

CHAPTER-II

Procedure of Home Loan

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CHAPTER- II

Procedure of Home Loan

2.1 INTRODUCTION:-

Home is a dream of a person that shows the quantity of efforts, sacrifices luxuries and above all gathering funds little by little to afford one's dream. Home is one of the things that everyone one wants to own. Home is a shelter to person where he rests and feels comfortable.

Buying a home is dream for everyone but most of us are not able to achieve the dream due to many reasons. The rising real estate prices have made buying a property a dream for most of us. It may happen that people have been thinking for quite some time to buy a property but their bank balance is not allowing them to do so. If that is the case, you can go ahead and take a home loan that you can pay over a period of time and also own your dream home. Home Loans in India are disbursed by many Banks. Today Loan Banking is one of the most important functions of the **Financial Services in India**. Home loan means that you buy a house on installments. In simpler terms when you want to own a home and can't afford to pay the amount in lump sum, you can pay it in monthly installments with an interest rate. In the last few years, housing loan scenario in India has changed drastically. It has

taken a front seat and people are looking forward to owning their own houses. It is no more a dream that required lifetime saving and a difficult decision to make. Today the new home purchase loan is much easily available and is much cheaper than what was available earlier. Banks are now everywhere and the schemes are implemented even in villages and smaller towns. The housing loans are popular there too.

Many banks i.e. commercial banks or financial institutions or urban co-operatives providing home loans to the people who want to have a home.

In view of acute housing shortage in the country, and keeping in mind the social – economic role of commercial banks in the present times, the RBI advised banks to encourage the flow of credit for housing finance.

With the RBI reducing bank rate, the home loan market rates nose-diving (drop) by 50 basis points. The HDFC Bank and State Bank of India has become the first player in this sector to announce a housing loan for a 20 years period. No doubt it will enhance the end cost people to plan their house over longer duration now; it has been made easy for a person to buy that dream house which he dreamt of long ago.

2.2 Present Scenario :-

2.2.1 HDFC-(Housing Development and Finance Corporation)

HDFC Home Loan, India have been serving the people for around three decades and providing various housing loan according to their varied needs at attractive & reasonable interest rates. Owing to their wide network of financing, HDFC Housing Loans provides services at your doorstep and helps

you find a home as per your requirements. HDFC also provides with Home renovation Loan for internal and external repairs and other structural improvements like painting, waterproofing, plumbing and electric works, tiling and flooring, grills and aluminum windows. HDFC finances up to 85% of the cost of renovation (100% for existing customers).

Current status is that HDFC reduced home loan rates by 50 basis points for all its existing floating rate customers.

2.2.2 State Bank of India (SBI) -

SBI has been awarded “The Most Preferred Home Loan Provider” by AWAAZ Consumer Awards. SBI home loans give concession on interest rates on GREEN HOMES under its environment protection program. SBI has different options for loan borrowers such as ‘SBI – Flexi’ home loans provides borrowers a onetime irrevocable option to choose one of the three combinations of fixed and floating interest rates and also to choose the order in which the fixed and floating rate will be availed. The other is ‘SBI- Maxgain’ home loans - earn optimal yield on savings and minimize interest burden on home loans, with no extra cost. ‘SBI –Realty’ Home loans - purchase a plot of land for house construction. ‘SBI – Freedom’ Home loans – who want to invest in a property without mortgaging the same. SBI offers ‘SBI – Optima’ additional home loans and ‘SBI – Homeline’ special personal loans for existing home loan borrowers who have a repayment record of 3 years, etc.

2.2.3 Sangli Urban Co-op. Bank –

Bank granted loans & advances to middle class people, small traders, self-employed person, farmers, hawkers, retailers etc. as per the need of the person. Bank granted short term, medium term & long term loans & advances. The bank introduced various types of loan schemes such as vehicle loan, business loan, industrial loan, housing loan, home appliances loan, agriculture loan, computer loan, education loan, utsav loan, cupal loan, gold mortgage loan, loan to salary earners etc. As per the amendment of Banking Regulation Act 1st march 1966 for co-operative societies, the bank started to give housing loan.

Most of the borrowers are finalize a lender on the basis of interest rates choose home loan lender on the basis of interest rates, cheapest the best. But actually, there are various other things that should be kept in mind when borrower decides of taking a home loan.

2.3 ADVANTAGES OF HOME LOANS:-

The various benefits of home loans arising to the customers are:-

2.3.1 Attractive interest rates:-

The various banks offer attractive interest rates to boost and help their customers. Many banks provide loans on fixed or floating rates to facilitate consumers as per their needs.

2.3.2 Help in owning a home:-

The home availed by a person with the help of banks, because they provide technical and financial assistance to customers for owning their dream home.

2.3.3 No requirement of guarantor:-

The commercial banks now a day liberalize their laws regarding home loans. Some of banks don't even require the guarantor to grant loan to their consumers. They also make consumers free by reliving him to find a guarantor to complete the proceedings of availing loan.

2.3.4 Door-Step Services:-

These door to step services are provided from enquiry stage to the final disbursement takes place such services are beneficial for customers in present busy life. Banks like HDFC Bank, ICICI bank provide door to step services to customers to borrow loan.

2.3.5 Loan period:-

There are many banks which provide maximum loan tenures upto 15-20 years based on the loan amount and the creditability of customers. This relieves the customers to repay loan amount till a long period.

