ARE YOU PLANNING TO TAKE A LOAN?

With the additional tax deduction announced in the recent Budget and attractive loan offers by several banks, this is the right time for prospective homebuyers to invest in residential property

Bienu Verma Vaghela

The auspicious month of Chaitra begins on April 11 and so does Vasantiya Navratra for Hindus, which is celebrated with fervour in north India. This festival of nine nights is dedicated to Goddess Durga, Lakshmi and Saraswati. The dates are from April 11 to 19 for this year's Vasant Navratr.

This period is particularly auspicious for any new initiatives such as buying new assets like a home, a car, an office, jewellery... or any other prized possession. You do not need to check the calendar for a shubh muhurat or auspicious moment as all nine days of Navratra are considered auspicious.

Though these festivals go by different names, the same festive spirit rules day one of Navratra – known as Gudi Padwa by Maharashtrians and Hindu Konkanis, Chetti Chand for Sindhis, Ugadi for Kannadiga and Telugu and Navreh for Kashmiris.

Though spirits are high and the mood is upbeat, the properties seem attractive and home financing competitive... one needs to ensure that you are prepared to make an extremely expensive buy.

As a homebuyer what are the initial steps to be taken for home finance?

To begin with, finalise your budget for buying a particular property and work out how you will fund it. Needless to mention, be clear about the things you are looking for with respect to the property – such as locality, size, number of rooms and preferred amenities etc. If you are going to buy from a developer, please check his credentials and past record of projects delivered.

Now is the time to see what documents you need before finalising the property, such as title of the land, lease deed, license in favour of the developer from concerned authorities, approval or sanction of the project from the concerned authority, and approval from other departments such as water/ electricity. Don't forget to assess any hidden charges which might become a pain later. And do not forget to take out your credit report from CIBIL for speedy processing of loan.

Then comes the most important part of your exercise, comparing of home loan interest rates offered by various banks and HFCs on any well-known price comparison engines. These engines also have various calculators on their sites, which enables you to check your eligibility. Once you have the relevant details you are an informed customer for your bank and are in a better position to negotiate with the loan authorities there.

What are the offers available from various lenders? The State Bank of India gives you the lowest interest rates on its home loans and charges a processing fee of just 0.125% for loans of up to ₹25 lakh, the minimum being ₹1000. The processing fee for for loans above ₹25 lakh and upto ₹75 lakh is ₹3250. Switching of loan is even more attractive with a processing fee of just ₹1000 per account, irrespective of the loan amount.

The Bank of Maharashtra does not charge any processing fee on its home loans.

There are some attractive offers from private banks, too. Axis Bank has its Happy Ending Loan where the last 12 EMIs are waived off at no extra cost if a customer pays his/her EMIs regularly for 15 years for a 20-year loan. The processing fee charged is 1% of the loan amount.

Going by the trend of cash back on offer, ICICI Bank is giving 1% cash back after completion of the first 36 months of EMIs. Subsequently, 1% of cash will be credited after every 12 EMI months. Under credit to ICICI Bank account, the benefit of cash back will only be credited to your ICICI Bank account. This scheme is valid till June 30.

As far as processing fee is concerned, ICICI Bank charges in the range of 0.50% to 1.00% of the loan amount or ₹1500 and ₹2000 for customers from Mumbai, Delhi and Bangalore, whichever is higher.

Bank of Baroda has extended its Festive Dhamaka offer on home loans and car loans till April 30, 2013. This offer has 100% waiver of unified processing charges along with concession in interest rate by 25bps to 150 bps on different tenures/amount on your home or car loan.

And what if you are planning to buy a car and a house at the same time? There is a full waiver on processing fee on home loan if availed with a car loan during the offer period from UCO Bank.

But before considering your loan offer, lenders will closely scrutinise your repayment capacity – actually your financial strength – by taking into account your income level, net income and liabilities etc. It is advised to be well prepared with all these figures and of course with the property you are aiming to buy.

This Navratra has become more special with the recent budget announcement of additional deduction of interest of ₹1 Lakh in assessment year 2014-15. However, there are conditions attached. It should be your first loan and the amount should not exceed ₹25 lakh and the value of property should be up to ₹40 lakh. Moreover, you should not own any residential house property on the date of sanction of the loan. The loan should be sanctioned by the bank/ HFC between April 1, 2013 and March 31, 2014.

