2017


# Product Handbook

## TRAINING HANDBOOK

### HOME LOAN

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## What is Home Loan?

A loan given by a bank, Mortgage Company or other financial institution for the purchase of a primary or investment residence. In a home mortgage, the owner of the property (the borrower) transfers the title to the lender on the condition that the title will be transferred back to the owner once the payment has been made and other terms of the mortgage have been met.

Whether the house you are hoping to purchase is ready for possession or are you buying a plot to construct a house. Home Loan is offered to individuals who wish to purchase or construct a house. The property is mortgaged to the lender as a security till the repayment of the 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.

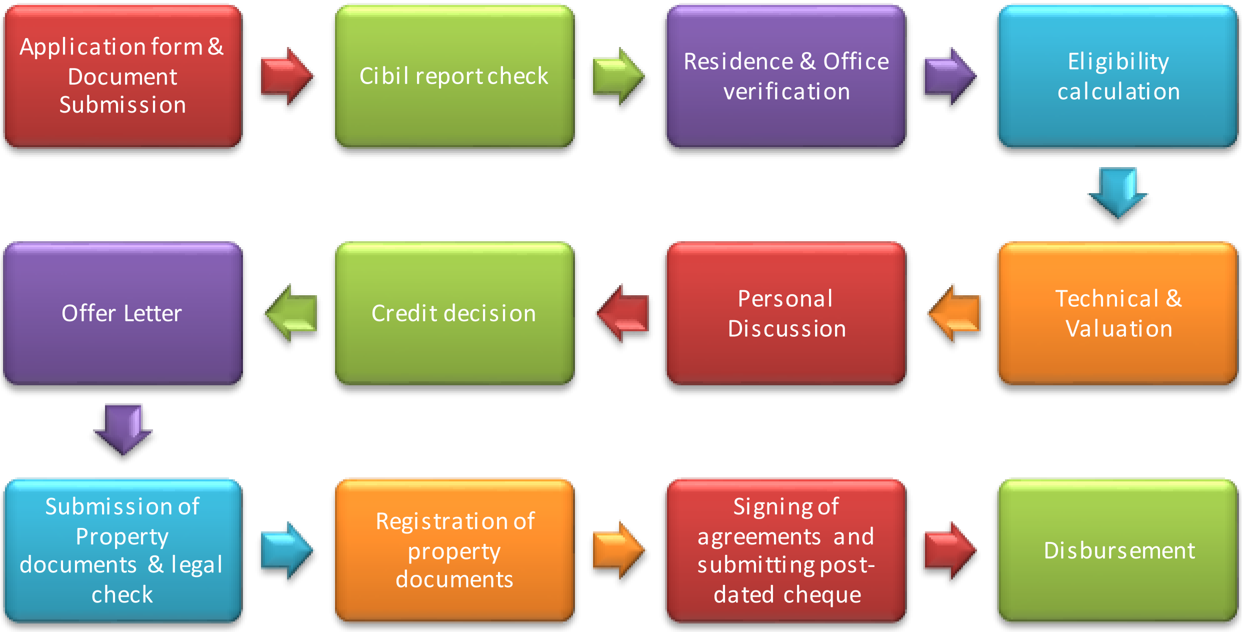
### Advantages

- ✓ Funding to buy a home of your own
- ✓ Capital Appreciation
- ✓ Low interest rate than LAP
- ✓ Tax Benefit: Interest paid --As per Section 24(b) of the Income Tax Act, 1961 a deduction up to Rs. 1.5 lakh towards the total interest payable

### Uses

- ❖ Self-occupied residential property

## Home Loan Process




## CONSTRUCTION ACTIVITIES ELIGIBLE FOR BANK CREDIT AS HOUSING FINANCE – as per RBI guidelines

*The following types of bank credit will be eligible for being treated as housing finance:*

(i) Loans to individuals for purchase/construction of dwelling unit per family and loans given for repairs to the damaged dwelling units of families;

(ii) Finance provided for construction of residential houses to be constructed by public housing agencies like HUDCO, Housing Boards, local bodies, individuals, co-operative societies, employers, priority being accorded for financing construction of houses meant for economically weaker sections, low income group and middle income group;

(iii) Finance for construction of educational, health, social, cultural or other institutions/centers, which are part of a housing project and which are necessary for the development of settlements or townships;

(iv) Finance for shopping complexes, markets and such other centers catering to the day to day needs of the residents of the housing colonies and forming part of a housing project;