2.3.6 For accidental death insurance:-

Some banks provide free accidental death insurance with housing loan which is also beneficial for the customers.

These benefits or advantages of home loans are responsible for making the loan so popular among customer that a person who don't have their home and want to buy, they do it with home loan. Home loans help such persons in making their dream home.

2.4 DISADVANTAGES OF HOME LOANS:-

The main disadvantages of home loans are highlighted as below:

2.4.1 Delays in processing :-

Many times, there are huge delays in processing of providing home loans because various formalities to be fulfilled in this process. Due to these delays customers feel mentally as well as financially weak.

2.4.2 Fluctuating interest rates :-

Some banks give home loans at floating rates, which fluctuate at different intervals due to some reasons. These changes sometimes, may lead to increase in interest rate which will increase the cost of home loans to the customers

2.4.3 High Cost:-

The public sector banks charge high processing cost for home loan's sanctioning. They are forced to pay serious charges at various stages to fulfill the requirements. Some consumers are not able to pay such charges so such people could not avail the benefits of home loan schemes.

2.4.4 Problems in disbursement:-

There are many problems in disbursement of home loan amount. There is some delay in disbursement of loan amount to the customers due to legal formalities. This causes problems to the customers.

These are limitations or disadvantages of home loans. But sometimes some banks charges high installments to repay loan amount. Such also causes problem to customers. These limitations can be removed by providing good and promote services to the customers.

2.5 Home Loan Procedure:-

2.5.1 Submission of Application Form: - The first stage of home loan procedure is to submit the prescribed application form to the banks along with other relevant documents as required by the bank. They comprise documents to establish income, age, residence, employment, investments, purpose of the loan, Bank pass-book etc.

2.5.2 Proposal appraisal: - In the next stage, banks validate the information provided by the customer on the application form. They usually conduct checks on the residential address, the place of employment, and credentials of the employer. Some banks may insist on a personal interview with the customer and check the references provided by the customer on the application form. Bank also conducts a site visit to the customer's property to ensure that all construction norms have been adhered to properly & property is legally and technically clear on which they disburse the loan amount.

2.5.3 Sanctioning loan: -After all this has been performed well enough the loan application will be arranged in a file. The file is now ready to be sent to the higher authority where further processing will take place.

i. Scrutiny :-

At this stage certain specially appointed persons i.e. home loan manager have been given the responsibility of recommending a loan. These people have to take special care of reviewing every document, and all the small details that need to be considered before considering the loan application to be valid. At this stage if any correction or mistake is present it can be sent back to the home loan department. After this the file is sent to head office.

ii. Submission to Higher Authority :-

At this stage file sent to branch manager in case of SBI, head office pune in case of HDFC, or put before board of director in case of Sangli Urban Co-op. bank. These persons will double check all the past proceedings. They will examine the Loan file for any discrepancies, any missing and /or misplaced documents, the Credit Appraisal results, etc. this is a very important stage. This is because a mistake at this stage can cause a great loss to the institution. The Double checker is responsible for the ultimate sanctioning of the loan. If any mistake is done at this stage there is no going back and hence no protection.

An authorized sanctioning authority, if considers the loan is suitable to be Sanctioned, it gives its approval. After due appraisal of customer profile, a sanction letter is issued which contains details such as loan amount, rate of interest, annual / monthly reducing balance, tenure of the loan, mode of repayment and general terms and conditions of the loan. This is the actually the approval of the money lending procedure by the bank. However, the

money is sanctioned only after the documents and the property on behalf of which the loan is being granted is thoroughly verified.

2.5.4 Disbursement :- Once the sanction letter is passed, the customer is required to leave the entire set of original documents pertaining to the property being purchased with the bank as security for the loan amount sanctioned. These documents remain in the custody of the bank till the time the loan is fully repaid. Once all the above mentioned process is complete the borrower is entitled to take the money from the bank. Until such time that the entire sanctioned amount is not drawn, the customer is supposed to pay a simple interest on the Actual Amount drawn (without any principal repayments). The EMI payments commences only after the entire sanctioned loan amount is drawn.

2.6 Nature of Home Loan of Banks in Public, Private & Co-operative Sector

- Purchase/Construction of House/ Flat
- Purchase of a plot of land for construction of House
- Extension/ repair/ renovation/ alteration of an existing House/ Flat
- Purchase of Furniture and Consumer Durables as a part of the project cost.
- Takeover of an existing loan from other Banks/ Housing Finance Companies

2.7 Types of home loans: -

Housing loans offered by banks are of different types:-

- Home Purchase Loans
- Home Construction Loans
- Home Improvement Loans
- Home Extension Loans
- Home Conversion Loans
- Land Purchase Loans
- Stamp Duty Loans
- Bridge Loans
- Balance Transfer Loans
- Refinance Loans
- NRI home loans

2.7.1 Home purchase loans:-

This is the basic home loan for the purchase of a new home. If applicant want to buy a flat in some society or some already built house, banks and Housing Finance Institutions sanction home purchase loans for this process.

2.7.2 Home construction loans:-

This loan is available for the construction of a new home on a said property. The documents that are required in such a case are slightly different from the normal Housing Loan. If applicant purchased this plot within a period of one year before he started construction of house, most banks will include the land cost as a component, to value the total cost of the property. In cases where the period from the date of purchase of land to the date of application

has exceeded a year, the land cost will not be included in the total cost of property while calculating eligibility.

