Home Loan FAQs

A. An Introduction to Home loans

1. What is a Home loan?

Home loan is the sum of money a bank or financial institution lends you to help you buy your dream home.

By taking a home loan from a bank or a housing finance company you pledge your home as the lender's security for repayment of your loan. The bank or financial institution will hold the title or deed to the property till the loan has been paid back with the interest due for it.

Home loans are generally taken for long tenures as the loan amount is usually a huge sum. A home loan can be taken anywhere between 5 and 30 years. The amount of loan one is eligible for is dependent on the individual's credit profile.

2. What is a down payment? What are the ways in which I can source my down payment?

Generally as a thumb rule, banks or financial institutions lend 85% of the cost of the property. 15% of the money is expected to be paid as a down payment for the loan.

Opting for a personal loan if you can afford that cost as well, pledging your investments, getting loan against your insurance policy etc. are some ways to liquidate your assets and pay your downpayment.

3. Are there any specific loans available for NRIs?

Yes, there are specific loans that are tailored for the requirements of NRIs who wish to build or buy a home in India.

4.What is reverse mortgage?

This loan facility allows a senior citizen (above 60 years of age) eligible to apply for a reverse mortgage loan and avail 60% of the value of the residential property he resides in and retain the right to continue to reside there. The maximum tenure for this loan scheme is 15 years.

B. Loan eligibility and Cost

1. Who is eligible for a home loan?

Indians with a regular source of income, which includes salaried individuals, self-employed professionals, self-employed business people, NRI individuals and existing property owners who can pledge it as security for the loan, are all eligible for a home loan. The individual applying for the loan should be above 21 years of age, when the loan period begins and should be less than 65 years when the loan period closes.

2. What are the other factors, which are relevant for home loan eligibility?

- Purpose of the loan - (purchase of property, improvement, purchase of land)

- Age

- Income (savings history)

- Experience & Qualification (stability and continuity of occupation)

- Employer

- Existing loans

- Number of dependents

- Credit History (Past repayment history)

- Resident status (The maximum loan that can be sanctioned to a resident Indian is Rs 5,000,000)

3. What are the factors included in the total loan cost?

Registration charges, transfer charges and stamp duty costs apart from the actual loan amount are included in the total cost calculation of the home loan.

4. How much loan can I avail ?

The amount of loan you can avail depends on factors like salary details, qualifications, employer/business, years of experience, growth prospects, alternate employment prospects and sources of other income, if any. Generally, about 40% of your monthly gross income can be availed as your loan amount.

For self-employed applicants, profit is the benchmark that determines loan value. The longer the time frame for repaying the loan the lower the EMI and this also means you can opt for a larger loan amount. The loan amount you are eligible for is also dependent on other factors like the company you are employed with, the location of your residence and your credit history.

To know how much money you are eligible for, to compare banks and figure who offers you the best loan bargain,.

5. What are the other costs that usually accompany a home loan?

Home loans are usually accompanied by the following extra costs:

a) Processing Charge: It is a fee paid to the lender when you apply for a loan. It could either be a fixed amount not linked to the loan or could also be a percentage of the loan amount.

b) Pre-payment Penalty: When a loan is paid back before the end of the agreed duration, a penalty is charged by some banks/financial institutions, which could be up to 5% of the amount pre-paid.

c) Commitment Fees: Some institutions levy a commitment fee in case the loan is not availed within a stipulated period of time after it is processed and sanctioned.

d) Miscellaneous Costs: Some lenders may levy a documentation or consultant charge.

e) Registration charges of the mortgage deed.

6. Can you detail some of the incentives offered by housing finance institutions?

a) Some lending institutions sanction the loan without requiring you to identify a property as a prerequisite for eligibility

b) Free accident insurance

c) Discounts

d) Waiving of pre-payment penalty

e) Waiving of processing fee

f) Free property insurance

7.When can I take a home loan?

You can take a home loan before or after identifying the property you want to purchase or when the property is under construction or for purchasing a plot of land for investment or to renovate an existing home.

8. Can I have a co-applicant for a home loan?

Yes, it is good to have a co-applicant. This can help you increase the loan amount you are eligible for as the income of the co-applicant is also taken into consideration.

Providing additional security like bonds, fixed deposits and LIC policies will also help in enhancing eligibility.

9. Who is eligible to be a co-applicant?

The co-owner of the property you are going to purchase should also be a co-borrower/co-applicant. The reverse however is not stressed by lending institutions. Financial institutions accept a parent or spouse as an ideal choice for a co-applicant. A fiancée can also become a co-applicant but the loan disbursal will begin only after the submission of the marriage certificate.

