

# Polices and Procedure for Sanctioninrg Housing Loans In India

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## **Abstract:**

Housing finance is comparatively a new concept in the finance sector of India. It is developed rapidly during the last two decades due to the enthusiastic interest of Government of India to cut-short the housing problem of the country. Residential property markets constitute almost 80% of the real estate market in terms of volume and growing every year. Most of the Housing Finance Companies offer 75% to 90% amount of loan, of the cost of property including the cost of land. In the present competitive housing loan market a housing loan customer can avail this loan without any difficulty. Besides, in some cases Housing Finance Companies include stamp duty and registration charges too in the total quantum of loan.

## **Introduction**

Home is an integral part of an individual, who since his / her birth and childhood, dreams to have living space of his / her own. Once in a lifetime investment requires loan to accomplish it and that is how the home loan comes into scheme of things. Buying a home is dream for everyone. Owing to the rising price of properties, it has almost become impossible for an average earning person to buy a home on a lump sum payment. Therefore, the concept of home loan has come in existence. There are plethora of housing finance companies and equal number of banks that offer home loans. The task of selecting one company and one offer for home loan amidst the thousands available options have become a very complex task owing to the burgeoning housing finance market in the country. Apart from this, there are intricate business jargons and technicalities that make this task more difficult. In this study, I propose to give the basic information of home loan technicalities, so that

when a person applies for the home loan, he / she can understand the basics and help themselves remain away from the duping elements in the market.

## **Steps involved in the home loan procedure:**

### **APPLICATION FORM**

First step is to fill the application form. The content of an application form may differ from bank to bank, but nearly 90% of the information they need is similar. The information is basically your personal and professional information, details of your financial assets and liabilities and the details of the property (if finalised) including the estimated cost and the means of financing the same.

### **ONE TO ONE MEETING**

The home finance institution reviews the completed application form and reverts in 4 – 6 days.

However, some banks insist on meeting you after receiving the application form, and before the loan sanction. This is to gather more details about you that may not be mentioned in the application form and to reassure them of your repayment capacity.

Again, this stage is insisted upon only in very few cases these days.

While going for the personal discussion, carry all the original documents pertaining to the information provided on the application form for the personal discussion.

Avoid submitting any fake documents and do not lie about the financial details requested; banks process home loans only after they are convinced about your credentials.

## SURVEY BY BANK

Thousands of people apply for loans every day. And however eager a bank is to complete its targets, every loan is a risk. So, it is only natural that it confirms or validates the details you provide. The bank checks all your information including your existing residential address, your place of employment, employer credentials (if you work for a small organization), residence and work telephone numbers. Representatives are sent to your workplace or residence to verify the details.

Even the references you have provided in the application form are checked out. CIBIL is used for credential check or Banks are forced to undertake validation in the absence of any credit bureau. Once your credentials are validated, it helps establish trust between you and the bank.

## BANK LOAN SANCTION

This is the make-or-break stage. If the bank is not convinced about your credentials, your application may get rejected. If it is satisfied, it sanctions your loan.

The bank or the home financier establishes your repayment capacity based on your income, age, qualifications, experience, employer, nature of business (if self employed), etc, and based on these, works out your maximum loan eligibility, and the final loan amount is communicated to you. The

bank then issues a sanction letter. This letter may either be an unconditional letter, or may have certain terms and conditions mentioned, which you have to fulfill before the loan disbursal.

## BANK OFFER LETTER

Once the loan is sanctioned, the bank sends you an offer letter mentioning the following details:

- Loan amount
- Rate of Interest
- Whether fixed or variable rate of interest linked to a reference rate
- Tenure of the loan
- Mode of repayment
- If the loan is under some special scheme, then the details of the scheme
- General terms and conditions of the loan
- Special conditions, if any

Acceptance copy, if you agree with what is mentioned in the offer letter from the bank, you will have to sign a duplicate letter of the same for the bank's records. Earlier, banks used to charge administrative fees along with the offer letter. However, with rising competition, administrative fees have virtually disappeared from the home loan market.

## LEGAL DOCUMENTS SUBMISSION & CHECK

Now, the focus of the bank's activities shifts from you to the property you intend to buy. Once you select your property, you need to hand over the entire set of original documents pertaining to your property to the bank so that it can keep them as security for the loan amount given to you. These normally include:

- The title documents of your seller, which prove the seller's title including the chain of title documents if he is not the first owner.