(v) Finance for construction meant for improving the conditions in slum areas for which credit may be extended directly

(vi) Bank credit given for slum improvement schemes to be implemented by Slum Clearance Boards and other public agencies;

(vii) Finance provided to –

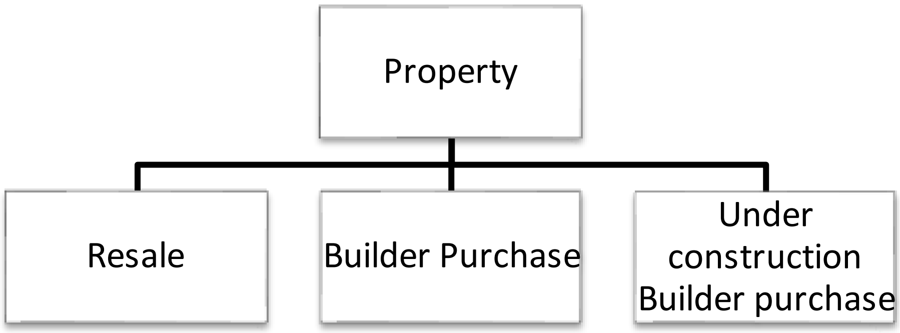
a. the bodies constituted for undertaking repairs to houses, and

b. the owners of building/house/flat, whether occupied by themselves or by tenants, to meet the need-based requirements for their repairs/additions, after satisfying themselves regarding the estimated cost (for which requisite certificate should be obtained from an Engineer/Architect, wherever necessary) and obtaining such security as deemed appropriate;

(viii) Housing finance provided by banks for which refinance is availed of from National Housing Bank (NHB);

(ix) Investment in the guarantee/non-guaranteed bonds and debentures of NHB/HUDCO in the primary market, provided investment in non-guaranteed bonds is made only if guaranteed bonds are not available.

## Types of Purchase




## Approved Project Financial (APF)

### What is an APF Number/ Code?

- Every project of a developer is expected to have a valid APF number or a code. The APF Number is provided by banks or housing finance companies (HFCs). The APF Number/Code denotes that the project has received all necessary approvals, and that homebuyers can invest in the project without any fear about the credibility of the developer.

- Most developers have tie-ups with banks or Housing Finance Corporations (HFCs) who offer home loans to the customers. The APF number makes it convenient for home loan buyers to get home loans and saves them from the horror of collecting legal documents of the project from the developer.

- It is important to ask for the APF number or code because it is one of the easiest ways of checking if the project/property is registered, and approved by an accredited bank or Housing Finance Corporation.

### How is an APF number assigned?

- Developers are expected to submit all the relevant documents like Government clearances, No Objection Certificates (NOCs), Title Deeds, Sale Deeds, Approved Plans, and Freehold/ Leasehold documents in order to prove that the project has all the required licenses and permission. Developers are also expected to submit proofs of clearances from authorities like forest, pollution, fire and electricity board.

- The bank analyses these documents along with the Know Your Customer (KYC) check of the builder. Banks and Housing Finance Corporations study the legal and technical viability of the project in detail, and then allocate an APF number.

- The APF number is an indicator that the flat/ property will be delivered on time, as promised by the developer. The APF Number is a seal of authenticity. The APF Number tells you that the builder is reputed and authentic, the project was well inspected, and that the repayment of loan is safe.

### How do banks decide to allocate APF numbers?

- Most banks consider builders who have been into construction business for a while, and have a history of completing projects on time, for at least 2-3 projects. The quality of construction an important parameter too. A few other reputed banks and institutions must also have approved the project. Banks do not consider developers who have been featured in the negative list of the Reserve Bank of India (RBI). The size of projects that are under-construction should be mentioned in square feet. The agreement is signed between the developer and the bank or the HFC. Banks and HFCs insist on a clause that stipulates the actions to be taken after the construction period expire.

- The criteria varies, depending on the project and the history of the developer.

### What if the project does not have an APF Code?

- If the project does not have an APF number, this means that it is not approved by a bank or an HFC. This could be because it lacks some relevant license or legal/ technical approval. This is a red signal for you, as a homeloan buyer. If you invest in the project that lacks an APF number, there is no guarantee that the flat will be delivered on time. Make sure you check an APF code before finalising the property. An approved project is always a safe investment.

## Tripartite Agreement

- The tripartite agreement is a key legal document involving the buyer, lender and the builder. It clarifies the status of all parties involved.