10. What is EMI? How is it calculated?

An equated monthly Installment (EMI) is the amount of money that is paid back to the lender on a monthly basis. It is essentially made up of two parts, the principal amount and the interest on the principal amount equally divided across each month in the loan tenure. The EMI is always paid up to the bank or lender on a fixed date each month until the total amount due is paid up during the tenure.

The EMI facility helps the borrower plan his budget. The EMI is calculated taking into account the loan amount, the time frame for repaying the loan and the interest rate on the borrowed sum.

11. What is the difference between a fixed interest rate and floating interest rate?

A fixed interest rate remains constant throughout the loan tenure regardless of the market conditions whereas a floating interest rate can decrease or increase depending on market fluctuations. For instance, it increases when RBI hikes up short term interest rates. Banks usually quote the floating rate loans as their index rate (prime lending rate) plus or minus x%. Banks usually increase or decrease their prime lending rate when the RBI increases or decreases short term interest rates.

12. What are the different types of interest rates available?

Interest rates are quoted either as fixed flat rates or reducing balance rates. In the flat rate method of interest calculation, the outstanding loan amount is never reduced during the entire tenure of the loan even though you make payments monthly.

In the case of reducing balance interest rates the EMI is calculated on the basis of daily, monthly, quarterly or annual rests. A ‘rest’ indicates the time frame in which the bank will recalculate the EMI based on the amount of loan paid back and the frequency of any compounding interest rate. Suppose you have a loan with an annual ‘rest’ then, though you pay a monthly installment, your benefit kicks in only at year end, here the bank gets to benefit. A monthly ‘rest’ will recognise the reduction in the loan amount on a monthly basis, a quarterly rest does it every quarter while a daily ‘rest’ will do it each day. The more closely the rest matches the frequency of your payments, the lower the total interest paid as the total outstanding loan amount is reduced by your monthly payments more frequently.

13. What is an amortization schedule?

An amortization schedule is a table giving the reduction of your loan amount by monthly installments. The amortization schedule gives the breakup of every EMI towards repayment interest and outstanding principal of your loan.

14. What are the factors I need to keep in mind while comparing loans from different financial institutions?

A loan applicant needs to keep a few things in mind when comparing loans. The applicant needs to determine the kind of loan and the amount he wants to apply for. He needs to keep in mind the total cost of the loan, which will be paid up by the end of his loan tenure.

The second step is to understand the terms and conditions under which financial institutions are offering the loan. Finally he needs to evaluate, which loan offer is the best bet for him. to gain access to the most interactive tools in helping you compare and evaluate the best deal you can get from any bank of your choice.

Other factors that you should look out for are customer service levels and the average time the bank takes to process a loan.

15. Can I avail a tax rebate on my home loan?

Section 80C and Section 24 grant income tax rebates to people who have taken home loans.

These tax deductions are capped at 1 lakh for the principal repaid and 1.5 lakhs for the interest repaid.

16. What are the loan tenure options?

You have the option of selecting a loan tenure you are comfortable with, ranging up to 25 years, provided the term does not extend beyond your reaching 65 years of age or retirement age, whichever is earlier.

C. Credit history

1. What is credit history? How does a financial institution check on my credit history?

A credit history is basically a record of your past repayments of loans and credit card bills. Also, there is a central bank of data available with the Credit Bureau of India Limited (CIBIL), where data from all the banks on existing loans and their repayment patterns of their customers are accumulated. Before approving your loan a financial institution always checks with CIBIL on your loan repayment track record.

2. Is the repayment track record of my previous loans considered in calculating my eligibility for a new loan?

It definitely has its benefits! A good repayment track record could fetch you a higher loan amount at a lower interest rate as it is standing proof for your money management capabilities. In case of a bad repayment record you will be charged high interest rates and you will find it difficult to obtain a loan.

3. If my loan application is rejected, does that reflect on my record?

Every time you apply for a loan to a financial institution, your credit report with CIBIL is checked and the inquiry appears on the record. Many such inquiries will adversely affect the interest rates you are charged and will make your borrowing options limited as it suggests you are likely to be facing a financial crunch.

D. Documentation

1. How do I apply for a loan?

When you are ready to apply for a home loan, you should evaluate your options by presenting your requirements with different banks. What was earlier a daunting task involving rushing from bank to bank for a series of discussions and bargaining for the best deal, is now just a simple 15 minute process thanks to BankBazaar.com. Search BankBazaar.com to find the best loan bargain that is most suited to your needs. Then get your documents ready for the Bank to collect it at your doorstep and begin processing your loan.

2. Can you provide me with a document checklist, so that I can be ready when the Bank comes to collect it from my residence.?

Make sure you check with your Bank or NBFC to figure out which of the following documents you need to submit, as the requirements differ from bank to bank.

Here is a standard list of options for each document required.