A separate section has been introduced under IT Act - 80 EE which will allow first time home borrowers to claim deduction of ₹1 lakh on the interest paid on the loan. If you haven't exhausted your ₹1 Lakh limit, the balance may be claimed in assessment year 2015-16. This deduction will be over and above the deduction of ₹1.5 lakh allowed for self-occupied properties under section 24.

This is being viewed as a big benefit for first time homebuyers.

This way it is anticipated that with competitive loan rates, stabilisation in property prices, additional tax deduction announced in recent budget and various attractive offers by lenders, this Navratra will surely become auspicious for new home buyers.

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HOME LOAN FLOATING INTEREST RATES AS ON MARCH 31, 2013

	20 years	
Lender's name	Upto ₹30 lakh	Above ₹30 lakh
Allahabad Bank	10.20%	10.45% - 10.95%
Axis Bank	10.25% - 10.50%	10.50%
HDFC Ltd*	10.15%	10.40%
ICICI Bank*	10.25%	10.50%
IDBI Bank	10.25%	10.25% - 10.50%
Indian Bank	10.20%	10.45% - 10.70%
SBI	9.95%	10.10%
UCO Bank	10.20%	10.20%

Source: Apnapaisa Research Bureau www.apanapaisa.com

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First, check the payment plan

If putting your money in a property that is under construction or will be developed, weigh the pros and cons before settling on the payment plan

Sunil Tyagi

Owning a home of our own is a dream most of us cherish and undoubtedly, one that warrants careful planning. We take many factors into consideration when zeroing in on a property to buy - proximity to our workplace, amenities on offer in the locality, state of infrastructure in the surrounding areas, and area under green cover to name a few. An additional factor that must figure on the top of our checklist, but is often overlooked, is choosing a payment plan that is in line with our ability to pay and risk exposure while booking a property proposed to be constructed. At present, the down payment plan, time linked payment plan and construction linked payment plan are the prevalent forms of payment plans being offered by developers at the time of booking. Each payment plan has its own set of advantages and disadvantages.

One often comes across incidents of buyers having paid the full/major amount at the time of booking towards purchase of a property, where construction is far from complete within the stipulated time period specified by the developer in the buyers' agreement, or worse, where construction does not begin till much later. Such unprecedented delays in getting possession of the property can take its personal toll.

Down payment plan

The down payment plan (DPP) requires buyers to pay between 90% and 95% of the property's purchase price at the time of booking or within a short period after booking. According to this plan, 10% to 15% of the purchase price constitutes the booking advance (also commonly termed as 'earnest money') and thereafter, up to 80-90% of the balance amount is paid within the next few days of the booking. The remaining 5-10% balance amount along with other charges, if any, is payable at the time of taking possession.

What often attracts buyers to DPP is the lure of receiving a 10-12% discount on the purchase price. Sometimes a developer may be open to negotiation for higher discounts. However, DPP comes with the highest risk exposure to buyers as project abandonment and cancellations are harsh realities in India's highly unregulated real estate sector. If the completion and delivery of a property is delayed, buyers find themselves in the difficult position of being unable to withdraw from the project due to contractual clauses. If the property being purchased has been financed, payment of interest to the bank becomes an added liability on a buyer. Those with limited financial resources then find themselves unable to invest or buy property in an alternative project.

Moreover, the recession and realty slump worldwide in 2008-09 has made loan providers apprehensive of lending money upfront under the DPP for projects in which construction is yet to start. DPP benefits a buyer only if the developer completes the construction and delivers the property on time — clearly, this is seldom achieved.

Time-linked payment plan

The time-linked payment plan (TLPP) requires buyers to pay towards the property's purchase price in instalments, based on a schedule decided by the developer. It is incumbent upon the buyer to pay these instalments on time, irrespective of the progress on construction and development of the property. In addition, a TLPP is a contractual and non-negotiable commitment. Thus, delayed payments may come with hefty penalties imposed by the developer, such as payment of interest over and above the instalment amount for the period of delay. Also, TLPPs do not hold a developer accountable, even if construction does not commence.