### Equitable v/s Registered Mortgage

- In an **Equitable mortgage**, the owner has to transfer his title deed to the lender, thereby creating a charge on the property. The owner also orally confirms the intent of creating a charge on the property. An equitable mortgage is also known as an implied or constructive mortgage. No legal procedure is involved in an equitable mortgage, but it is considered mortgage in the interest of justice (underequity). The borrower obtains money from the bank/lender with an agreement that his property, on which the equitable mortgage is created, will act as security for the loan.

- The borrower has to submit his title deed to the lender as security for the money borrowed.

- No formal, legal document is executed or registered in the records of the registrar, but it can be created at notified places. Stamp duty and charges are comparatively low, relative to a registered mortgage.

### Registered mortgage is required to be created:

- When original title deed is not available (if it is lost or in case of ancestral property, where title deed is not available).

- Equitable mortgage can be created in notified towns only, if mortgage is required to be created in a town which is not notified, registered mortgage is required to be created.

- In a registered mortgage, the borrower has to create a charge on the property with the sub-registrar through a formal, written process, as a proof of transfer of interest to the lender as security for the loan. Registered mortgage is also known as 'Deed of Trust'.

- A registered mortgage meets all the necessary legal requirements to create a mortgage or a charge. If the borrower repays the loan according to the terms and conditions of the home loan agreement, the title of the property is given back to the borrower. The rights of the lender (as created during the legal process) will stand null and void on the property. However, if the borrower fails to fully repay the loan (i.e. interest plus the principal component), the lender will have the right to take possession of the property.

## Pre EMI

- If you purchase a property under construction and finance it with a bank loan, the funds are most often released in tranches by the bank. The disbursement is based on the proportion of completion of the project. Consequently, till you obtain possession of the house, you are faced with an option to service just the disbursed portion of the loan, instead of the entire amount sanctioned.

- This essentially means the borrower needs to pay only interest and only on the amount disbursed till he is handed over the house. The repayment of the principal component sets in once the entire loan amount is disbursed or the possession of the house is turned over to the borrower. This 'payment of only interest on the amount disbursed' is Pre-EMI.

    - For example, Consider the full EMI payment is Rs. 25,000 out of which the interest contribution is Rs. 5,000. By choosing to pay pre-EMI only, i.e., Rs. 5000 interest only, the borrower can invest the remaining Rs. 20,000 elsewhere and earn consistent returns. This can be accrued to pay the EMI at a later stage.

### When should you opt for Pre-EMI?

If you have lower cash flows available in the initial years

### Quick sell idea

If you plan to sell your property in the first few years, perhaps even at the time of possession

### Good investment plan

If you can invest the difference between EMI and Pre-EMI in a manner that you generate returns higher than the rate of interest (10-12% every year in the case of our example)

### Other need

If you require the balance for some very important immediate needs

## Another example with amortisation schedule

Banks Disburses the Loan Amount in Parts

Banks generally disburses loans in 3-6 tranches. However, for ease of understanding, we project a scenario with Rs.1,00,000 being disbursed every month for 2 years of construction period. The schedule would resemble the following:

| Month | Opening Balance (Rs.) | Amount Disbursed (Rs.) | Pre-EMI for the month (Rs.) | Closing Balance (Rs.) |
|---|---|---|---|---|
| 1 | - | 100,000 | 896 | 100,000 |
| 2 | 100,000 | 100,000 | 1,792 | 200,000 |
| 3 | 200,000 | 100,000 | 2,688 | 300,000 |
| 4 | 300,000 | 100,000 | 3,584 | 400,000 |
| 5 | 400,000 | 100,000 | 4,480 | 500,000 |
| 6 | 500,000 | 100,000 | 5,376 | 600,000 |
| 7 | 600,000 | 100,000 | 6,272 | 700,000 |
| 8 | 700,000 | 100,000 | 7,168 | 800,000 |
| 9 | 800,000 | 100,000 | 8,064 | 900,000 |
| 10 | 900,000 | 100,000 | 8,960 | 1,000,000 |
| 11 | 1,000,000 | 100,000 | 9,856 | 1,100,000 |
| 12 | 1,100,000 | 100,000 | 10,752 | 1,200,000 |
| 13 | 1,200,000 | 100,000 | 11,648 | 1,300,000 |
| 14 | 1,300,000 | 100,000 | 12,544 | 1,400,000 |
| 15 | 1,400,000 | 100,000 | 13,440 | 1,500,000 |
| 16 | 1,500,000 | 100,000 | 14,336 | 1,600,000 |
| 17 | 1,600,000 | 100,000 | 15,232 | 1,700,000 |
| 18 | 1,700,000 | 100,000 | 16,128 | 1,800,000 |
| 19 | 1,800,000 | 100,000 | 17,024 | 1,900,000 |
| 20 | 1,900,000 | 100,000 | 17,920 | 2,000,000 |
| 21 | 2,000,000 | 100,000 | 18,816 | 2,100,000 |
| 22 | 2,100,000 | 100,000 | 19,712 | 2,200,000 |
| 23 | 2,200,000 | 100,000 | 20,608 | 2,300,000 |
| 24 | 2,300,000 | 100,000 | 21,504 | 2,400,000 |
| | | Total Pre-EMI | 268,800 | |
| | | Average Pre-EMI | 11,200 | |