2.7.3 Home improvement loans:-

These loans are given for implementing repair works and renovations in a home that has already been purchased, for external works like structural repairs, waterproofing or internal work like tiling and flooring, plumbing, electrical work, painting, etc. One can avail of such a loan facility of a home improvement loan, after obtaining the requisite approvals from the relevant building authority. The following are coming under the home improvement loans:

- External repairs
- Tiling and flooring
- Internal and external painting
- Plumbing and electrical work
- Waterproofing and roofing
- Grills and aluminum windows
- Waterproofing on terrace
- Construction of underground/overhead water tank
- Paving of compound wall (with stone/tile/etc.)
- Bore well.

2.7.4 Home extension loans:-

An extension loan is one which helps to meet the expenses of any alteration to the existing building like extension/ modification of an existing

home; for example addition of an extra room etc. One can avail of such a loan facility of a home extension loan, after obtaining the requisite approvals from the relevant municipal corporation.

2.7.5 Home conversion loans:-

This is available for those who have financed the present home with a home loan and wish to purchase and move to another home for which some extra funds are required. Through a home conversion loan, the existing loan is transferred to the new home including the extra amount required, eliminating the need for pre-payment of the previous loan.

2.7.6 Land purchase loans:-

This loan is available for purchase of land for both home construction or investment purposes.

2.7.7 Stamp duty loans:-

This loan is sanctioned to pay the stamp duty amount that needs to be paid on the purchase of property.

2.7.8 Bridge loans:-

Bridge Loans are designed for people who wish to sell the existing home and purchase another. The bridge loan helps finance the new home, until a buyer is found for the old home.

2.7.9 Balance- transfer loans:-

Balance Transfer is the transfer of the balance of an existing home loan that availed at a higher rate of interest (ROI) to either the same Bank/Housing Finance Institution or another Bank/Housing Finance Institution at the current ROI a lower rate of interest.

2.7.10 Refinance loans:-

Refinance loans are taken in case when a loan for house from a Bank/HFI at a particular ROI you have taken drops over the years and you stand to lose. In such cases you may opt to swap your loan. This could be done from either the same HFI or another HFI at the current rates of interest, which is lower.

2.7.11 NRI home loans:-

This is tailored for the requirements of Non-Resident Indians who wish to build or buy a home or property in India. The HFCs offer attractive housing finance plans for NRI investors with suitable repayment options.

One would be entitled for home loans in the range of Rs 5 lakh to a maximum of Rs. 1 crore, based on the repayment capacity, previous credit history and the cost of the property. The bank may provide a maximum of 85% of the cost of the property or the cost of construction as applicable and 75% of the cost of land in case of purchase of land. The repayment capacity is calculated taking into account factors such as:

- Age

- Income/Salary
- Qualifications
- Dependent/(s)
- Assets/Liabilities
- Credit History
- Stability / continuity of your employment/business
- Income of co-applicant/(s)

Taking home loans these days has become simpler. With the RBI regularly bring down interest rates; taking home loans have become extremely easy. Housing loans which were 16.5% to 18% a few years ago fell by 8.75% to 13%. With interest rates going down, people increasingly number apply to take these loans. Some of the leading banks offering home loans in India, including ICICI Bank, IDBI Bank, HDFC Bank State Bank, Bank of Baroda, Kotak Bank, SBI, Standard Chartered Bank and Axis Bank.

Chart No.2.1

2.8 Performance of Loan Procedure variations in different sectors in selected banks

| SR.N O | PARAMETERS | PUBLIC SECTOR | PRIVATE SECTOR | CO-OP.SECTOR |
|-----------|---|--------------------------------------|--|---|
| | | SBI | HDFC @300 | SANGLI URBAN |
| 1 | No. of application for the year | 50 to 100 | @300 | Below 50 |
| 2 | Dept starting from | 1980 | 1978 | 1966 |
| 3 | No. Of Branches | 12,000 (In India) | 250 (In India) | 35(In Maha) |
| 4 | Limit of Loan Amt (Min. & Max) | 1 Lakhs to 75 Lakhs | 1 Lacks to 1 crore | 5000 to 1crore |
| 5 | Loan amt sanctioned up to valuation | 80% of valuation | 80% above 20lacks 85% below 20 lacks | 70% to 85% of valuation |
| 6 | Loan for purchasing plot | Loan for NA Plot | Loan for NA Plot | No. Loan for Plot |
| 7 | Tenure of Home Loan | 11 years To 20 years | 1 Years To 20 years | 3 Years To 15 Years |
| 8 | Loan Sanctioned Authority | Manager | Board Of Directors | Board Of Directors |
| 9 | Amt Utilized to disburse loan | Above 20% | 100 % utilized | Below 20% |
| 10 | Last 3 Years No. of Borrowers | 200 | 900 | 70 |
| 11 | Loan Amt Disburse from Last 3 Years | 20 Caror | 90 Caror | 1.50 Lacks |
| 12 | Customer Required to reach to bank for Loan | 7 To 8 times | 2 to 3 times | 4 to 5 times |
| 13 | EMI Decided on % of Salary | 50% of Net Salary is Approved to Emi | 40% to 45% of Net Salary is Approved for EMI | 1/3 rd of Net Salary is remain to pay installment |
| 14 | Search Report | Of Last 30 Years | Of Last 30 Years | Of Last 13 Years |
| 15 | Processing Fee | 1% | 1% | 1% |
| 16 | Early Redemption Charges | No | 2% | No |
| 17 | Facility For Big Loan Amt | No | No | 1/2% Interest Rate less above 50 Lacks |

