Home Loan: New borrowers

If you have been planning to buy a home for quite some time now, this is the most appropriate time to buy one. Though the interest rates are rising, the rise may be quite steep in the near future.
Thus, new home aspirants should not wait. If you want to opt for a home loan to buy your dream home, the best thing to do now is to take the teaser loan offered by some of the banks.
Teaser loans offer you fixed EMI depending on bank to bank. Earlier many banks were offering teaser loans, however, most of these banks have discontinued them recently. Instead, banks now offer normal home loan products with either floating home loan interest rates or fixed home loan interest rates.

Floating home loan interest rates, as the name suggests, keep on changing according to the change in base rates or the BPLR (as the case may be).

There are two types of fixed home loan interest rate products: Fixed for the entire tenure or fixed for a certain tenure.

In case the interest rate is fixed for the entire tenure of the loan, then the EMI of your housing loan will be fixed for the entire tenure of the loan. However, if the interest rate is fixed only for a specific tenure, say 5 years, then the bank can change its interest rate every 5 years.

Home Loan: Existing borrowers

If you are an existing home loan borrower with a good track record, you should consider shifting to a teaser rate scheme. The time and effort devoted to shifting your existing loan to the new teaser home loan will reap benefits in the long run. Additionally, one should shift from the old BPLR system to the new base rate regime to maximise their returns. This base rate system is not automatically applicable to the existing users and for this, you will have to apply to the concerned bank. The bank will then change the base rate. This system of setting up the base rate offers a higher transparency than fixing up BPLR. Thus, consider converting your existing home loan to a base rate system which will be much more beneficial to you than staying in the old BPLR system.

Home Loan Application Process

The process of taking a home loan can be daunting, especially if you have never applied for any loan earlier. Ignorance on one's behalf can not only make it an unpleasant experience but also prove to be costly. Here is a step-by-step guide to equip you with the right information, so you know exactly what to expect.

From applying for a home loan to getting approval, there are various steps involved.
The stages are as follows:

Step 1: Filling out the application form
Step 2: Personal discussion
Step 3: Field investigation by bank
Step 4: Credit appraisal by the bank and loan sanction
Step 5: Offer letter
Step 6: Submission of legal documents & legal check
Step 7: Technical / Valuation check
Step 8: Valuation
Step 9: Registration of property documents
Step 10: Signing of agreements and submitting post-dated cheques
Step 11: Disbursement

1. Filling out the application form

Filling out the application form is the first step to getting a home loan. The look of an application form may differ from bank to bank, but nearly 80% of the information they need is similar. Most of this is your personal and professional information, details of your financial assets and liabilities and the details of the property (if finalised) including the estimated cost and the means of financing the same.

Documents to submit:
While submitting the application form, every bank asks for several documents. Most banks these days provide doorstep service so that you won't have to spend time visiting their office to submit the documents. However, some banks still insist on the customer visiting their offices at least once.

Proof of income: This will need to be backed up by proof such as copies of last three years' Income Tax returns (along with copies of Computation of Income/Annual accounts, if any), Form 16/Form 16A, last three months' salary slips, copies of the last 6 months' statements of all your active bank accounts in which your salary/business income details are reflected, etc.

Other documents that you need to provide with your application form include age proof, address proof and identification proof. You may also be asked to give your employment details.

Age proof: A copy of your school leaving certificate/Driving licence/Passport/ration card/PAN card/Election Commission card/etc. can be submitted as age proof.

Address proof: The documents submitted as age proof can also be submitted to prove that you are actually staying at your current address.

Identification proof: The same documents can be submitted as identification proof, but with a photograph.

Sometimes, the same document if it contains a photograph, the current residential address and the correct age can be the proof for all 3 things.

Your employment details: If your company is not well-known, then a short summary about the nature of the company, its business lines, its main customers, its competitors, number of offices, number of employees, turnover, profit etc. may be needed.
Usually, the company profile that is available on the standard website of the company is enough.

Financial check:
All the income-related documents you submit serve a specific purpose. The lending institution uses them to study your financial status. The bank statements you submit are scrutinised for:

Level of activity in the case of self-employed persons: This gives a very good clue about the extent of business activities.

Average bank balance: A cursory glance at the average bank balances maintained in a savings bank account speaks volumes about the spending/saving habits of any individual.

