Today millions of urban Indians are opting for home loans to purchase their dream properties. However, not everyone is acquainted with the process of procuring a home loan. Consequently, many a loan application gets rejected and many a buyer finds himself in a quandary after securing the loan because he is unable to pay off his debt.

It is therefore imperative for home buyers to be well versed with banks' criteria for disbursing home loans. It is also important that they know their monetary obligations to the bank or financial institution funding their purchase to avoid a showdown in the future.

Read on to know more about the home-loan procedure and your loan eligibility and repayment liabilities.

Step 1: Applying for a home loan

The procedure for a home loan begins with a formal application to the bank. In addition, you are required to provide your personal details for the bank to scrutinize and to assess your loan eligibility. Most banks will generally ask you for the following documents:

- Identity proof
- Address Proof
- Age proof
- Employment details
- Bank statements
- Proof of income
- Pan Card
- Property details (in case it is finalized).

Step 2: Payment of loan processing fees

Your bank will charge you a non-refundable loan-processing fee. Most banks charge between 0.50% and 1.0% of the loan amount as processing fees. Banks use this amount for commencing and maintaining the home loan process.

Of late, some banks have taken to waiving loan-processing fees to attract borrowers. You can negotiate with your bank and try to avail the benefit. However, not all banks will be open to relinquishing the processing fees.

Step 3: Applicant’s scrutiny and verification

After you have submitted your application and the processing fees, the bank will evaluate your case and decide (in principal) the amount you are eligible for.

You will be required to personally meet the bank’s officials (generally within two to three working days from submitting the application) so that they can gauge your repayment capacity.

Post the personal interaction, the bank will proceed to verify all the facts and credentials you provided in your loan application. Bank representatives will visit your work place and place of residence to validate the information you have provided in your application.

Step 4: Evaluation of repayment capacity

Verification of the borrower’s repayment capacity is the most crucial part of the home loan process. The bank may sanction or deny your home loan request depending on how satisfied it is with your ability to repay the principal (with interest) on time.

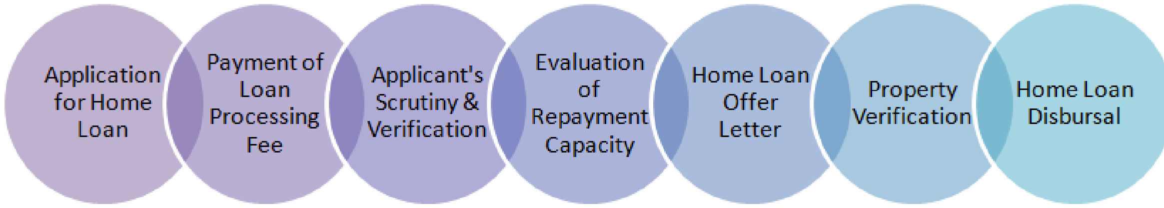
In case the bank issues a conditional sanction, all the stipulated conditions will have to be satisfied before the loan is disbursed.

Step 5: Home loan offer letter

At this stage the bank proceeds to draft an offer letter with the following details:

- Sanctioned amount
- Rate of interest applicable
- Fixed or floating rate of interest
- Loan tenure
- Mode of repayment
- Special scheme (if applicable)
- Terms and conditions associated with the loan

You need to submit a signed acceptance copy to the bank if the contents of the offer letter are acceptable to you. An acceptance copy is essentially a duplicate of the offer letter which the bank keeps for its records. Administrative fees (if any) levied by the bank needs to be paid at this stage.



Step 6: Property verification

Prior to disbursing the loan, the bank will verify the property in question. You will be required to submit original copies of the title deed, no objection certificate and other documents the bank might ask for.

A legal check will be conducted on the property to ascertain that the title is clear and that there is no dispute.

A technical valuation of your property will also be conducted by the bank. In case of an under-construction property, the bank will scrutinize the location of the project, the stage, quality and progress of construction, etc and evaluate the property on the basis of established parameters.

If a property is ready to be sold or is being resold, the bank evaluates its age, ownership, quality of construction, maintenance, locality and legal clearances. Bank employed property valuators assess its value on set parameters and decide on the amount of loan to be sanctioned.

Please note that your home loan is a secured loan and the property itself is the collateral. Therefore, your documents will be returned to you only once the entire loan amount has been repaid.

Step 7: Home loan disbursal

Once all the above-mentioned formalities have been satisfactorily fulfilled, the registration process for the home loan commences.

The legal documents need to be prepared in a format approved by the bank's lawyer on stamp papers of required denominations. Post this, you will be required to submit post-dated cheques for the agreed term and sign the home loan agreement.

The home loan disbursal process will begin after you sign the loan agreement. Depending on the type of disbursal agreed upon (whether lump-sum or in stages), your bank will dispense with the loan amount.

How is your loan borrowing capacity determined?

Banks factor-in the following parameters to determine your borrowing capacity:

Age: Most banks prefer that the borrower should not be more than 58 years of age when he pays his last EMI. Your home loan tenure depends on your age. If you are nearing 50, your bank will only be willing to grant you a re-payment tenure of 6 to 8 years. On the other hand, if you are 35, your re-payment tenure can easily be extended up to 20 years.

Salary structure: Most banks don't consider allowances, perks, bonuses and performance-linked pay as a part of your salary. Your loan eligibility is likely to go down if these components comprise a considerable chunk of your salary package.

Liabilities: A borrower's liabilities (including EMIs of other loans taken) should not exceed 55 to 60 percent of his monthly income.

Cash flow and expenses: These are the primary criteria for deciding the home-loan eligibility of an individual. Most banks assume that up to 40 percent of a borrower's monthly income can be directed towards the payment of EMI.

If your monthly income is Rs 1,00,000, the bank will assume that you will be able to pay a maximum EMI of Rs 40,000. The loan amount that can be sanctioned will then be determined on the basis of tenure and the rate of interest applicable.

Calculating EMI
Equated Monthly Installment or EMI can be calculated by using the following formula:

$$E = P * r * \frac{(1+r)^n}{((1+r)^n - 1)}$$

Where:
E = EMI
P = Principal Loan Amount
r = Rate of interest calculated on a monthly basis. [r=Rate of annual interest/12/100]
n = Loan tenure (number of months).

For instance, if you borrow Rs. 50,00,000 from the bank at 10% annual interest for a period of 20 years (240 months);

$$50{,}00{,}000 * 0.00833 * \frac{(1 + 0.00833)^{240}}{((1 + 0.00833)^{240} - 1)}$$

Your EMI will be Rs 48,251
Total interest payable will be Rs 65,80,260
You will be liable to pay Rs 1,15,80,260 to clear your loan within the stipulated period of 240 months.

As a home buyer, you should carefully understand the home loan process and the subsequent re-payment liabilities prior to applying for a home loan. It is a good idea to check with a few banks and opt for the one which is willing to provide home loan at the lowest rate of interest. Make an informed choice. Look out for special schemes and waivers that are launched by banks from time-to-time to attract borrowers. It is a good idea to foreclose your loan if the interest you are paying is higher than that being earned by your investments.