AKSHARA

Buyer's Guide – Akshara Group

HOME LOANS

First Time Borrowers

Has buying a new home been on your agenda for a while now? Well, if that has been so, then this is the most suitable time to buy one before the prices go through the roof. The reason being that the interest rates have been on the rise and are likely to get steeper in the near future. Thus, don't delay any further. So how to go about it? The process of buying a house involves several approaches and you can choose the one which suits you best. In case you choose to buy your dream home through a home loan, the best bet would be to opt for the teaser loans being offered by only a few banks where you get to avail a fixed EMI for the initial 13 to 36 months depending on the bank you choose. Apart from that, there are normal home loan products categorized as–

(i) **Floating home loan interest rate:** It keeps on changing as per the change in base rates or the Benchmark Prime Lending Rate (BPLR) ; as the case may be.

(ii) **Fixed home loan interest rate product:** There are of 2 types :

- The interest rates are fixed for the entire tenure. In such a case, you will have a fixed EMI for your housing loan throughout the entire tenure.

- The interest rates are fixed for a certain period of time. In this case, the interest rate is fixed only for a stipulated period, say 6years, after which the bank can change it's interest rates every 6 years.

Already Existing Borrowers

If you are an existing home loan borrower with a proper track record, there is a better way to streamline and manage your home loan with ease.

- You can migrate to a teaser rate scheme.
- You should also shift from the old BPLR system to the new base rate regime. You will need to apply to the concerned bank for the change of the base rate as it is not automatically applicable to the existing users. This lends more transparency than the system of fixing up BPLR.

Thus, by making a transition from your existing home loan to a base rate system will be much more beneficial to you than staying in the old BPLR system.

Home Loan Application Process – How to Avail a Home Loan?

Applying for a home loan can be quite an unnerving task especially if it's the first time you are applying for any loan. Ignorance is certainly no bliss here; on the contrary without the right information and proper awareness, the entire home loan experience can turn out to be quite unpleasant and also burn a hole in your pocket.

To save you from all that trouble, Akshara group lays down a Step-by-Step Guide so that you can't go wrong. Read on and equip yourself with the right information about Home Loans and what to expect.

Application Process for Home Loans involves the following steps.

Step 1: **Applying for a Loan - The Application Form**

Step 2: **Face to Face Meeting**: **The Personal Discussion**

Step 3: **Under the Scanner: Thorough Enquiry About You by the Bank**

Step 4: **Getting the Green Signal: Credit Appraisal by the Bank and Loan Sanction**

Step 5: **The Offer Letter**

Step 6**: The Legal Dimension: Getting Property and Papers in order**

Step 7: **Property Investigation by Bank: The Technical / Valuation check**

Step 8: **Estimation of Property's Worth: Valuation of Property**

Step 9: **Sealing the Deal: Registration**

Step 10**: In Black & White: Signing the Home Loan Agreement**

Step 11: **The Big Payout: Disbursement of the Home Loan**

1. Applying for a loan - The Application Form

The first step is to fill out the application form. The look and feel of the Home Loan Application Form will vary from bank to bank. However, about 85% of the required information is the same across all banks. Basically, most of the information pertains to your personal, professional and financial details which also include your assets, liabilities and estimated cost for financing the finalized property.

What are the Documents to submit?

While submitting the Application Form, several documents are required by the bank. The following documents are generally required to be submitted

1) .**Proof of Income:** Your income needs to be substantiated with proof as follows:

    (i) Copies of last three years' Income Tax returns (along with copies of Computation of Income/Annual accounts, if any),
    (ii) Form 16/Form 16A
    (iii) Last three months' salary slips
    (iv) Copies of the last 6 months' statements of all your active bank accounts in which your salary/business income details are reflected, etc.
    (v) Other documents that you need to provide with your application form include age proof, address proof and identification proof.
    (vi) You may also need to provide your employment details.

2) **Age proof**: Copy of your school leaving certificate/Passport/ Driving Licence/Ration card/PAN card/ElectionCommission's card/etc.