Cheque returns: A small charge debited by your bank in the statement indicates that a cheque issued by you was returned by your bank. Many such cheque returns can harm your loan sanction.

Cheque bounces: If cheques deposited by you are returned by the issuer's bank, they will be visible in your bank statement and again, banks have specific norms as to how many such returns are acceptable in a period of one year.

Recurring payments: The existence of periodic payments to other finance companies/banks etc. indicate an existing liability and you will need to provide full details to the lender.
Your investments also come under the scanner. This helps the bank to estimate your ability to pay the down payment as well as your savings habit.

Processing fee: Along with the application form and the credit documents, banks ask for a processing fee. This fee varies from bank to bank, but is usually around 0.25% to 0.50% of the total loan amount. For instance, if you take a loan of Rs 10 lakh, you will have to pay around Rs. 2,500 to Rs. 5,000 as a processing fee. The agent dealing with you earns a commission from the bank, which to some extent is also affected by the amount of fees paid by you.

Most banks have flexible fee structures, and you should negotiate hard to find out the bank's minimum possible fees, though it is unlikely that a bank will agree to provide a loan

without any upfront fee at all. Some banks have zero upfront fee loans, but that advantage may be negated as their other charges such as 'legal charges' and 'stamp duty' are normally higher.
This fee is collected to maintain your loan account, and includes work like sending income tax certificates every year, maintaining post-dated cheques, etc.

Quick tip:
When applying for a loan, it will help to keep copies of your income proof handy. For self-employed persons, if the income has increased drastically in the past year, one should have an explanation ready as to why this is a permanent increase in your income rather than just a one-time aberration which might be reversed in later years. If the bank is convinced with your explanation, then the loan eligibility can be considered keeping in mind the latest income rather than considering the much lower average income.

2. Personal discussion

Once you have formally completed the application process, all you have to do is wait till the home finance institution evaluates your papers. The wait normally lasts only a day or two or sometimes even less. However, some banks insist on meeting you after receiving the application form, and before the loan sanction. This is to gather more details about you that may not be mentioned in the application form and to reassure them of your repayment capacity.

Again, this stage is insisted upon only in very few cases these days.

Quick tip:
While going for the personal discussion, carry all the original documents supporting the information provided on the application form for the personal discussion. Avoid submitting any fake documents and do not lie about the financial details requested; banks process home loans only after they are convinced about your credentials.

3. Field Investigation

Thousands of people apply for loans every day. No matter how eager a bank is to complete its targets, every loan is a risk. So, it is only natural that it confirms or validates the details you provide. The bank checks all your information including your existing residential address, your place of employment, employer credentials (if you work for a small organisation), residence and work telephone numbers. Representatives are sent to your workplace or residence to verify the details. Even the references you have provided in the application form are checked out. While this may sound irritating and an invasion of your privacy, banks are forced to undertake validation in the absence of any credit bureau. Once your credentials are validated, it helps establish trust between you and the bank.

Quick tip:

The address and telephone number verification work is usually outsourced to small firms and the representatives often have varied capabilities. Hence, interaction with them may not always be smooth. When the validation process starts, expect to reschedule some of your other work to be available to furnish the details required.

4. Credit appraisal and loan sanction

This is the make-or-break stage. If the bank is not convinced about your credentials, your application may get rejected. If it is satisfied, it sanctions your loan. The bank or the home financier establishes your repayment capacity based on your income, age, qualifications, experience, employer, nature of business (if self-employed), etc. and based on these, works out your maximum loan eligibility, and the final loan amount is communicated to you.
The bank then issues a sanction letter. This letter may either be unconditional or may have certain terms and conditions mentioned, which you have to fulfill before the loan disbursal.

Quick tip:
Your loan eligibility and the final loan amount are two different things. Once you know what you are eligible to get, you can decide on the loan amount. However, just because you are eligible for a huge sum does not mean you should borrow heavily. The sanction letter is an important piece of document and you should keep it safely.

5. Offer letter

Once the loan is sanctioned, the banks sends you an offer letter mentioning the following details:

- Loan amount
- Rate of Interest
- Whether fixed or variable rate of interest linked to a reference rate
- Tenure of the loan
- Mode of repayment
- If the loan is under some special scheme, then the details of the scheme
- General terms and conditions of the loan
- Special conditions, if any

Acceptance copy: If you agree with what is mentioned in the offer letter from the bank, you will have to sign a duplicate letter of the same for the bank's records. Earlier, banks used to charge administrative fees along with the offer letter. However, with rising competition, administrative fees have virtually disappeared from the home loan market.

