference between a home equity loan and a Home Equity Line of Credit (HELOC). A HELOC is a line of revolving credit with an adjustable interest rate whereas a home equity loan is a one time lump-sum loan, often with a fixed interest rate.

This is a revolving credit loan, also referred to as a home equity line of credit, where the

borrower can choose when and how often to borrow against the equity in the property, with the lender setting an initial limit to the credit line based on criteria similar to those used for closed-end loans. Like the closed-end loan, it may be possible to borrow up to 100% of the value of a home, less any liens. These lines of credit are available up to 30 years, usually at a variable interest rate. The minimum monthly payment can be as low as only the interest that is due.

Typically, the interest rate is based on the Prime rate plus a margin.

When considering a loan, the borrower should be familiar with the terms recourse and nonrecourse loan, secured and unsecured debt, and dischargeable and non-dischargeable debt.

US traditional mortgages are usually non recourse loans. "Nonrecourse debt or a nonrecourse loan is a secured loan (debt) that is secured by a pledge of collateral, typically real property, but for which the borrower is not personally liable." A US home equity loan may be a recourse loan for which the borrower is personally liable. This distinction becomes important in foreclosure since the borrower may remain personally liable for a recourse debt on a foreclosed property.

Home equity loans are secured loans. "The debt is thus secured against the collateral — in the event that the borrower defaults, the creditor takes possession of the asset used as collateral and may sell it to satisfy the debt by regaining the amount originally lent to the borrower." Credit card debt is an unsecured debt such that no asset has been pledged as collateral for the loan. Using a home equity loan to pay off credit card debt essentially converts an unsecured debt to a secured debt.

When deciding upon a type of loan, the borrower should also consider if the debt is dischargeable in bankruptcy. For instance, US student loans are "practically non-dischargeable in bankruptcy".

#### Types of Home Loan

There are different types of home loans available in the market to cater borrower's different needs.

- Home Purchase Loan : This is the basic type of a home loan which has the purpose of purchasing a new house.
- Home Improvement Loan : This type of home loan is for the renovation or repair of the home which is already bought
- Home Extension Loan : This type of loan serves the purpose when the borrower wants to extend or expand an existing home, like adding an extra room etc.
- Home Conversion Loan : It is that loan wherein the borrower has already taken a home loan to finance his current home, but now wants to move to another home. The Conversion Home

Loan helps the borrower to transfer the existing loan to the new home which requires extra funds, so the new loan pays the previous loan & fulfills the money required for new home.

- **Bridge Loan** : This type of loan helps finance the new home of the borrower when he wants to sell the existing home, this is normally a short term loan to the borrower & helps during the interim period when he wants to sell the old home & want to buy a new one, It is given till the time a buyer is found for the old home.

- **Home Construction Loan** : This type of loan taken when the borrower wants to construct a new home.

- **Land Purchase Loan** : It is that loan which is taken to purchase a land for construction & investment purposes.

Documents required in Home Loan

Generally the documents required to processing your loan application are almost similar across all the banks; however they may differ with various banks depending upon specific requirement etc. Following documents are required by financial institutions to process the loan application:

- Age Proof
- Address Proof
- Income Proof of the applicant & co-applicant
- Last 6 months bank A/C statement
- Passport size photograph of the applicant & co-applicant

In case of Salaried

- Employment certificate from the employer,
- Copies of pay slips for last few months and TDS certificate
- Latest Form 16 issued by employer Bank statements

In case of Self-employed

- Copy of audited financial statements for the last 2 years
- Copy of partnership deed if it is a partnership firm or copy of memorandum of association and articles of association if it is a company
- Profit and loss account for the last few years
- Income tax assessment order

Home Loan Process & various steps involved

There are various steps involved in getting a Home Loan from selecting your property to filling up the loan application. Following are the various stages in Home Loan:

- The first step involved in the process is to find your property which is followed by the verification of property documents, post that the documents are examined & simultaneously you can start searching for the lender who can offer the BEST Home Loan Deal after checking your eligibility criteria.

- **Know the Home Loan Eligibility** : Banks offer the loan amount only after checking your profile & based on various eligibility criteria's like age, income & salary banks lend you the money.

