Guidelines for Home Loan

1. **For what purpose can I seek a first time home loan?**
   You can generally seek a first time home loan for buying a house or a flat, renovation, extension, and repairs to your existing house. Most banks have a separate policy for those who are going for a second house.

2. **How will your bank decide your home loan eligibility?**
   Your bank will assess your repayment capacity while deciding the home loan eligibility. Repayment capacity is based on your monthly disposable/surplus income, (which in turn is based on factors such as total monthly income/surplus less monthly expenses) and other factors like spouse's income, assets, liabilities, stability of income etc. the main concern of the bank is to make sure that you comfortably repay the loan on time and ensure end use. The higher the monthly disposable income, higher will be the amount you will be eligible for loan. Typically a bank assumes that about 55-60% of your monthly disposable/surplus income is available for repayment of loan. However, some banks calculate the income available for EMI payments based on individual's gross income and not his disposable income.

3. **What is an EMI?**
   You repay the loan in Equated Monthly Installments (EMIs) comprising both principal and interest. Repayment by way of EMI starts from the month following the month in which you take full disbursement.

4. **What documents are generally sought for a loan approval?**
   In addition to all legal documents relating to the house bought, the following table demonstrates the typical set of documents required.

Documents	Salaried	Self Employed Professional	Self Employed Non Professional
Application form with photograph duly signed	✓	✓	✓
Identity, residence and age proof	✓	✓	✓
Last 6 months Salary- slips	✓	✓	✓
Last 3 months Salary- slip	✓		
Processing time	✓		✓
Form 16/ income tax return	✓		
Proof of business existence	✓		✓
Business profile	✓		✓
Education qualification certificate and proof of business existence		✓	
Last 3 years income tax returns with computation of Income		✓	✓
Last 3 years CA certified/Audited balance sheet and profit & loss account		✓	✓

Typical Feature of your Home Loan:
Eligibility Criteria:

- You must be at least 21 years of age on section of the home loan.
- The loan must be terminate before or at 65 years of age or age of retirement, whichever is earlier.
- You must be salaried or self-employed with a regular source of income.
- Minimum age of co-applicant should be 18 years.

How to enhance your eligibility

- If your spouse is an earning member, you can make him/her the co-applicant. Their income will be considered to enhance the eligibility.
- In case of co-owners, they must necessarily be co-applicants.

Home Loan Amount

The home loan amount depends on your repayment capability and is restricted to maximum 80% (90% in certain scenarios) of the value of property for home loan up to Rs. 75 lakhs and minimum of 75% of the value of property for home loan above Rs. 75 lakhs.

Repayment Period

Maximum tenure of your typical home loan can be 20 years. However, in case of salaried customers it is capped at retirement age.

5. **What are the different interest rate options offered by banks?**
   Banks generally offer either of the following loan options: Floating Rate Home Loans and Fixed Rate Home Loans. For a Fixed Rate Home Loan, the rate of interest is fixed either for the entire tenure of the loan or a certain part of the tenure of the loan. In case of a pure fixed loan, the EMI due to the bank remains constant. If a bank offers a Loan which is fixed only for a certain period of the tenure of the loan, please try to elicit information from the bank whether the rates may be raised after the period)reset clause). You may try to negotiate a lock-in that should include the rate that you have agreed upon initially and the period the lock-in lasts.

   Hence, the EMI of a fixed rate loan is known in advance. This is the cash outflow that can be planned for at the outset of the loan. If the inflation and the interest rate in the economy move up over the years, a fixed EMI is attractively stagnant and is easier to plan for. However, if you have fixed EMI, any reduction in interest rates in the market, will not benefit you.

Determinants of floating rate:
The EMI of a floating rate loan changes with changes in market interest rates. If market rates increase, your repayment increases. When rates fall, your dues also fall. The floating interest rate is made up of two parts: the index and the spread. The index is a measure of interest rates generally (based on say, government securities prices), and the spread is an extra amount that the banker adds to cover credit risk, profit mark-up etc. the amount of the spread may differ from one lender to another, but it is usually constant over the life of the loan. If the index rate moves up, so does your interest rate in most circumstances and you will have to pay a higher EMI. Conversely, if the interest rate moves down, your EMI amount should be lower.

Also, sometimes banks make some adjustments so that your EMI remains constant. In such cases, when a lender increases the floating rate, the tenure of the loan is increased (and EMI kept constant).