Quick tip: Check if the rate of interest mentioned and the loan amount on the letter is the same that was discussed and agreed upon. Home loan rate of interests can be negotiated, and this can be used to your advantage.

6. The legal angle: Property and papers

Now, the focus of the bank's activities shifts from you to the property you intend to buy. Once you select your property, you need to hand over the entire set of original documents pertaining to your property to the bank so that it can keep them as security for the loan amount given to you.

These normally include:

- The title documents of your seller, which prove the seller\'s title including the chain of title documents if he is not the first owner.

- NOCs from the legal owners such as cooperative housing societies, statutory development authorities, the lessor of the land in the case of leasehold land, etc. NOCs are not required where the property is situated on freehold land and the entire land is being transferred along with the structure.

These documents remain in the bank's custody until the loan is fully repaid.

Legal check: Every bank conducts a legal check on your documents to validate their authenticity. Even the draft sale documents that you will be entering into with your seller will be scrutinised. The documents are sent to a lawyer in their panel (either in-house or outsourced) for thorough scrutiny. The lawyer either gives a go-ahead, if the documents are clear, or it may ask for a further set of documents. In the latter case, you are expected to hand over the additional documents to the bank for a clear title. So, if a bank decides to disburse your housing loan, you have every right to smile, since you can safely assume that your property documents are clear and the transaction is safe.

Quick tip: Sometimes the bank may ask you to pay for the legal verification. However, most banks cover the costs in the upfront (processing) fee that you pay.

Property documentation: The property documentation process in India is non-standard and non-transparent. Hence, it helps to buy property from a reputed developer since they know the process inside out, and keep all the documents ready. Due to the heavy transfer charges on sale of property and/or very heavy stamp duties, some people conduct the sale of property by showing "lower consideration" than agreed for, with the balance being paid either on an amenities agreement or in cash. Also the concept of sale by executing "irrevocable power of attorney" has gained ground especially in the National Capital Region.

All this could restrict the choice of your lenders and may therefore increase the cost of the loan, which you might want to keep in mind while finalising such properties.

7. Technical / Valuation check:

Banks are extremely careful about the property they plan to finance. They send an expert to visit the premises you intend to purchase. This expert could either be a bank employee or he could belong to a firm of architects or civil engineers.

Site visit: The site visits to your property are conducted to verify the following in case of an under-construction property:
• Stage of construction is the same as that mentioned in the payment notice given to you by the builder.
• Quality of construction
• Satisfactory progress of work
• Layout of flats and area of the property is within permissions granted by the governing authority
• The builder has the requisite certificates to start construction at the site.
• Valuation of the property in relation to other deals in the surrounding areas. In case of ready/resale construction
• External/internal maintenance of the property.
• The age of the building.
• Will the building last the loan tenure? This has a direct bearing on your loan eligibility since the loan tenure will be restricted to the maximum age of the property as decided by the bank's engineer and this will impact your loan eligibility.
• Quality of construction
• Development in the surrounding area
• Whether the builder has received the requisite certificates for handing over possession of the flat.
• There is no existing lien or mortgage on the property.
• Valuation of the property in relation to other deals in the surrounding areas.

These inspections are carried out to protect consumer interests in terms of construction quality, adherence to local laws, approved building plans, etc. A technical inspection also lets the bank understand the progress of construction so as to release the staggered disbursements.

Quick tip: Do not circumvent or skip this stage and ensure that it is completed as early as possible. As a buyer, it gives you confidence that your property has been inspected by experts and that you are buying an asset that is legally clear and technically sound. The fee for this service, like the legal check, may either be built into your upfront fee or be charged separately by the bank

8. Valuation: Reality check

Since housing loans are cheaper than other loans, there have been cases where individuals have shown purchases of properties from related entities at inflated prices to obtain cheap loans. Since the risk associated with diversion of funds is higher than if the loan was used for genuine purposes, banks carry out an independent valuation to find out whether the transaction is in line with the existing market price of the area.