- Identity proof:
- Driving license
- Voters ID
- Passport

- PAN card
- Ration card
- Employee ID
- Bank passbook

Letter from a recognized public authority or public servant verifying your photograph

Confirmation letter from your employer or another bank verifying your photograph

B. Address Proof:

Driving license

Voters ID

Passport

Ration card

Bank passbook or Bank account statement

LIC policy/ receipt

Utility Bill - telephone, electricity, water, gas (less than 2 months old)

Letter from any recognized public authority verifying residence address of the customer

Letter from your employer

C. Age Proof:

Driving license

Passport

Bank passbook

PAN Card

Birth certificate

10th standard mark sheet

D. Income Proof:

The following set of documents that detail your credit profile varies according to whether you are a salaried individual or a self-employed individual.

a. Self Employed/Entrepreneurs:

1. A brief introduction of Business/Profession

2. Balance Sheet, profit and loss account statement of income, proof of income tax returns

for the last 3 years certified by a CA

3. Photographs

4. Receipts of advance tax payments if any made

5. A photocopy of Registration Certificate of establishment under Shops and Establishments Act/Factories Act

6. Registration Certificate for deduction of Profession Tax

7. Certificate of Practice

8. Receipts of Bank loans

9. Proof of investments (FD Certificates, Shares, any other fixed asset)

b. Salaried Individuals :

1. Income Proof (you just need to provide one of the options listed for income proof):

Latest Pay slip

Form 16

Increment/Promotion letters

Appointment letter

Pay slip (Last 2 months) with salary account bank statement

Certified letter from Employer

IT returns (for three years)

2. Investment proof (FD certificates, shares, any fixed asset etc.)

3. Documents supporting the financial background of the borrower (his liability and assets if

any)

4. Photographs

E. Property Documents

a. If a flat is purchased from the builder, you need the following supporting documents to submit to the bank.

1. Original Seal & Signed copy of your Builder Buyer's Agreement

2.All original Payments Recipts

3. Allotments Letter of the Flat

4.Latest Demand

b. In case you are buying from a Cooperative Society, then ensure you have the following documents in place.

1. Original share certificate of the Society

2. Allotment letter from the Society in your name

3. Copy of the lease deed, if executed

4. Certificate of the registration of the society

5. Copy of the byelaw's of the Society

6. No objection certificate from the Society

7. 7/12 extract or property register card in the Society's name

8. Copy of N.A permission for the land from the collector

9. Search Report and Title Certificate

10. Copy of order under the Urban Land Ceiling Act

11. Copy of the building plans sanctioned by a competent authority

12. Commencement certificate granted by Corporation

13. The latest receipts of taxes paid for the property

14. Original Agreement to assign / Deed of assignment

c. If you are constructing on your own land then you will need the following documents.

1. Original sale deed of land and extract of Index II

2. 7/12 extract or property register card in your name

3. Copy of N.A. permission for land from the collector

4. Search and title report

5. Copy of tax paid under Urban Land Ceiling Act (obtained from Commissionerate of Urban Land Ceiling and Urban Land Tax)

6. Copy of the building plans sanctioned by a competent authority

7. Building permission granted by the Corporation

8. The latest receipts of taxes paid for your land

9. Estimate of the cost of construction certified by the architect

3. What are the documents that need to submitted for disbursement of a home improvement loan?

- Title deeds for the past of 13 years
- Encumbrance certificate for the past 13 years 'Khata' certificate
- Most recent tax receipts for the property
- Approved plan
- License for the extension
- Cost estimate from a qualified engineer
- Cost estimate from the architect

4. What are the things I need to keep in mind before I select a property?

You need to check if the property is approved by the government and if it is registered. You need to evaluate if the location of the property is conducive to your family's needs. Schools, hospitals, shops, transportation facilities, the reputation of the builder, availability and consistency in the supply of power and water, security, parking facilities, location in a residential area etc. need to checked out.

5. Is it a must to apply for insurance cover for my property?

Though it is not a must, considering the huge sum of money spent on purchasing the property it is a sound practice to have it insured to protect yourself against any danger that might befall on the property. Usually property insurance comes as an incentive with your home loans after a certain period. Insurance rates are usually very affordable.

6. What is a ‘No Objection Certificate’ ?

This certificate states that it allows the property to be mortgaged by the bank. This comes into effect in instances like a co-operative society that owns the property but whose members have a right to reside in the premises and also transfer the rights to someone else. This is also true in the case of leased land on which property is built. In this instance, the property is owned by the borrower but the land on which the property is built legally belongs to a development authority. This certificate safeguards the interests of the Bank.

7. When does a property become ‘pre-approved’ ?

When a bank has already verified the title documents of the property of a particular builder, it files them in the bank records and labels them “pre-approved”. This means that when a buyer approaches the bank for purchasing a house or apartment in that property, the bank need not do a title verification process all over again.