3) **Address proof**: Documents like Passport/ Voter's ID Card/ PAN Card etc. need to be furnished to prove that you are actually residing at your current address.

4) **Identification proof**: Same as the above, but with your photograph as well. Sometimes, a single document having your photograph, age, and current residential address can suffice as proof for all the three things.

5) **Your employment details**: Generally, banks cross-check your employment details from the standard website of your company that exists. However, if your company is not well-known , then you may need to furnish details about the same which include a brief about it's nature, business, turnover, profit, clientele , competitors etc.

6) **Financial Scrutiny**

Before the bank or lending institution sanctions your home loan, it makes a careful assessment of your financial status based on the all your income related documents, disclosure of assets, liabilities and any other ongoing loans that you submit. Your bank statements are meticulously scrutinized for the following:

(i) **Level of activity** especially for self-employed people, this gives a very good insight about the extent of their business activities.

(ii) **Average Bank Balance –** Your spending and saving habits are studied from a simple cursory glance at the average balance maintained in the savings bank account which speaks volumes. This study provides them an insight about your ability to repay the loan.

(iii) **Number of Cheque Returns** – If the bank statement reflects a debit of a small charge, it indicates that a cheque issued by you was returned by the bank and known as a Cheque Return. Multiple cheque returns can hamper the process of your loan sanction.

(iv) **Cheque Bounces -** When cheques deposited by you are turned down or returned by the issuer's bank then it will reflect in your statement. Generally, banks have specific norms as to how many such returns they will entertain with a stipulated period, say, a year.

(v) **Regular periodic payments -** Banks look for periodic payments that you make to other finance institutions or banks, indicating any existing loans or liability. Should there be any, you will need to furnish complete details to your Home Loan lender to whom you have applied.

(vi) **Nature of Your Investments –** Where you make your investments and how you manage them is also examined in thorough detail, letting the bank estimate about your ability to make the down payment and also gauge your saving habits.

The Processing Fee

In order to process the application form and the credit documents, the banks charge a processing fee which varies from bank to bank and is usually around 0.25% to 0.5% of the total amount. Example: If you apply for a loan of Rs. 20 lakh, the bank charges you around Rs 5000 to Rs. 10000. Besides, the amount that you pay also somewhat determines how much commission the agent (who is helping you out with the dealings) gets from the bank.

Despite the fact that most banks have flexible fee structures, yet it is recommended that you find out for yourself about the banks' minimum possible fees. Getting a loan without any upfront fee is quite unlikely though, but nevertheless some banks so have the provision of zero upfront fee loans where those benefits are often compensated with higher ‘other charges’ like ‘stamp duty’ and ‘legal charges’.

The purpose of collecting this fee is to maintain your loan account, and also takes into account work like routinely sending Income Tax certificates every year, maintenance of post-dated cheques and so on.

Handy Tip When you apply for a loan, it is always advantageous to keep copies of your income proof handy. If you are a self-employed person and if your income reflects an unusual increase compared to the past, then be prepared with a justifiable explanation to back up the same. The bank or the lending institution would like to find out that such an increase is a permanent increase in your income and not just one-time anomaly which can not only fizzle out but might also be reversed in later years. If the bank is satisfied and convinced with your explanation, then the sanctioning of the loan is facilitated based on the latest higher income in comparison to a lower average income.

2. Face to Face Meeting : The Personal Discussion

Once you have formally filled out the application form and successfully completed the application process, you need to wait while the home finance institution evaluates and examines your documents. Many times quite a few of these institutions may require a meeting with you after receiving the application form and prior to sanctioning of the loan as well. The reason is simple. To gather more details about you this actually reassures them about your repaying ability and capacity.

Handy Tip

- When you are going to have a face to face discussion, be sure to carry all your original documents that correspond to the information that you have provided on the application form.
- Do not fake documents and lie about your financial status and details when requested. Home loans are processed only after the banks are sanguine about your credentials.

