

Real estate loan

Real estate loan: Understanding the concept

Real estate loan is what a lot of people use to buy their home. Real estate loans have been instrumental in bringing joy to people by making that unaffordable house affordable. Some real estate investors too make use of real estate loans for buying properties. However, real estate loan is not free money and anyone who buys real estate or plans to buy real estate using real estate loan must understand the concept of real estate loan very clearly.

Real estate loan (also known as mortgage) is the money that you borrow from someone (a financial institution i.e. a mortgage lender) for the purpose of buying a property. The real estate loan generally covers a part of your purchase price and the remaining portion has to be paid by you upfront i.e. as down payment. The amount (i.e. the percentage of total purchase price) that you have to pay as down payment is dependent on a number of factors and you can generally reduce it to even 5% by going for mortgage insurance. FHA and VA loans (i.e. mortgage insurances through FHA and VA) reduce the down payment requirement on real estate loan even further. Whatever you borrow from the mortgage lender as real estate loan needs to be paid back to the mortgage lender over a period of time (and, of course, you will also need to pay appropriate interest on that real estate loan). The tenure of your real estate loan and the prevailing market rate will determine the amount of interest you pay for your real estate loan. Generally, you are required to pay back the real estate loan in the form of monthly instalments which are composed of both interest and principal portions of your real estate loan. Also, there are various types of real estate loans e.g. fixed interest rate loans and adjustable interest rate loans. So depending on what type of real estate loan you have gone for, your monthly payments might either remain constant (fixed rate) for the full tenure of the loan or keep getting adjusted periodically (adjustable rate) on the basis of a financial index. Besides that, some other costs are also associated with real estate loans e.g. there are closing costs, inspection costs, attorney fee etc. Also, in case the property needs some repairs, there will be costs associated with that too. Again, there is stamp duty and other taxes that you need to pay. So, really, you need to understand the concept of real estate loans and the related costs clearly before you actually go for the real estate loan. And understanding these concepts is really not that tough.