Valuation has become a key parameter in determining the loan amount that can be sanctioned by the bank. The valuation process is quite subjective and depends on the quality and ability of the person sent by the bank for valuation. Valuation of real estate as a profession is still in its infancy in India and is still non-standardised. In many cases, the valuer determines the value of the property at an amount that is lower than the documented cost of the property and this would result in the loan amount being lower, since the bank funds a certain percentage of the cost or valuation of the property, whichever is lower. This practice has led to severe consumer issues in an increasing number of cases, as the valuation is normally done only after the consumer takes a sanction (by paying a fee) and after identifying and committing to buy the property. The valuation issue rarely arises when a property is purchased through a reputed builder directly or if the property is pre approved.

In both cases, the banks would have already completed the valuation and therefore, you can safely assume that there is no difference between the documented cost of the property and the bank's valuation amount.

Quick tip: Some banks will charge a special fee to cover these costs or may ask you to pay the valuer directly, 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. Registration: Sealing the deal

After the legal and technical / valuation check, the draft documents as cleared by the lawyer need to be finalised and signed, and the stamping and registration of the documents need to be done. Also, if any NOCs are pending, these need to be obtained in the format approved by the bank's lawyer.

10. Signing the home loan agreement: In black & white

All borrowers need to sign the home loan agreement. You also need to submit post-dated cheques for the first 36 months (if that is the agreed mode of repayment). The original property documents have to be handed over to the bank at this stage. Some banks also create a document recording the handing over of the property documents to them as security for the due repayment of the home loan. This document is also called a memorandum of entry and attracts significant stamp duty depending on the amount of the loan in some states. The stamp duty payable on such a memorandum is naturally recovered from you. Not all banks create this memorandum and hence the stamp duty may or may not be payable, depending on the practice of the specific bank. However, even where no such memorandum of entry is created, the state government concerned may, in the future, demand a stamp duty on the loan transaction, which naturally is recoverable from you as per the home loan agreement signed by you.

11. Disbursement: The big payout

After the bank has ensured that the property is legally and technically clear, all the original documents pertaining to the transfer of ownership of property in your favour have been submitted and all the necessary loan agreements have been executed, finally, it is payment time!

You will now actually receive the cheque in your hand. Time to celebrate!

But hold on a second. Before the big moment arrives, you need to submit documents to prove that you have paid your personal contribution towards the property, since banks normally finance only up to 85-90% of the total cost of the house. In case you are expecting money from other sources to fund your own contribution, you need to provide sufficient evidence for the same.

It is only after submitting this proof that the bank will release part-disbursement of the loan.   The cheque will be in the name of the reseller (for resale flats), builder, society or the development authority. It is only in exceptional circumstances, that if you provide documents to support that you have made an excess payment from your own account, that the cheque will be handed over to you directly by the bank.

Quick tips: All banks charge interest on the loan amount from the day on which the cheque has been made and not from the day on which the cheque is handed over to you/seller.
So, take delivery of the cheque the same day or the very next day to avoid paying extra interest on money.

Disbursement in stages: Usually, loans are disbursed on the basis of the stage of construction of the property. So, in the case of resale or ready-possession properties, the disbursement is full and final. However, in the case of under-construction properties, the payment is made in parts, also known as part disbursement.

Each option would have different disbursement processes.

Part disbursement: When a loan is partly disbursed, the bank does not start EMIs immediately, since it is calculated on the total loan amount at a particular rate of interest and for a given tenure. Moreover, it normally does not start breaking up the instalments into its principal and interest components until the entire loan amount is disbursed. To overcome this difficulty, banks charge simple interest on the partly disbursed loan amount.

For instance, if you have a sanctioned loan of ₹10 lakh, but the property is under construction and the bank has disbursed only ₹4 lakh, you will be charged a simple interest only on the disbursed amount. This process continues until the final disbursement takes place. The simple interest paid is called pre-EMI interest or pre-EMI. At this stage, banks may take only around three to six post-dated cheques on account of pre-EMI.

Quick tip: Always ensure that the amount of simple interest is available in your bank account to avoid dishonour of the cheque.

The systems of most banks do not track pre-EMI payments as effectively as EMI payments. However, as per the loan agreement, your liability to pay pre-EMI is absolute and without receiving any reminder from the bank. You may have to pay a delayed payment charge if your pre-EMI is delayed. So, it is in your own interest to keep track of the number of PDCs given to the bank for pre-EMI and replenish them, should the need arise.