3. Under the Scanner: Thorough Enquiry About You by the Bank

There are umpteen numbers of people amounting to thousands who apply for loan every single day. However, while the banks have their targets to achieve, yet loans cannot be given to all and sundry as every loan constitutes a risk and the possible availability of higher returns is what the banks look at.

Hence, it’s not unnatural for the banks to meticulously scrutinize every detail of an applicant’s information with the single objective – to be sure about the applicant’s ability and capacity to repay the loan within a stipulated period of time for which the loan gets sanctioned.

Hence, the constant validation of various documents, your personal details, employment details and activities like the bank sending representatives over to cross-check with the information you have provided, may often tantamount to invasion of privacy and is irritating; however, banks are forced to undertake such operative activities in the absence of any credit bureau. After all the credentials of the applicant need to be verified prior to sanctioning of the home loans.

Handy Tip

What happens is that many a times the address and telephone verification task is outsourced to small firms with whom the process is not smooth and streamlined well enough in most cases.

Hence, once the validation process is underway, be sure to scoop out a little bit of extra time to furnish these details which may be additionally required.

4. Getting the Green Signal: Credit Appraisal by the Bank and Loan Sanction

This is the stage of 'everything or nothing'. It is the 'make- or- break' point which decides whether you get to have your loan sanctioned by the bank or not. It depends upon how convinced the bank is about your repayment capacity. If the bank is not convinced about the credentials provided, then your loan may be rejected.

Based on the information provided – your qualification, income, experience, employment details, the home financier or bank evaluates estimates and then establishes your loan repayment capacity. Furthermore, on this basis, the bank chalks out the maximum amount of loan that you are eligible for and which can be sanctioned. A sanction letter is then issued by the bank which can either be an unconditional letter or one that has certain terms and conditions that need to be fulfilled prior to the loan disbursal.

Handy Tip

Your Loan Eligibility Amount and Final Loan Amount are two separate things. The first one is about the total amount that you are eligible to get. It is the maximum amount of loan that you are entitled to avail. However, it is not necessary that just because you are eligible for a big loan, that you end up borrowing the whole of it. The second one pertains to the amount you want to borrow as loan from the eligible amount that has been sanctioned.

Keep the Sanction Letter safely as this is an important piece of document.

5. The Offer Letter

With the sanctioning of the loan, you get to receive an Offer Letter which enlists the following details:

- Loan amount
- Rate of Interest
- Fixed or Variable Rate of Interest linked to a Reference Rate
- Loan Period
- Repayment Mode
- If the loan is linked to some special schemes, then the details of the scheme are mentioned.
- General terms and conditions of the loan
- Special conditions, if any

Acceptance copy

Should you agree with the terms and conditions laid down in the offer, then you need to sign on a duplicate which is the Acceptance Letter for the Bank's Records.

Handy Tips

- Ensure that the rate of interest mentioned and the loan amount on the letter is the same as what was discussed and agreed upon.
- Know that the Home loan rate of interests can always be negotiated. Utilize this information and maximize your position of advantage.

6. The Legal Dimension: Getting Property and Papers in order

At this stage, the property you intend to buy becomes the prime focus of the bank and whose activities revolve around the same.
Once you have chosen your property, you are to hand over all original documents of the property to the bank which is kept as security against the loan amount that you have been granted. The documents include

- The Seller's documents, which prove the titles of the seller or chain of documents in case he is not the first owner.

- No Objection Certificates (NOCs) from legal owners like   statutory development authorities, cooperative housing societies, the lessor of the land in the case of leasehold land, etc. NOCs are not required if the property is situated on freehold land and the entire land is being transferred along with the structure.

These documents stay in the bank's custody until the loan is completely repaid.

Legal check - On grounds of ascertaining authenticity, every bank will conduct a legal check of all your documents. Each and every of them are thoroughly scrutinized.

Banks have lawyers in their panel. These documents are then sent to them where they are checked for their legal consistency. The lawyer's report may give a go-ahead clearance signal or may want additional documents that need to be furnished. You may be asked for more documents for a clear title. So, once a bank decides to disburse your housing loan, you can rest assured that your property documents are clear and the transaction is safe.