- Monthly EMI – Rs.24,365.50
- Monthly Average Pre-EMI – Rs.11,200)
  Difference between EMI and Average Pre-EMI = Rs. 13,166
- Savings in Pre-EMI as above projected for 2 years = Rs. 13,165.50 *24 = Rs. 3,15,972
- The borrower has to pay the EMI once he gets the possession of the property. Hence, he would pay Rs.24,365.50 per month for additional 2 years (after the Pre-EMI period gets over) if he opts for Pre-EMI.

- Some banks allow you to pay full EMI even when the disbursal is being done in stages. If you choose '**EMI under construction**' option, you will start paying EMI from the beginning of construction, but your interest amount will be calculated based on the amount disbursed to the builder and the rest of the amount will be counted towards principal. i.e., EMI remains the same but the principal portion of the EMI would be higher and loan gets repaid quickly.

- Upon getting the possession only your repayment starts. So, whatever sum you have paid so far neither reduced your principal, not tenure. If you had opted for a 20 year loan term 5 years ago and paid Pre-EMI for 5 years, then you pay 5+20 years. Some lenders consider this 5 year Pre-EMI term included in the 20 year and amortise your repayment in 15 years, making the EMI amount higher!

- A **tranche EMI option (EMI on Disbursed Amount only)** will allow the borrower to start the repayment of the principal and interest amount on the disbursed amount rather than the entire mortgage in the regular EMI option.

## Tax component in under construction property

You save no tax benefit by paying interest-only to the lender and some don't even issue you the interest certificate since tax deduction is not applicable during the under construction phase. However, once the borrower obtains the possession certificate, the amount paid as interest (in pre-EMI or full EMI option) will be aggregated and is considered for tax deduction in 5 equal instalments.. If you are paying the EMI from the beginning, you can claim all the interest paid during the under-construction stage in a spread of 5 years, after taking possession. You cannot do so for payment of Pre-EMI in under-construction stage.

## Smart Home Loan Overview

- This product is for the individuals with good average balances maintained in the bank account
- Banks offers you the unique Smart Credit loan, where you decide what interest you pay. Smart Credit power packs your loan with transactional features that not only allow you to save on interest, but also help you repay your loan much faster. So, now you can make your every rupee work as hard as you do. In Smart Credit account deposit your excess savings rather than keeping it idle. In Smart Credit you will have the flexibility to withdraw the surplus money deposited in Smart Credit account. **Deposit your excess funds** in Smart Credit and **save the interest on your Loan**. In Smart *Credit interest is calculated on daily outstanding balance.* In Smart Credit you can use this account like current account.
- To avail this product, you have to link a current or a savings account to your home loan at the same bank. You can deposit any surplus funds in this linked account. Whenever you deposit a surplus amount in the account, the bank considers this amount and deducts it from the principal of your home loan while calculating the interest on the outstanding home loan.
- Smart home loan helps borrowers in two ways. First, it reduces your interest outgo resulting in reduced EMI.In Smart Home Loan your interest liability is lower and principal amount outgo is higher. In broader outlook customers not only save the tenure but also saves on interest.
- While smart home loan saves money, borrowers must evaluate the complete picture of the cost associated with it.

### Benefits

- First, it reduces your interest outgo resulting in reduced EMI.
- Second, since your interest liability is low, your principal outgo is higher. This reduces the tenure of repayment.
- You save not only on interest but also on time.
- The deposit is used only to lower your interest liability.