E. Processing the loan

1. What are the steps involved in taking a loan?

There are three steps to a home loan application -

1. Application - You submit a completed application form with all the essential documents.
2. Sanction - You get an approval for a specific loan amount based on the value of your property and repayment capabilities.
3. Disbursement - The loan amount is transferred to the applicant.

2. How long will it take for the financial institution to contact me after I submit my application?

Most financial institutions will contact you within one business day of your application being submitted.

3. Do I need to contact the financial institution directly?

No, you do not have to contact the financial institution directly. BankBazaar.com transmits your application to the financial institution of your choice as soon as it is submitted, and the financial institution will usually contact you within one business day.

4. How long will it take for the financial institution to approve my loan?

Loan approvals are at the sole discretion of the financial institution. The time taken to approve a home loan is usually about a week, subject to the fact that all the required documentation has been submitted to the bank.

5. How soon will I get my loan amount?

Once all necessary documents are submitted and the paperwork completed, including submission of the post dated cheques (PDC) or signed ECS (Electronic Clearing System) form, the financial institution will usually disburse your loan within seven working days of the loan approval.

6. Does the financial institution verify authenticity of the submitted documents and the details provided in my application?

Yes, the financial institution will verify all submitted documents and the details provided in your loan application. Your application could be declined in case of any discrepancies.

F. Repaying the loan

1. How do I repay my loan?

Loans are paid up by issuing post-dated cheques for the entire tenure of the loan, by deduction at source from your salary or by issuing standing instructions to your lender for ECS (Electronic Clearing System) where the monthly payment (EMI) will get automatically deducted every month from your bank account.

2. Can I prematurely close my loan?

You can choose to prematurely close your loan but you will be levied a prepayment charge as penalty for the early closure. This can be up to 5% of the loan amount. Some banks do not allow you to close the loan in the first six months of the loan tenure.

3. Does it matter if I am late in repayment?

It does matter! You will be levied a fee for late payment and the terms for this will be agreed upon when the agreement is signed.

4. What if I default on my loan?

All your loan transactions are recorded in a central data bank which is collected at the Credit Information Bureau of India Ltd. (CIBIL). Defaulting on a loan will show up poorly on your credit history and could pose a problem when applying for a loan in the future.

5. Does it affect my co-applicant if I default on a loan?

Co-applicants are also held responsible for repaying the loan. Defaulting on your loan will affect their credit rating as well.

G. NRI home loan

For what purposes can an NRI avail a home loan?

A home loan can be availed by an NRI for any of the following purposes:

a) To purchase a house either ready-built, under construction or from a second owner.

b) For self-construction of a property on a plot of land.

c) To finance the purchase of a plot of land allotted by a society / development authority.

d) For renovation or improvement of an existing property in India.

2. What is the eligibility for obtaining NRI Home Loans?

The eligibility for an NRI is calculated on the same lines as a resident Indian. Emphasis is placed on the following for an NRI:

a) Qualifications - the NRI applicant has to be graduate

b) Current job profile & past experience

c) Probability of staying abroad for the entire loan tenure

d) Probability of servicing the loan with an extended tenure in case you have to return to India.

3. What is the repayment period for a NRI Home Loan?

The housing finance offered to NRIs normally do not exceed 5 years. However, some HFCs offer loans for a term of 7 years. The repayment for the loan is by way of EMIs. The EMIs begin only after the entire loan is disbursed. In case of a part disbursement, you pay simple interest at the rate applicable on the loan amount that is disbursed to you.

4. What is the mode of payment for NRI home loans?

The loan towards the home has to be paid upfront for the entire tenure of the loan by way of direct remittances from abroad through normal banking channels or from accounts that are allowed by RBI. Currently, payments are done through NRO, NRE, NRNR and FCNR accounts. These accounts change on the basis of RBI permissions to each HFC.

5. What are the Tax Benefits applicable to Non-Resident Indians?

No tax benefits are available for NRI customers unless you file returns and hence become eligible to avail the tax rebates available for home loans.

6.What are the documents required for obtaining NRI Home Loans?

NRIs are required to submit additional documents than is normally required for a resident Indian.

a) A copy of the passport

b) A copy of the works contract (also sometimes referred to as the contract card/labor card)

c)The power of attorney (POA). The POA is required because the borrower is not based in India and in such a scenario, the HFC would need a representative ‘in lieu of’ the NRI to deal with as required. Although not compulsory, the POA is usually drawn on the NRI’s parents, wife or children

7. How is the loan reassessed if there is a change in status from Non-Resident Indian to Resident Indian?

The repayment capacity of the applicant(s) based on resident status is reassessed and a revised repayment schedule is worked out. The new rate of interest will be revised according to the rates for Resident Indian loans (for that specific loan product). This revised rate of interest would be applicable on the outstanding balance being converted. A confirmation letter on the status change is provided to the loan consumer.