Handy Tip - Many a times you may be asked by the bank to pay for the legal verification. However, most banks cover the costs in the upfront (processing) fee that you pay. So be aware for what you are paying and if you have already paid for it.

In India, the entire process of property documentation is non-transparent and non-standard. Thus, it is always safe to buy property from a reputed developer as they know the process inside out, and can keep all the documents handy.

As the sale of property involve heavy transfer charges and /or also heavy stamp duties, sometimes some people carry out such proceedings by showing on paper lower consideration than what has been actually agreed for, with the remaining balance being paid in kind or amenities like cash.

Thus based on the choice of the reputed developer, finance institution/ bank and taking the above mentioned facts into consideration, the loan amount may increase. However, they still can provide a smoother, more transparent and streamlined passage for the execution of the entire operation.

7. Property Investigation by Bank: The Technical / Valuation check

Banks need to be doubly sure and are indeed very cautious regarding the loan that they are granting you in terms of the property that you intend to buy. Hence, they send experts (representatives) to the premises/site/ or the property you wish to purchase. The expert could belong to the bank or be a firm of civil engineers or architects The proceedings generally involve the following - .

Site visit - They pay a visit to the site and conduct the following scrutiny -

Case A: Property Under Construction

- Is the stage of construction the same as that mentioned in the payment notice given to the builder?
- What is the quality of construction like?
- Is the progress of the work satisfactory?
- Do the layout of the flats and the concerned property conform to the permissions and guidelines laid down by the governing authority?
- Does the builder have the requisite number of certificates to start construction at the site?
- What is the Valuation of the property with reference to other deals in the surrounding areas?

CASE B: Ready / Resale construction

- How well is the property maintained both externally and internally?
- How old is the property?
- Is the building sturdy enough to last the loan tenure? This particular aspect has a direct influence on your loan eligibility, as the loan tenure will be shortened to the maximum age of the property which will be decided by the bank's engineer. This will automatically have a direct impact on your loan eligibility.
- Quality of construction is another important aspect that is seriously looked into as it also contributes to the age of the property.
- What is the Surrounding area and it's development like? The valuation of a property also depends on it's location and surroundings.
- Has the builder received the requisite certificates for handing over possession of the flats?
- Is there any existing or mortgage or lien on the property?
- All these inspections are carried out basically to protect consumer interests when it comes to construction quality, approved building plans, adherence to local laws, etc. Such a technical inspection also provides the bank with an insight regarding the progress of construction so that it can accordingly release the disbursements. Thus, do give due consideration to this stage

8. Estimation of Property's Worth: Valuation of Property

Housing Loans are cheaper than other loans. As such there have been instances where people have shown purchase of properties from related entities at overstated prices and obtained cheap loans.

Moreover, there is always risk associated with diversion of funds Hence banks conduct independent valuation to ascertain that the transaction is in line with the existing market price of that particular area.

While Valuation is instrumental in deciding the loan amount that can be sanctioned by the bank, the valuation process, on the other hand, is quite subjective and is also dependant on the quality and ability of the bank's representative sent for the valuation.

The specialization in valuation of real estate's as a profession in India is still not standardized. In most cases, the value of the property is determined to be at an amount that is lower than the documented cost of the property. This would make the loan lower, since the bank funds a certain percentage of the cost or valuation of the property, whichever is lower. With this practice, there have been a number of issues and thus the valuation is done only after the consumer pays a fee and then takes a sanction which he does after identifying and committing to buy the property. When a reputed builder is involved, the chances of disputes are rare.

Handy Tip

There are some banks which may ask you to directly pay for the valuation cost or charge a special fee to cover these costs; though for most banks, the upfront fee covers these fees as well.
Approach banks which are willing to do the valuation even before the sanction process and before you pay any fee to the bank.

9. Sealing the Deal : The Registration

Once the valuation check is underway and completed, draft documents need to be finalized, signed, stamped and the registrations of the documents need to be done as well. Moreover, all pending NOCs need to be obtained in a format as directed by the bank's lawyer to complete the Registration process.