# Documentation

## Salaried Individual

| | |
|---|---|
| Customer KYC | Valid Passport |
| | Voter ID Card |
| | Aadhaar Card |
| | Valid Driving Licence |
| Proof of income | Last 3 months' Salary Slips |
| | Last 6 months' Bank Statements, showing salary credits |
| | Last 2 financial years Form-16 and IT returns |
| Other documents | Employment Contract / Appointment Letter in case current employment is less than 1 year old |
| | Last 6 months' Bank Statements showing repayment of any ongoing loans |
| | Passport size photograph of all the applicants / co-applicants to be affixed on the Application Form and signed across |
| | Cheque for processing fee |

## Self Employed

| | |
|---|---|
| Customer and Company KYC | Valid Passport |
| (Partners/Directors KYC wherever applicable) | Voter ID Card |
| | Aadhaar Card |
| | Valid Driving Licence |
| Certificate/Proof Business Existence | Gumasta, PAN , sales tax/ excise/ VAT/ service tax registration, Copy of partnership deed, Trade license, certificate of practice, registration certificate issued by RBI, SEBI |
| Proof of income | Income Tax Returns along with computation of income for the last 3 Assessment Years - 2 year ITR gap should be more than 6 months |
| | Last 3 years' Balance Sheet and Profit & Loss A/c Statements, with Annexures/Schedules (Points 2 & 3 should be of both the individual and the business entity and attested by a CA) |

| |
|---|
| Last 6 months' Current A/c Statements of the business entity and Savings Account Statement in case of Proprietary firm. |
| Education qualification certificate |

| | |
|---|---|
| Other documents | Business Profile |
| | Latest Form 26 AS |
| | List of Directors and Shareholders with their individual shareholding certified by a CA / CS in case of the business entity being a company |
| | Memorandum and Articles of Association of the Company |
| | Partnership Deed in case of the business entity being a partnership firm |
| | Details of ongoing loans of the individual and the business entity including the outstanding amount, instalments, security, purpose, balance loan term, etc. |
| | Passport size photograph of all the applicants / co-applicants to be affixed on the Application Form and signed across |
| | Cheque for processing fee |

## Self Employed Professional – Doctors, Chartered Accountants and Architects

| | |
|---|---|
| Customer KYC | Valid Passport |
| | Voter ID Card |
| | Aadhaar Card |
| | Valid Driving Licence |

| | |
|---|---|
| Proof of income and other documents | Last 1 year bank statement |
| | Brief Business Profile on the Letter Head of the firm by the applicant |
| | Education qualification certificate and proof of practice existence |
| | Last 2 years Income Tax Returns of the applicant along with computation of income duly attested by a Chartered Accountant. |
| | Last 2 Years Balance Sheet and Profit & Loss Account of the firm duly attested by a Chartered Accountant |
| | Last 6 months' Bank Statements showing repayment of any ongoing loans |
| | Copy of either Shop & Establishment License / VAT Registration or any other mandatory license / registration |
| | Copy Professional Practice Certificate |

Property documents

| | |
|---|---|
| If purchasing from Builder | Copy of latest sale agreement or Draft Agreement Copy |
| | Approved Plan Copy {If OC is not Available}; CC Copy |
| | OC Copy {in some cases you may have OC} |
| | Payment Schedule and receipts of payments from Builder |
| | Allotment letter from Builder |
| | Builder NOC in Bank Format on Letter Head |

| | |
|---|---|
| | {CIDCO Area NOC is required in their Format with Bank name or other applicable authority} |
| | Other as per Legal report of Bank |
| If Resale Property | Copy of all Previous Chain Agreement |
| | Copy of latest sale Agreement or Draft Agreement Copy |
| | Share Certificate Front & Back Side Copy {If Issued} |
| | In some banks Transfer form will be needed |
| | Copy of Stamp duty and Registration Recites of all previous Chain Agreement |
| | OC Copy; Copy of BMC Approved Plan & CC Copy{If OC is not Available} |
| | Society NOC in Bank Format on Letter Head |
| | {CIDCO Area NOC is required in their Format with Bank name or other applicable authority} |
| | Other as per Legal report of Bank |

## Eligibility criteria

| Salaried | Self Employed Non Professional | Self Employed Professional |
|---|---|---|
| Private Limited | Proprietorship | Doctors |
| Limited | Partnership/LLP | Architects |
| Government companies | Private Limited | Chartered Accountants |
| | Limited | |
| | Deemed Limited | |

## Determination of Loan amount

Type of property

Age of the property

Current usage of the property

Location of the property

## Balance Transfer

- Home loan balance transfer is an option that allows you to switch from an expensive loan that you availedsome years back to a lower interest loan.
- At RB, we have helped many customers save huge amounts by helping them switch to less expensive loans.
- The balance transfer option essentially involves foreclosing the existing loan and taking a new loan for the unpaid principal amount.
- With the charges on foreclosure of floating rate loans waived borrowers can switch to a new loan withouthaving to bear the burden of these charges. However, banks may charge pre-payment penalty.