- **Select the Best Home Loan after evaluation:** Comparing home loan interest rates is the primary feature in the home loan selection, however other fees & charges like Application fees, processing fees, legal charges should not be neglected when comparing various loan offers. To check the interest rates & other charges incurred by various banks, Deal4Loans has brought in a Home Loan Comparison Chart across various Banks.
- **Applying for the Loan :** After you have selected your lender, you have to fill in the application form wherein the lender requires complete information about your financial assets & liabilities; other personal & professional details together with the property details & its costs.
- **Documentation & Verification Process :** You are required to submit the necessary documents to the bank which will be verified together with the details in the application.
- **Credit & default check :** Bank checks out the borrower's loan eligibility (through repayment capacity) & the amount of loan is confirmed. The borrower's repayment capacity is reached which is based on the income, salary, age, experience & nature of business etc. Bank also checks credit history through the Cibil Score which plays a critical role in deciding & approving your loan application. Low Credit Score implies that the bank upfront rejects your application on the basis of earlier credit defaults; on the other hand high credit score gives a green signal to your application.
- **Bank sanctions Loan & Offer letter to the borrower :** After the credit appraisal of the borrower bank decides the final amount & sanctions the loan, the bank further sends an offer letter to the borrower which constitutes the details like rate of interest, loan tenure & repayment options etc.
- **Acceptance Copy to the Bank :** The borrower needs to send an acceptance copy to the bank after the borrower agrees with the terms & conditions in the offer letter.
- **Bank checks the legal documents :** The bank further asks the legal documents of property from the borrower to check its authenticity so as to keep them as a security for the loan amount given. The next step involved is the valuation of the property by the bank which determines the loan amount sanctioned by the bank.
- **Signing of agreement & the loan disbursement :** The borrower signs the loan agreement & the bank disburses the loan amount.

### Charges in Home Loan

Acquiring a Home Loan doesn't only involve the cost of home loan interest rates but it also includes other charges & fee accompanying at various stages of taking the Home loan. You must consider all these charges while comparing the cost structure across banks. Following is the detailed fee structure incurred by banks at different loan stages:

- **Processing Charge :** It is a fee payable at the time of submitting the loan application to the bank which is normally non-refundable. The fee ranges between 0.5 per cent and 1 per cent of the loan amount.

- **Administrative Fee** : It is a fee incurred by banks at the time of loan sanction; there are few banks who have removed this fee so you must check it with all the banks.
- **Prepayment Penalties** : When the borrower pre-pays the loan before the loan tenure, banks charge a penalty which usually varies between 1 per cent and 2 per cent of the pre-paid amount.
- **Legal Charges** : Banks also incur some charges from the customer for legal and technical verification of the property.
- **Delayed payment Charges** : When there is a delay in the payment of your EMI, banks charge a late payment fee from the borrower which normally ranges from 2% to 3% of the EMI.
- **Cheque bounce charges** : Banks charge between Rs. 250 and Rs. 500 for every bounced cheque towards the loan payment because of lack of funds in your account.

#### Home Loan Criteria by various banks

The borrower's eligibility of getting a home loan depend upon his/her repayment capacity & the banks establish this repayment capacity by considering various factors such income, spouse's income, age, number of dependants qualifications , assets, liabilities, stability and continuity of occupation and savings history.

#### Important Pointers in Home Loan

- **Increase your Loan eligibility**
- **Credit History** : Your chances of getting a home loan are increased if you have a good credit history which is known by banks by checking the borrower's Cibil score. Now it is very hard to get a loan from another bank when you already have a bad debt with one bank.
- **Clubbing of income** : Your eligibility to take a home loan will augment when you club your income with your spouse's income, bank in this case will calculate your eligibility on the basis of the clubbed income of both the applicants. You can club incomes of spouse, children & parents staying with you and having regular income.
- **Enhance your loan tenure** : Longer is the loan tenure, lower will be the EMIs which further increases the repayment capacity of the borrower & in turn enhances the loan eligibility.
- **Step-up Loan**: In this type of loan EMIs remain low in the beginning & increase gradually as and when the borrower's spending power increases. Therefore lower EMIs in the initial years enhances the borrower's ability to pay & further increases the loan eligibility
- **Increase the down payment** : You must know that in a home loan bank finances only 85 to 90% for the property & the rest amount has to be funded by the borrower. You should increase the down payment if you have more than required amount which will mitigate your debt considerably.

### Tax Benefits in Home Loan

The home loan borrower enjoys Tax Benefits on both Interest paid & the Principal re-paid. Under Section 24(d) of Income Tax, the deduction of interest payable on the home loan is up to a maximum of Rs. 1, 50,000.

Under Section 80(c) of Income Tax, Principal amount for the repayment of loan along with other savings & investments is eligible for tax deduction up to a maximum limit of Rs. 1, 00,000.

Compare interest rates of Housing loans and EMI from all major National and international banks of India such as SBI, HDFC, LIC Housing Finance, ICICI HFC, Barclays Finance, UBI, IDBI, Axis Bank, Fullerton and Citibank.