10. In Black & White: Signing the Home Loan Agreement

Anyone who avails a home loan has to sign this home loan agreement. Post – Dated cheques need to be submitted for the first 36 months generally (if that has been agreed upon.)It is at this stage that the original documents of the property are handed over to the bank or the home finance institution. Sometimes there is also a document recording regarding the handover of original documents whereby security is ensured upon repayment of the home loan.

Depending on the amount of the loan, this document involves a stamp duty. This document is also called the memorandum of Entry. You are supposed to pay for this Stamp Duty as well.

As not all banks create this memorandum, hence depending on the practice of the specific bank, this stamp duty amount may or may not be payable Nevertheless, even in the absence of such a stamp duty the state government concerned may, in the future, demand a stamp duty charge on the loan transaction. This in turn in recoverable from you as per the home loan agreement signed by you.

11. Disbursement: The Big Payout

Once the bank has ascertained that the property is

- Legally clean
- Technically sound
- All original documents pertaining to the transfer of property are in order, in your favour and have been submitted.
- All loan formalities have been executed; it is time for the payment. You get to receive the cheque in your hands. However do ensure that you have made your own share of commitment in the form of a down payment towards the property as banks will only finance a loan that amounts to a maximum of 85% to 90 % of the total worth of the property.

Secondly, if you are relying on other sources for money to fund the down payment, all details need to be made clear backing them up with relevant documents Once this is clear, only then will the bank release the part- loan amount that has been decided..

The cheque issued will be in the name of the builder /reseller/ the development authority or the concerned society. The bank can also directly hand over the cheque to you only in the exceptional case where you have made an excess payment from your own account and it is supported with substantial proof and evidence through relevant documents

Handy Tip

Be sure to take the cheque on the day the cheque is made because all banks charge interest on the loan from the very day that the cheque has been made and not when it is handed over to you. Hence to avoid unnecessary interest on the loan amount which is quite enormous, take delivery of the cheque on the same day or the next, at the most, when it is prepared.

Disbursement in stages

Generally, loans are given out depending upon the stage of construction of the property. Thus, in the case of ready possession properties or resale or resale properties, the disbursement amount is full and final. However, for under-construction properties, the payment is made in parts, and is known as part-disbursement.

The procedure for the disbursement of loan is different for each.

Part disbursement: The bank does not start EMIs immediately despite the loan being partly disbursed. The reason being that the EMI is calculated on the total loan amount at a particular rate of interest and for a given period of time. Besides, it will only split up the principal and interest components once the entire loan amount has been disbursed.

Banks, thus, charge simple interest only on the partly disbursed loan amount. For instance, if you have been sanctioned loan of Rs20 lakh, but due to the property being under construction, the bank has disbursed only Rs8 lakh, then you will be charged a simple interest only on the disbursed amount. Till the final disbursement takes place, this process continues. The simple interest paid is called Pre-EMI interest or Pre-EMI.

Banks may take only around three to six post-dated cheques at this stage.

Handy Tip

- Be sure to ensure that there is sufficient balance in your account to suffice for the EMI and prevent any dishonoring of cheque.
- As per the loan agreement, it is your liability to pay Pre- EMI without receiving any reminder from the bank. Despite the fact that the systems of the banks do not track Pre- EMI payments as effectively as EMI payments, yet it is your responsibility to ensure the payments on time. If they are delayed, you may have to pay a delayed payment charge. Thus, you have to keep track of the number of PDCs given to the bank.
- You will need to submit the demand letter from the builder as and when raised and ensure that the balance disbursement can take place accordingly.
- Be sure to collect the receipt from the builder for the part- disbursement and hand it over to the bank.

Full and final disbursement: The bank disburses the entire loan amount in favor of either the reseller or the builder, if it is a ready-possession property.