Construction-linked plan

The construction-linked payment plan (CLPP) requires buyers to pay the initial 10% to 15% of purchase price as booking advance, and subsequent amount in instalments based on the achievement of construction-linked milestones. The timeline of stages of construction activity and the accompanying payment schedule are laid down by the developer. In terms of risk exposure, CLPP scores over other payment plans significantly, in that it does not hold buyers liable for making payments in the event of construction delays, thereby protecting their interests. However, before opting for a CLPP, buyers should investigate the developer's project track record, analyse the construction timeline and verify that the payment of instalments are not timed such that buyers end up paying the full purchase price before construction is even halfway complete. The payment of instalments and rate of progress of construction should be balanced and go hand in hand.

Thus, when considering investing in a property under construction or one that is proposed to be constructed soon, buyers should carefully weigh the pros and cons before settling on their payment plan of choice that exposes them to minimal financial risk.

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HOME BUYING TIPS

When to take the plunge

There is a school of thought that states that you should buy a home as soon as you can afford it, or as soon as your home loan application is approved. The only question one tends to ask when buying a house is whether property prices and interest rates are amenable at that point in time or not. On the surface, this makes sense. However, not all surfaces are reliable mirrors.

From an investment point of view, buying a house is often likened to buying gold and putting it in the bank. That is true to some extent. Investments in real estate, historically, have given very good returns, if held for a long period. In other words, buying property today does make some financial sense.

Buying a house means security. It is one of the few long-term investments with practical utility — after all, you are not going to put the flat in a bank while it appreciates in value. You are going to live in it. But the fact that investment in property needs time to pay off good returns should be kept in mind.

Before utilising your loan or putting your money down, calibrate the options well to judge whether your investments today will yield desired results before you plan to sell off. With the social structure in India decaying slowly, there are a host of factors that need to be kept in mind before making such a huge investment.

The work profile

The reason why a home loan company digs so deep into the nature and situation of a client's job is that they need to gauge how reliable a risk he is. There are certain classes of jobs that inspire more confidence due to the stability they offer to the employee.

This stability is not judged by the take-home income but by potential consistency. Therefore, if you are applying for a home loan, it would be best to make a personal evaluation. If you are a frequent job-hopper, suffer from poor health or have a long history of dismissals, you would do well to set your career situation in order before applying.

Even if your application is accepted, how well are you equipped to pay the EMIs (equated monthly instalments)? With the loan granted, you could avail of it more productively when things are a little more stable on your professional front.

Peripheral expenses

Another factor to consider is the peripheral expenses. To begin with, if you are using the services of a real estate broker, you will be liable to pay him a certain amount of money once the deal is finalised. There are also various legal formalities, including property and registration taxes. Are you in a position to take care of them as and when they arise?

The family

There are both practical and less definable reasons for assessing your marital situation before contemplating the purchase of a home. A shaky or distressed marriage is definitely not conducive to turning four walls into a home. The contemporary Indian mind assumes that marital problems will automatically get ironed out once the decisive step of buying a home is taken. The facts state a different story, but that is not the point. Let us consider the purely financial point of view.

Many couples take out joint home loans. When a marriage is stable, this does have many advantages. When it is not, the consequences can be quite disastrous. Payment of EMIs in case of separation or divorce can become a major legal issue. Even in the case of outright purchase, actual ownership of the property, if the marriage dissolves, will be a subject of dispute. Hoping that buying a home will set a disturbed family situation right is akin to hoping that water will miraculously flow upwards if the right kind of pipe is installed.

Cultural roots

Yet another reason to think long and hard before actually investing in a residence would be sudden geographical change. One major mistake repatriating NRIs usually commit is to buy a home arbitrarily, without considering the possible culture shock.

The fact is that they have spent a minimum of five years in a foreign country, which means that they have assimilated that country's culture and adopted a certain lifestyle. Such a culture and lifestyle may be hard to replicate in India, no matter how progressive the city of choice is. The same feeling of alienation and displacement can overwhelm property buyers who decide to settle down in an unfamiliar city or even state, without familiarising themselves with the new area of location.

Finally, the investment angle should be considered. If you ask a financial consultant about whether the time is ripe to buy a residence, he will probably raise only one point — will you be able to keep the property long enough to make it pay as an investment?

All of these factors are worth thinking about before actually taking the plunge of buying a home.

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