• Submit the demand letter from the builder as and when raised, to ensure that the balance disbursement can take place.

• Collect the receipt from the builder for the part-disbursement and hand it over to the bank.

• Ensure all the above are complied with till the final disbursement of the loan.

Full and final disbursement: In the case of ready-possession property, the bank disburses the entire loan amount in favour of either the reseller or the builder.

Quick tip: Take time to 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 limited. The bank is supposed to return a copy of the loan documents signed by its authorised signatory but that rarely happens in practice without sustained follow-up.

Keep photocopies of all documents/agreements/letters submitted to the bank to avoid any misunderstandings later.

12. The relationship continues:
The final disbursement does not end your relationship with the bank. In fact, it is just the beginning. There are various issues/situations that arise during the course of the relationship.

These include:
• Post-disbursement documents
• Repayment
• Income tax certificate
• Prepayment
• Loan preclosure/satisfaction
• Post-disbursement documents

Payment receipt: Once the bank hands over the pay order to you, you in turn are expected to hand it over to the reseller or the builder. You should get a receipt from them for the payment and hand it back to the bank, as it will become part of your mortgage documentation.

Share certificates: In case your property is part of a society, you will need to get the flat transferred to your name by asking the society to issue the share certificate in your name and recording the transfer of ownership in their books. This normally happens at the first AGM/EGM after the sale transaction. This transferred share certificate also happens to be a part of the mortgage documentation and has, therefore, to be handed over to the bank after the transfer takes place.

Repayment: The loan is generally repaid in equated monthly instalments, using post-dated cheques. Banks usually ask for 12, 24 or 36 PDCs, after which you need to repeat the process until you have repaid the loan. Some banks may also insist on a cheque for an amount equivalent to the loan outstanding at the end of the PDC period to ensure timely replenishment of PDCs for the next 12, 24 or 36 months as the case may be.

In case your instalments are to be deducted from your salary, you need a letter from your employer accepting this arrangement and directly remitting the amount to the bank every month. This is possible only if your organisation has an arrangement with the bank for all employees. Some banks allow you to give standing instructions to the bank where you have your savings/current account to deduct money each month crediting your home loan account. Some banks allow the monthly instalments to be paid by convenient ECS facility. Another possible mode of payment is by cash or demand draft (not all banks offer this). You can deposit the EMI every month at the bank's office.

Income Tax certificate: Every bank issues an income tax certificate that serves as requisite proof to let you avail of tax benefits that accrue on repayment of a home loan. This will typically contain the total amount of interest and capital repaid during the year. This is mandatory to claim the tax benefit in respect of self-occupied property. You will have to file this with your tax returns and submit this to your employer or chartered accountant to calculate your tax liability.

Pre-payment: You can pre-pay a loan either in part or in full at any given point of time. You can also pre-pay it even when it is only partly disbursed. However, most banks have an upper limit on the number of times a person can pre-pay his loan in a year as well as on the minimum amount you can prepay each time.
Until recently, banks charged a penalty for part or full prepayment. However, increased competition has forced most banks to allow partial prepayment at nil charge. Most banks levy a prepayment charge if you make full repayment and ask for the release of your property documents.

Loan pre-closure/satisfaction: You also have the option of completely repaying the loan at any time. Of course, each bank has its conditions for preclosure. In normal course, the loan will get completely paid off on the expiry of the tenure of the loan if you have paid all your instalments on time. Once you have completely repaid your loan, ensure that the entire set of original property documents is handed back to you. You should also ask the bank for a No-Objection Certificate saying the account has been cleared. As an option, the bank may issue a consent letter stating that the property is now free from mortgage. If you have guarantors, the bank will issue a separate letter for each of the guarantors stating that their liability has come to an end. Only after you receive these documents can you say that the property is now completely free of mortgage.

At this stage, in some cases, you may discover that the original documents have yet not been received by the bank from the registrar. In such cases, 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. Sometimes, (and we must stress only sometimes) the bank may misplace your original property documents leading to avoidable stress. In fact, the bank may claim that these documents were never given to them at all. Hence the importance of insisting on a proper receipt of title documents while handing them over to the bank. Remember that receipt will come in very useful when the loan is fully paid off. Also, it is extremely useful when you want to shift your loan to a new lender.