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| | | | | |
|----|---|--------------------------------------|--|---|
| 12 | Customer Required to reach to bank for Loan | 7 To 8 times | 2 to 3 times | 4 to 5 times |
| 13 | EMI Decided on % of Salary | 50% of Net Salary is Approved to Emi | 40% to 45% of Net Salary is Approved for EMI | 1/3 rd of Net Salary is remain to pay installment |
| 14 | Search Report | Of Last 30 Years | Of Last 30 Years | Of Last 13 Years |
| 15 | Processing Fee | 1% | 1% | 1% |
| 16 | Early Redemption Charges | No | 2% | No |
| 17 | Facility For Big Loan Amt | No | No | 1/2% Interest Rate less above 50 Lacks |

2.8 Performance of Loan Procedure variations in different sectors in selected banks

From the above table we clearly identified the difference between procedures of housing loan of three sectors banks. Here we explain some points precisely.

For public sector, no. of applications availed with SBI banks are approximately 50 to 100 per year. That of with HDFC Banks approximately 300 per year & with Sangli UCB no. of applications availed up to 50. This indicates that customers attract more towards HDFC bank than SBI & Sangli UCB. SBI starts home loan department from the year 1980, HDFC starts home loan department from 1978. Sangli UCB starts their home loan department earlier than the SBI & HDFC i.e. from the year 1966. The scope of SBI is wider than HDFC & Sangli UCB. SBI and HDFC deals with in all over India. SBI have its 1200 branches all over the India and that of HDFC have 250 branches. The sangli UCB undertake its business only for Maharashtra state and they have 35 branches in Maharashtra. SBI offer home loan from 1 lakhs to 75 lakhs. HDFC offer home loan from 1 lakhs to 1 crore. And Sangli UCB gives loan from 5,000 to 1 crore. Sangli UCB meets the needs of low income group. Loan offered by

bank is not on full amount of property. In SBI loan amount sanctioned up to 80% of valuation of property. In HDFC, if property valuation is above 20 lakhs then loan amount is sanctioned up to 80% of valuation but if property valuation is below 20 lakhs then loan amount is sanctioned up to 85% of valuation. In Sangli UCB loan amount is sanctioned upto 70 to 85 % of valuation of property. SBI and HDFC offer loan to purchase NA plot but Sangli UCB does not offer loan to purchase a plot. The tenure of home loan offered by SBI is from 11 years to 20 years and by HDFC from 1 year to 20 years and that of by Sangli UCB from 3 years to 15 years. Sangli UCB offer home loan for short period as compared to SBI & HDFC.

Loan sanctioned authority of Sangli UCB and HDFC is in the hands of Board of Directors file sent to head office for sanctioning final decision is taken by them. In SBI sanctioning authority is in the hands of manager, after sanctioning loan file is sent towards head office. SBI utilized 20% of their deposits for offering loan. But HDFC is fully engaged in providing housing loan i.e. they utilized 100% amount for housing loan but in Sangli UCB below 20 % amount is utilized for housing loan. This difference occur because of the number of applications of HDFC are larger than SBI & Sangli UCB. So they required huge amount of money for housing loan. SBI stand in 2nd rank in case of no. of applications so they required large amount of money than Sangli UCB.

No. of borrowers for last 3 years are – SBI carry out 200 borrowers and HDFC carry out 900 borrowers and Sangli UCB carry out 70 borrowers. It state that customers much more attracted towards HDFC. Table also explains that the prompt services made available to their customer. The SBI the customers

have to approach 7 to 8 times and HDFC institution 2 to 3 times and in Sangli UCB 4 to 5 times. It indicates the HDFC rendered their services promptly to their customers. But while sanctioning home loan each bank verify the borrower's financial stability by different way. In SBI, 50% of net salary must be remains in the hands of borrowers to pay the EMI. In case of HDFC 40% to 45% of net salary must be remains in the hands of borrowers to pay the EMI and in Sangli UCB 1/3rd of salary must be remains in the hands of borrowers to pay the EMI. Amount disburse by HDFC for last three years is 90 crore and by SBI is 20 crore and that of by Sangli UCB 1.50 crore. Banks also verify the property title& it must be clear.SBI& HDFC required 30 years search report to verify the properties title. And Sangli UCB required 13 years search report. All banks charge 1% processing fee to meet the expenses incurred while offering loan. SBI and Sangli UCB both are not charge any early redemption cost but HDFC charge 2% early redemption cost on home loan amount. SBI and HDFC are not offering any facility for big loan amount. But in Sangli UCB, they give 1/2% rebate on interest rate for home loan amount above 50 lakhs. This may be done to attract the big loan customers.

2.9 Characteristics of Home Loan Procedure

2.9.1 Limitations of Sanctioning Home Loan

In every bank all the loan proposals which are legally covered i.e. the loans follows all rules & regulations of banks & complete all legal requirement those proposals are sectioned by bank. There is no any limit to sanctioned loan proposal for year.

Every bank tries to convince the customer by different ways, they attract the customers by various ways of Advertisements. SBI gives advertisement in newspapers, on internet; they arrange exhibitions, sign board etc.

