SAMPLE – 700 words Consumer Finance

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How to Select the Right Home Loan

Buying a home is one of the biggest investments that most of us make in our lives. That is why it is very important that all aspects of this investment are considered carefully, and only when you are satisfied with each one of them should you go ahead with the deal.

One such aspect is the home loan that you may want to use to fund your investment. There are a number of competing products in the market, each claiming to be better than the others, and you need to understand how to compare them and select one that suits your requirements.

Shortlist your options

The first step to getting a home loan is short listing a few home loan products available in the market. India has a large number of home loan providers, including most of the major banks, and drawing up this shortlist based on the reputation and track record of the providers will significantly simplify your decision making.

Service level and convenience

Remember that the bank with the best advertisements does not always have the best service and you need to consider your choices carefully. You might have an existing relationship with a particular bank and if you are happy with their service level then it could be a good choice. Similarly if you or someone else you know of is having a particularly bad experience with a provider then it is better to avoid them.

You should also keep in mind how convenient it will be to manage your relationship with the provider. If their branch is close to your home then you will be easily able to access their staff and get your queries resolved.

Loan Amount and Tenure

Most home loan providers finance up to 80-90% of the registration value of the property. The rest of the amount needs to be paid by you, so you need to make sure that the home loan you are choosing will be sufficient to fund your investment. The second major factor is the tenure - the period over which your instalments will be spread. A shorter tenure and a higher loan amount means a higher EMI, and vice versa. The tenure and the loan amount are variables that are usually decided by you, but you need to check with the provider if they have set any restrictions in this regard.

Interest Rates – Fixed vs. Floating

A higher interest rate means a higher EMI, but for a home loan it is not all that simple. Do not forget that a home loan is usually a long term commitment, and interest rates are something that can vary significantly over a long period.

Because of this uncertainty, most providers offer you two interest rate options – fixed and floating. As the name suggests, fixed rate remains unchanged throughout the tenure of the loan, while a floating rate can change when the provider feels it is necessary to do so. It is a difficult choice and you would have to consider factors like the current interest rate relative to the historical trend, your ability to manage upward fluctuations in your EMI, and whether the provider has a transparent policy of changing floating rates.

Once you have chosen the interest rate option, you can simply compare the rates offered by different providers, but never compare the fixed rate of one provider to the floating rate of another.

Other Fees and Charges

Lastly, you need to find out about all the charges that are going to be applicable right from screening of your application to the time your loan is fully repaid. Typical charges include processing fee, valuation fee, pre-payment charge and so on. The most important of these is the pre-payment charge which can be as high as 2% of your principal outstanding and sometimes even higher than that. If you have any plans of foreclosing your loan, you should always keep this number in mind when comparing home loan options.

Once you have compared the shortlisted providers on all of these factors, the final decision should be straightforward, but always read the contract in detail to ensure that there is no condition that you are uncomfortable with.