**AGREEMENT & MARKET VALUE OF PROPERTY**

| Agreement value | Market Value |
|---|---|
| **70-80%*** | **65-70%*** |

## LTV OF AGREEMENT VALUE

| Category of Loan | LTV Ratio (%) |
|---|---|
| **Individual Housing Loans** | |
| Upto ` 20 lakh | 90 |
| Above ` 20 lakh & upto ` 75 lakh | 80 |
| Above ` 75 lakh | 75 |

## FUNDING AS PER INCOME V/S PROPERTY VALUE

**Eligibility calculated as per income and property value**

- **Consider whichever is lower**
- **LTV ratio applicable to either agreement value or property value whichever is lower**

## Tenure & rate of interest

Exposure

10 Lacs to 35 Cr

Collateral

Mortgage of Loan property

Tenure

Upto 30 years

Rate of Interest

8.30% to 11.50%*

Processing Fees

0.5%* or Salaried-Rs.10000/-

## Eligibility Calculating methods

### Debt servicing coverage ratio

- DSCR = Net Operating Income / Debt service
- Net Operating Income – *Net income+ Amortization & depreciation+ Interest Expense+ Non-cash items*
- Debt Service – *Principal repayment + Interest payments+ Lease payments*
- The debt service coverage ratio measures a firm's ability to maintain its current debt levels. This is why a higher ratio is always more favourable than a lower ratio. A higher ratio indicates that there is more income available to pay for debt servicing.
- For example, if a company had a ratio of 1, that would mean that the company's net operating profits equals its debt service obligations. In other words, the company generates just enough revenues to pay for its debt servicing. A ratio of less than one means that the company doesn't generate enough operating profits to pay its debt service and must use some of its savings.
- Generally, companies with higher service ratios tend to have more cash and are better able to pay their debt obligations on time.

| Income based program (Cash Profit method) |
|---|
| PAT |
| +Depreciation |
| +Remuneration to Directors/Partners |
| +Interest on paid bank loans |
| =Yearly Income/12 |
| Monthly income*DBR |
| (-)Monthly obligation |
| =EMI paying capacity/Per lac |
| =Loan amount compared with property value(Agreement value+ Service tax+ Stamp duty)*LTV whichever is lower |

Self Employed-
Require Balance sheet,
Profit & loss statement
and ITR

| Net Salary |
|---|
| NET salary per month*FOIR % |
| (-)Monthly obligation (other EMIs) |
| = EMI serving capacity |
| Divided by per lac EMI |
| = Eligible loan amount |
| *FOIR and eligibility calculation varies in different Banks and NBFCs |

Salaried-Require Salary
slip, Bank statement &
Form 16

## Surrogate programs

Banking program

BT+ top up- RTR 18 months if doesn't fit in Income eligibility – Calculator

## Banks & NBFCs we deal with

| Bank |
|---|
| AXIS BANK |
| DBS BANK |
| DCB BANK |
| FEDERAL BANK |
| HDFC LTD |
| ICICI BANK |
| IDFC BANK |
| KOTAK MAHINDRA BANK |

| NBFC |
|---|
| ADITYA BIRLA HOUSING FINANCIAL LIMITED |
| AU HOUSING FINANCE LIMITED |
| CAPITAL FIRST LIMITED |
| CHOLAMANDLAM INVESTMENT AND FINANCE COMPANY LTD |
| DHFL |
| EDELWEISS FINANCE LIMITED |
| FULLERTON INDIA CREDIT COMPANY LIMITED |
| INDIA INFOLINE FINANCE LIMITED (IIFL) |
| MAGMA HOUSING FINANCE LIMITED |
| PNB HOUSING |

| |
|---|
| RELIANCE HOME FINANCE |
| TATA CAPITAL |
| RBL BANK |
| STANDARD CHARTERED BANK |
| YES BANK |
| AXIS BANK |