As like SBI; HDFC also used the way of advertisement like Newspaper, signboard, arrange the exhibition, internet, visits to Institutions to expose Home Loan info.

But in Sangli UCB they only give info of Home Loan by Newspapers & by signboard. However the limit of sanctioning Home Loan depends of availability of funds how much for this purpose.

2.9.2 Facilities :-

To stand in this healthy competition bank offers various attractive schemes to customer as follows

1. SBI offers Teaser Loan i.e. fixed interest rate for 1st 2 years, low processing fee.
2. HDFC offers less processing fee, free insurance etc.
3. Sangli UCB offers less processing fee, less interest rate etc.

2.9.3 Operational area :-

SBI give loan to urban or rural area but HDFC gives loan to only urban area and Sangli UCB also gives loan to both urban & rural area

2.9.4 No Special Schemes for category :-

All these banks have not offered extra scheme or discount to backward class customer, physically handicap customer, farmer etc.

2.9.5 Welcome to customer

All banks give detail information to their customer about their schemes, policies, requirement of papers & how bank give easier & effective loan system.

2.9.6 Eligibility criteria:-

However, if one is a resident or non-resident individual who is planning to buy a house in India, one can apply for a home loan. If a person has decided to buy a property in the near future, he/she can apply for a loan before even selecting the property. Once the maximum amount to put into the property has been decided, the Housing Finance Institutions or Banks will let the customer know that how much he/she is eligible for and this helps to plan out the budget.

The total monthly outflow towards all the loans that have been availed of, including the current loan is normally restricted to 50% of the gross monthly income.

The decision on the repayment capacity shall be talked about as follows.

Judgment regarding repayment capacity on the basis of income:-

To understand how the income of a customer is considered to arrive at his repayment capacity, it is first necessary to classify customers into salaried and self-employed individuals.

a) The income of **the salaried individual** is considered in the following manner:-

Gross monthly income as it appears on the salary slip

Less:- Any non-regular variable income appearing on the salary slip (including overtime, etc.)

Add : - 50 per cent of the average variable income of the last six months.

Add: - Any fixed cash/voucher payments for which proof can be submitted.

Add: - 50 per cent of the average variable cash/voucher payments with proof like traveling reimbursement etc.

Add: - HRA receivable if not being received already in the salary slip.

b) To consider **income of Self-employed individuals** we further classify them into Professionals and non-professionals.

Professionals:- Comprising doctors, chartered accountants, lawyers, architects, etc. For calculation of eligibility of professional's income is computed by most banks using the gross professional receipts instead of the Net profit as in the case of self-employed non-professionals.

Non-Professionals: - The income of non-professionals is normally calculated by bank in the following manner: -

Average of the net profits of last 3 years as it appears in the profit and loss account (Returns need to be filed for the same. They should be filed regularly before the due date is over).

Less: - Any income, which is unusual and non-recurring in nature like sale of some asset, etc which affects profits substantially,

Add: - Any expense that is unusual and non-recurring in nature like repairs and maintenance that has not been capitalized and effect profit adversely.

Add:- 50 per cent of the average depreciation of the last two years.

A. For SBI - Loan Amount

40 to 60 times of NMI (Net Monthly Income), depending on repayment capacity as % of NMI as under -

| Net Annual Income | EMI/NMI Ratio |
|-------------------------------------|----------------------|
| Upto Rs.2 lacs | 40% |
| Above Rs.2 lac to Rs. 5 lacs | 50% |
| Above Rs. 5 lacs | 55% |

To enhance loan eligibility you have option to add :

1. Income of your spouse/ your son/ daughter living with you, provided they have a steady income and his/ her salary account is maintained with SBI.
2. Expected rent accruals (less taxes, cess, etc.) if the house/ flat being purchased is proposed to be rented out.
3. Depreciation, subject to some conditions.
4. Regular income from all sources.

B. For HDFC- Loan Amount

| Net Annual Income | EMI/NMI Ratio |
|--------------------------|----------------------|
| Above 1 lacs | 40 o 45 % |

C. For Sangli Urban Co-op Bank

| Net Annual Income | EMI/NMI Ratio |
|--------------------------|----------------------|
| Above 1 lacs | 1/3 rd |

2.9.7 Rules for co-applicants: -

All banks lay down conditions on who can be co-applicants. All co-owners to the property need to be co-applicants to the loan necessarily. Banks do not permit minors to join in as either co-owner or as co-applicants

because a minor is not eligible to enter into a contract as per law. They do not permit even friends or relatives who are not blood relatives to take a property jointly. However, Income of co-applicants can be clubbed together to get higher loan eligibility. Given below is information of acceptable relationship of a co-applicant for clubbing of income.

- a. **Husband-Wife:** - Income of husband-wife can be clubbed.
- b. **Parent - son:** - It can be clubbed if only son is there but not if any male sibling exists.
- c. **Brother-Brother:** - If they are currently staying together and intend to stay together in the new property, then only, their income-can be clubbed for above purposes.
- d. **Brother-Sister:** - No clubbing-is possible.
- e. **Sister-Sister :** - No clubbing is possible.
- f. **Parent-Minor- Child:** - No clubbing is possible in this case also.