- NOCs from the legal owners such as cooperative housing societies, statutory development authorities, the lessor of the land in the case of lease hold land, etc. NOCs are not required where the property is situated on freehold land and the entire land is being transferred along with the structure.
- These documents remain in the bank's custody until the loan is fully repaid

## LEGAL CHECK

Every bank conducts a legal check on your documents to validate their authenticity. Even the draft sale documents that you will be entering into with your seller will be scrutinized.

The documents are sent to a lawyer in their panel (either in-house or outsourced) for a thorough scrutiny. The lawyer's report either gives a go-ahead if documents are clear, or it may ask for a further set of documents. In the latter case, you are expected to hand over the additional documents to the bank for a clear title.

So, if a bank decides to disburse your housing loan, you have every right to smile, since you can safely assume that your property documents are clear and the transaction is safe.

## CHECK ON VALUATION/TECHNICAL

Banks are extremely careful about the property they plan to finance. They send an expert to visit the premises you intend to purchase. This expert could either be a bank employee or he could belong to a firm of architects or civil engineers.

## 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.

## REGISTRATION OF PROPERTY DOCUMENTS

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

## **AGREEMENTS**

All borrowers need to sign the home loan agreement. You 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 you as per the home loan agreement signed by you.

Please insist a receipt of original & other documents handed to the bank and also keep a copy of all the documents.

## **DISBURSEMENT**

After the bank has ensured that the property is legally and technically clear, all the original documents pertaining to transfer of ownership of

property in your favour have been submitted and all the necessary loan agreements have been executed, finally, it is payment time! You will now actually receive the cheque in your hand. Time to celebrate! But hold on a second. Before the big moment arrives, you need to submit documents to prove that you have paid your personal contribution towards the property, since banks normally finance only up to 80- 85 per cent of the total cost of the house. In case you are expecting money from other sources to fund your own contribution, you need to provide sufficient evidence for the same. It is only after submitting this proof that the bank will release part-disbursement of the loan.

The cheque will be in the name of the reseller(for resale flats), builder, society or the development authority. It is only in exceptional circumstances, that is, if you provide documents to support that you have made an excess payment from your own account that the cheque will be handed over to you directly by the bank.

## **Tax Benefits in Home Loan**

A person who is on rent should evaluate the idea of buying a home by using home loan from banks and other financial institutions.

This idea saves lot of taxes and builds an asset. The early one starts during his job tenure the better it is.

Under Section 24(d) of Income Tax, the home loan borrower gets the deduction of interest payable on the home loan is up to a maximum of Rs. 1,50,000.

Under Section 80(c) of Income Tax, the home loan borrower gets the eligible for tax deduction up to a maximum limit of Rs. 1,00,000 for Principal

amount for the repayment of loan along with other savings & investments.

### Second Home Loan Tax Benefits

In case of a home loan taken for a self occupied property, the principal amount repaid up to 1 lakh qualifies for deduction under Section 80C; while up to 1.5 lakhs of interest paid is tax-deductible under Section 24. This benefit gets reduced for second house. For the second house only the interest payment is eligible for deduction but there is no cap here as 1.5 lakhs. This means that if you are paying 3 lakhs as the interest entire amount is eligible for tax deduction subject to a formula prescribed.

In case of second house if the house is yet to be constructed, 20% of the total interest paid during the pre-construction period is also allowed as tax deduction. There is a limit however here which means that this benefit on pre –construction house is available for five years.

### Conclusion:

This is the make-or-break stage. If the bank is not convinced about your credentials, your application may get rejected. If it is satisfied, it sanctions your loan. The bank or the home financier establishes your repayment capacity based on your income, age, qualifications, experience, employer, nature of business (if self employed), etc, and based on these, works out your maximum loan eligibility, and the final loan amount is communicated to you. The bank then issues a sanction letter. This letter may either be an unconditional letter, or may have certain terms and conditions mentioned, which you have to fulfill before the loan disbursal.

### Conclusion:

Every human being dream for his/her own home. In market there are many financing agencies who come with easy procedures to the costumer for obtaining a home loan. The offers provided by the private and national banks are easy to repay the principal with interest. The banks also provide he special offer for women to encourage them in owning a new house. The current research paper provides the date related to the procedure for applying the home loan.

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