Handy Tip

- Give yourself time and fill in the loan documents before you sign them. Some columns may have to be kept blank as the exact amounts may not be known, but this should be few. The bank is ideally supposed to return a copy of the loan documents signed by its authorized signatory. However, in practice, this may not always be the case especially if there is no repeated follow up.
- Keep photocopies of all documents/letters to the bank/ agreements handy to avoid any misunderstandings later.

The relationship continues...

The final disbursement of the loan actually is not the end of your equation with the bank but marks the beginning of a new relationship.

The various issues that are discussed during the course of your association with the bank are as follows:

- Post-disbursement documents
- Prepayment
- Repayment
- Loan preclosure/satisfaction
- Income tax certificate

Payment receipt: The bank hands over the pay order to you, and then you are expected to hand it over to the builder or the reseller. Get a receipt from them for the payment made and it over to the bank. This forms a part of your mortgage documentation.

Share certificates: If your property belongs to a society, you will have to ask the society to issue share certificates in your name and get the flat transferred to your to your name. You will also have to record the transfer of ownership in their books.

It is at the first AGM/EGM after the sale transaction generally, where these are discussed and dealt with. This transferred share certificate is an important part of the mortgage documentation and has, therefore, to be handed over to the bank once the transfer takes place.

Repayment

Generally post-dated cheques are used to repay the loan in monthly installments. Banks usually ask for 12, 24 or 36 PDCs, after which you need to repeat the process until the entire loan is repaid. In an attempt to ensure timely payment, few banks also ask for a cheque bearing an amount equivalent to the outstanding amount at the end of PDC period which can be 12, 24 or 36 months as the case may be.

If your installments are getting deducted against your salary, you need a letter from your employer that approves of this proceeding where the amount is directly remitted to the bank every month. Moreover, this can also be possible if your organization has this arrangement with the bank for all employees.

You can give standing instructions to the bank where you have your savings/current account to deduct money each month crediting your home loan account. This facility is provided by most banks. There are banks that allow the monthly installments to be paid by convenient ECS facility.

There is another possible mode of payment called the cash or demand draft. Not all banks offer this though. In this case you need to deposit the EMI every month at the bank's office.

Income Tax certificate

All banks issue income tax certificates that serve as requisite proofs allowing you to avail the tax benefits that accrue on repayment of a home loan. This will essentially contain the total amount of interest and capital repaid during the year.
In respect of self-occupied property, it is mandatory to claim the tax benefit. As you file your tax returns, you will have to submit this to your employer or chartered accountant to calculate your tax liability.

Prepayment

If you want to prepay a loan amount either in part or in full at any given point of time you can do so. You also have the liberty to prepay it even when it is only partly disbursed. However, there are restrictions - most banks have an upper limit on the number of times a person can prepay a loan in a year and also on the minimum amount the person can prepay each time.

Banks would, until recently, charge a penalty for the prepayment procedure as it would get in the way of the interest. While most banks levy a prepayment charge if you make full repayment and ask for release of your property documents, in many other cases, owing to stiff competition this charge has been done away with.

Loan pre-closure/satisfaction

There is another option where you get to completely repay the loan at any time. The preclosure conditions vary from bank to bank. Besides, if you have systematically paid the installments on time, the loan will get completely paid off on the expiry of the stipulated time frame.

After the loan has been repaid, you need to get back the original property documents that lie with the bank. In addition to it, ask for a No Objection Certificate marking that everything is clear between you and the bank where the bank issues a consent letter that the property is now free from mortgage. Besides, if you have had guarantors, the bank will issue a separate letter for each of the guarantors stating that their liability has come to an end.

If you find out that the original documents have yet not been received by the bank from the registrar, you will need to follow up with the registrar and get the documents from them directly by showing them a copy of the bank's clearance certificate.

In the rarest of rare cases if the bank misplaces your original property documents, there may be a claim that the papers were never given to them in the first place. Hence, it is always important to keep proper receipt of title documents while handing them over to the bank.

After all, it is equally important to note that the receipt will come in very useful when the loan is fully paid off and also when you want to shift your loan to a new lender.