2.9.8 Loan to Value Ratio (LTV):-

The **loan to value ratio (LTV)** cannot exceed a particular percentage. This differs from product to product and from one Bank to another. The components of the value of the Property calculated here are covered under cost of property.

- a) **In public sector, SBI LTV Ratio is 80% of valuation.**

- b) In Private sector, HDFC LTV Ratio 80% of valuation above 20 lakhs & 85% below 20 lakhs.**
- c) In Co-operative sector, Sangli UCB LTV Ratio is 70 to 85 % of valuation.**

2.9.9 Tenure of Loan:-

The maximum tenure of the bank is nominally fixed by RBI. However, bank also provide for different tenures with different terms and conditions. Minimum tenure is 1year to 20 years.

2.9.10 Repayment Capacity of customer:-

Most banks consider the profile before they judge the repayment capacity. The judgment is based on age, qualifications, number of dependents, employment details, employer credentials, work experience, previous track record of repayment of any loans that have been availed of, occupation, the industry to which the candidate's business relates to, if he/she is self-employed, then the turnover in the last 3-4 years etc.

2.9.11 Guarantor:-

Some banks insist on guarantees from other individuals for the repayment of the loan. In such cases, the customer has to arrange for the personal guarantee before the disbursement of the loan takes place.

For SBI & HDFC required 1 guarantor for loan. He must fill Know Your Customer (KYC) form & also submit his income proof, 2 identity size photos

But in Sangli UCB required 2 guarantors for loan application they also want to fill KYC Form & submit their photo & income proof.

The guarantor is liable to repay loan amount on behalf of applicant if borrower fails to pay loan or become defaulter. As per Co-operative Act u/s 49 if the borrower fails to pay 3 or 4 installment of his loan then the guarantor is liable to pay that & the EMI is deducted from his salary or from his account.

2.9.12 Documentation:-

Given below is the exhaustive list of credit documents- that need to be submitted for a general home loan product. The documents vary from bank to bank, based on one's employer, qualifications experience etc. The general requirements are as follows: -

(a) Income Documents of Different Borrowers: -

| Salaried Customers | Self Employed Professionals | Self Employed Businessman |
|----------------------------------|--|--|
| Application form with photograph | Application form with photograph | Application form with photograph |
| Identity and Residence Proof | Identity and Residence Proof | Identity and Residence Proof |
| Latest Salary-slip | Education Qualifications Certificate and Proof of business existence | Education Qualifications Certificate and Proof of business existence |
| Form 16 | Last 3 years Income Tax returns (self and business) | Business profile |
| Last 6 months bank statements | Last 3 years Profit /Loss and Balance Sheet | Last 3 years Income Tax returns (self and business) |

| | | |
|-----------------------|--|---|
| | | Last 3 years Profit /Loss and Balance Sheet |
| Processing fee cheque | Last 6 months bank statements Processing fee cheque | Last 6 months bank statements (self and business) Processing fee cheque |

(b) Proof of employment: -

Identify card issued by the employer- Visiting card.

(c) Employer's details (In case of private limited companies) : -

Profile of employer on employers letterhead (to be signed by a senior person in the organization) comprising

- Name of promoter/directors
- Background of promoters/directors
- Nature of business activity of your employer
- Number of employees
- List of branches/factories
- List of suppliers
- List of clients/customers
- Turnover of employer
- Annual reports of the employer for the last two to three years.

(d) Proof of age (Anyone of the following) : -

Passport, Voter's ID card, PAN card, Ration card, Employer's identity card, School leaving certificate, Birth certificate.

(e) Proof of residence (Anyone of the following) :-

Ration card, Passport, PAN card, Rent agreement if the customer is staying currently on rent, Bank Pass book, Allotment letter from the company if he/she is residing in company quarters etc.

(f) Proof of name change (If applicable) :-

A copy of the official gazette, a copy of a newspaper advertisement publicizing the name change, Marriage certificates.

(g) Proof of investment (If required) :-

Bank statement for the last six months of all operating and salary accounts, Bank statements for the last six months of all current accounts, if self-employed-any other photocopies of investments held, if required by the HFC.

2.9.13 Search Report of Property :-

Legal Verification of a property (home) is an important step in the processing of a home loan. Banks usually make a careful study into the details of a property before approving a home loan. They scrutinize all the documents provided by the home loan seeker. Banks take legal clearance from their lawyers before the disbursement of amount. This proves to be beneficial to the customers as a legal expert checks his/her documentation to ensure that he/she get a proper title to the property.

The following are few important points that help to get a clear and marketable title over the property that borrower want to acquire:

1. Before acquiring a property, bank concerned sub-registrar office and apply for Encumbrance Certificate (EC) recording all sale transactions over that property for the last 15 years.
2. Asking for Certified copies of all the documents to get the details of the previous executors and executants.
3. Read all the registered documents to check whether there have any mortgages created over that property.
4. Check all the registered documents to know if there are any unsolved legal proceedings over that property.
5. If the present vendor is not available then check with the legal heirs of the property.
6. Apply for a Land Use certificate in the Urban Development authority to get the details and survey numbers and usage of the land.
7. Check if the layout is approved from the concerned authorities in case of a plot.
8. Estimate the property with the Government-approved Valuator in the market.
9. Check and verify the dimensions of the property
10. Get a legal scrutiny report from an advocate before going for a home loan even if the property is already approved in the bank.
11. Take all the original documents from the previous vendor once the property is registered on your name.

2.9.14 Valuation Of Property :-

The property should be technically clear before the bank disburses the loans amount. Most of institutions and banks have teams of technical experts who visit the site to get a technical report before the disbursement of loan. The property will be evaluated by the panel valutors in terms of the Constructed Areas, Plot areas, Market value, Horizontal and vertical deviations etc. This is also beneficial to the customer as they check for the technical quality and compliance with local laws.

A. Site visit:

The site visits to your property are conducted to verify the following:

In case of 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 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.
- Surrounding area (development).
- 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.

B. Valuation: Reality check

Since housing loans are cheaper than other loans, there have been cases where individuals have shown purchase 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-standardized. In many cases, the valuator 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 the 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.

2.9.15 Registration: Sealing the deal

After the legal and technical / valuation check, the draft documents as cleared by the lawyer need to be finalized 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.

2.9.16 Charges applicable to home loans :-

The different kinds of charges applicable to home loans are discussed below:

a) Processing fees :-

This is a charge that is levied by most of the banks. This has to be paid at the time of submission of the application form. It's normally charged as a percentage of the loan amount sanctioned. Some banks also charge a flat fee based on the loan amount instead of a percentage. When a lower amount is sanctioned the excess fees paid at the time of submission of the application is adjusted with the charges, which one make to the bank subsequently. Most banks refund the processing fee if the loan application is rejected.

b) Administrative fees :-

This charge is again, normally, a percentage of the loan amount sanctioned. It is collected by the bank for the maintenance of customer's records, issuing interest certificates, legal charges, technical charges, etc. though the tenure of the loan. It is payable by the customer when he/she accepts the offer letter given by the bank. This payment has to be made before the disbursement. The mode of collection of these fees varies from one bank to another

c) Rate of interest :-

This is the rate of interest applicable on the loan amount through the tenure of the loan. It is charged on the principal monthly reducing method. Most banks gives an option to select either a fixed rate of interest or a Flexible rate of interest or Reducing Balance Method.

d) Legal Charges:-

Some banks mainly Public Sector Banks levy legal charges that they incur on getting the property documents vetted by their panel of lawyers.

e) Technical Charges:-

These charges are also levied by certain Banks to meet their expenses on the technical site visits to the customer's property. This ensures quality of construction and construction within the norms as stipulated by the respective approval authority.

f) Stamp duty and registration charges:-

Bank that go in for a registered mortgage pass these charges on to the customer. These are rather heavy in certain states depending on the laws laid down by the state where one buys a property.

g) Personal Guarantee from Charges :-

Since the personal guarantee provided by the customer need to be stamped, these charges are also recovered from the customer. They are charged to him by HFIs who demand for Guarantees.

h) Cheque Bounce Charges :-

In case the cheques through which one makes a payment to Housing Finance institutions get dishonored, some minimum charges are levied by the HFI. The same are recovered from the customer

i) Delayed payment charges :-

Bank charge delayed payment charges from the customer if he/she delays the payment of installments beyond the due date.

j) Additional charges :-

These are levied as a percentage on the delayed payment charges by most Housing Finance institutions. They are levied if one fails to pay the dues within the stipulated time after a delay has taken place.

k) Incidental charge :-

This is payable in case the banks sends a representative from their organization to collect their outstanding dues. It is normally charged at a flat rate per visit. These charges are levied by most banks.

2.9.17 Type of Mortgage:-

Bank required the security against loan offer to the borrowers SBI & HDFC obtain equitable mortgage for the security against lone.

Equitable Mortgage means all original papers of borrowers home, for which loan is taken is remitted by bank till he repays the loan.

Sangli UCB required Registered Mortgage or Equitable Mortgage.

Registered Mortgage means if borrowers have not sell deed with him. Then 7/12 extract is registered with registered office & this 7/12 extract is submitted to bank.

Title documents of the property that include –

Sale agreement duly Registered, Own contribution receipts, Allotment letter, Registration receipt, Land documents indicating ownership, if applicable- Possession letter-Lease agreement, if applicable (Property bought from a development authority)

2.9.18 NOC (No Objection Certificate) From Other Bank if necessary :-

Bank never asks for NOC from any other bank while giving loan to borrowers. But if the borrower wants to take over the loan of the other bank then only NOC of that bank is required. But bank is not offer loan to the person who already has a loan of another bank.

2.9.19 Loan To Financial Institution :-

SBI, HDFC and Sangli UCB are not offer / avail loan to financial institution.

2.9.20 Loan To Handicap / Retired Person

Sometimes SBI offers home loan to handicap person but he must have the repayment capacity. But SBI not provide loan to retired person.

HDFC is not offering any loan to such handicap / retired person.

Sangli UCB also offer loan to financially strong handicap person but there is also age limit, above 60 age loan is not avail.

2.9.21 Interest Rate :-

SBI & HDFC calculate the EMI on the loan like compounding interest rate. They offer fixed interest rate method or Floating Interest Rate Method. Sangli UCB Calculate interest on Reducing Balances Method.

2.9.22 Prepayment Charges :-

This is a penalty charged by banks from when one makes either a part prepayment or a full repayment of the loan. This charge is levied only on lump sum payments and not on the EMI's that once pays. This charge is levied on the amount prepaid by one and not on the entire outstanding principal. These charges are gradually being discount. So, these are the charges levied by most and Banks while granting home loan to the customers.

In HDFC if amount is more than 25 % of the opening Balance, repaid earlier than tenure period then for early redemption charge 2% of the loan amount is charged by bank.

IN SBI & Sangli UCB is not charged these types of charges.

2.9.23 Opening Of Account:-

At SBI the process of the disbursement of loan the bank required to open saving account & loan account

At HDFC required to open only Loan Account.

In Sangli UCB required to open saving account & loan account.

2.9.24 Free from Political & Chairman's bias :-

All above banks i.e. SBI, HDFC, Sangli UCB are not offer loan against rules to family members of Board Of Directors or not offer loan by burden of politicians or any other member of Board of Directors.

2.9.25 Signing the home loan agreement: -

All borrowers need to sign the home loan agreement, &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 borrower as per the home loan agreement signed by borrower.

2.9.26 Property Insurance :-

Some bank insists on a mortgage redemption life insurance policy. In this case the customer gets a benefit of an interest rate reduction. Though the banks may not insist, it is better to go in for property insurance to safeguard the asset against any sort of damage or loss. The borrower can select the tenure for the property insurance. The insurance premium is charged up front. Most insurance companies provide for huge discounts on the rate of premium for larger tenures. The premium charged currently is seventy-seven for every lakh of property for a year. So a customer has to fulfill various conditions to be eligible for availing home loan from a Bank. After fulfilling these conditions, a customer can avail loan at low interest rate i.e. fixed rate floating rate. A decision on whether one should go in for a fixed-rate loan or a

floating-rate loan now is a function of two factors i.e. One's perception of where interest rates in the economy are headed and one's capacity to ride the interest rate changes. A floating-rate loan let one take advantage of further falls in interest rates but one stand to lose if interest rate, rise again. However this decision is based on the perception of the consumer

2.10 Summary

Procedure of housing loan is distributed in 4 categories

- i) Submission of application form
- ii) Proposal Appraisal
- iii) Sanctioning loan
- iv) Disbursement

Once the borrower apply for getting home loan in prescribed application form then next step is that the applicant must fulfill all legal requirements for appraise the proposal. In this appraisal step bank scrutinize all documents provided by home loan seeker.

Bank first validates the information provided by the applicant on the application form. They usually checks residential address by seeing Ration Card, Passport and PAN Card etc., proof of employment, age proof, qualification of applicant, also check references provided by customer on application form. After satisfying the primary information bank checks eligibility of applicant. Bank considered total inflow and total outflow of applicant and find out net salary/ income of applicant. Applicant is classified into salaried and self-employed individuals. For salaried individual bank asked

for 3 months' salary sheet and bank pass book and for self-employed individual i.e. professional & nonprofessional asked for last 3 years financial statements & last 3 years income tax returns and bank pass book. Repayment capacity of applicant depends upon his net monthly income. Bank permits the co-applicant if there is co-owner to the property. Bank accept co-applicant as husband-wife, brother-brother, parent-son and allowed them to repay loan from their joint income.

After verifying eligibility criteria, bank makes valuation of property. All banks have their own valuers/technical experts who visit the site and made valuation in the terms of constructed area, plot area, market value, horizontal & vertical deviations, layouts of construction, builder's certificate etc. Home loan amount sanctioned is depends upon this valuation. In public sector loan amount is sanctioned upto 80% of valuation. In HDFC if valuation of property is below 20 lacks, loan is sanctioned up to 85% & if valuation is above 20 lacks, loan is sanctioned up to 80% of valuation. Bank also insist for guarantor and required to fill Know Your Customer (KYC) form. SBI & HDFC required 1 guarantor but Sangli UCB required 2 guarantors.

Bank also makes legal verification of property to ensure a proper title to the property. Bank takes search report of the property for last 30 years. Only in Sangli UCB take search report for last 13 years, and then retain that property as a security against loan offer. SBI & HDFC obtain equitable mortgage & Sangli UCB obtain registered mortgage as a security against loan. Sometimes bank asked for NOC, if borrower wants to take over the loan of the other bank. At last stage by completing all legal & technical check, bank

finalized the home loan agreement which is properly registered, stamped & signed by applicant.

Bank provides loan tenure between 1 to 20 years. Mid between that loan procedure bank apply various charges to home loan such as processing fees, administration fees, legal charges, stamp duty, registration charges, technical charges, cheque bounce charges, delayed payment charges, incidental charges etc. SBI & HDFC offer floating or fixed interest rate on home loan and Sangli UCB offer reducing balance method of interest rate and by considering loan amount, loan tenure and interest rate EMI is determine for home loan. Applicant wants to open saving a/c or loan a/c with that bank and sometimes bank can advise for insurance of the property to safeguard the assets against any sort of damage or loss.

In above home loan procedure there is no any limit to sanctioned loan proposals for a year. Bank tries to attract the customers by making advertisement, by arranging exhibitions, by giving facilities like less processing fees, free insurance, less interest rates etc. Bank gives home loan to rural as well as urban area. But HDFC give loan to urban area only. There are no any special schemes for category. Bank is not offer loan to financial institutions. Bank is not offer loan to retired person or financially week handicap person. If borrower wants to repay loan in part prepayment or full repayment of loan SBI & Sangli UCB not levied any prepaid charges. But in HDFC if amount is more than 25% of loan, 2% early redemption charges is levied. This entire loan proposals are free from political & chairman's bias.