

r = Annual interest rate in fraction / 12

n = Number of monthly installments

lacs but the FSV of the same was Rs. 13.26 lacs. So the applicant could get **maximum Rs. 13.26 lacs** as loan.

5. Case Study

Appraisal of a Home Loan Proposal of Rs. 8.00 Lakhs

5.1 Case Details

Mrs. V (33 years) who is currently working as an assistant teacher in a Govt. Primary School approached to Indian Overseas Bank, Garia branch for availing a Home Loan. She was going to purchase a new flat for her 3 members' family & for that reason bank assistance was required. As she has been maintaining a savings account with IOB, Garia for last 4 years, she decided to approach this branch first.

Now a days banks generally do not give loans to an unknown person without checking his/her background. Maintaining an account with the bank makes it easier for the customers to obtain the loan. These days public sector banks are following a very strict policy like the private banks regarding mortgage loans as a preventive measure for Non Performing Assets (NPA).

The original cost of the flat was Rs. 15.30 lacs of which Rs. 50,000/- were already paid by the applicant as advance. She applied to the bank for rest of the amount (i.e. Rs. 14.80 lacs). She proposed the name of her husband as the co-applicant of the loan to enhance the eligibility.

5.2 Credit Assessment & Appraisal by the bank

Quantum of a loan depends on various factors, like applicant's age, income, type of employment, cost of the project etc. As per bank's policy,

- (i) Maximum 90% of the cost of the house / flat excluding Registration and Stamp duty charges can be financed by the bank. The margin money is to be provided by the borrower. Here the **Marginal requirement** was 10% which is (15.30 lacs X 10%) = Rs. 1.53 lacs. So the remaining amount was (15.30 lacs – 1.53 lacs) = Rs. 13.77 lacs.
- (ii) Valuation of the property is to be done by bank's empanelled valuer / engineer. From the valuation report, bank will check **Fair Market Value, Open Market Value, Forced Sale Value and Comparable Sale Value** of the property. **Forced Sale Value** is the amount that may reasonably be received from the sale of a property under forced sale conditions that do not meet all the criteria of a normal market transaction. It is a price which arises from disposition under extraordinary or atypical circumstances. Here the FSV of the property was Rs. 13.26 lacs.
- (iii) Bank will finance that amount which is lower between (i) & (ii), i.e. 90% of the total cost or the Forced Sale Value whichever is lower will be financed by the bank. In this case, 90% of the cost of the flat was Rs. 13.77

- (iv) In case of salaried individual, if the applicant is not a permanent employee he/she will not be eligible for a home loan & if the co-applicant is not a permanent employee his/her income will not be taken into consideration while calculating the eligible loan amount by the bank. In this case, Mr. K's (Co-applicant) income was not considered by the bank for the computation of total income because there was no deduction (like PF, Professional tax etc.) in his salary statement & bank presumed that he is not a permanent employee rather working on a contractual basis. **So the bank appraised the loan only with the income of Mrs. V.** (i.e. Rs. 13825.00)
- (v) The loan must be liquidated before/at 65 years of age or age of retirement, whichever is earlier. Bank fixes the maximum number of EMIs that a borrower can avail by considering this criterion. In this case, Mrs. V's present age is 33 years & she has 27 years left of her service. **So she is eligible for 240 EMIs repayment schedule.**
- (vi) Final calculation of eligible loan amount depends on the income of the applicant. According to 40% income norms, one needs around 40% of his/her income for personal expenses, all fixed obligations including the home loan applied for, should be restricted to a maximum of 60% of his/her gross monthly income. **EMI of a home loan should not exceed 60% of an individual's gross salary** (Average annual gross salary is calculated from last 3 or 4 years Income Tax return). In this case, gross salary of the applicant was Rs. 13,825/- per month. So **maximum EMI that can be deducted is (60% of 13,825) = Rs. 8295/-.**

After considering the above parameters of the applicant, **IOB has sanctioned Rs. 8.00 lacs** with applicable liability insurance amount (Rs. 24,080/-). The formula for computing EMI is shown below,

$$\text{HOME LOAN EMI} = P \frac{r(1+r)^n}{(1+r)^n - 1}$$

Where,

P = Principal loan amount = Rs. 8,24,080.00

r = Annual interest rate in fraction / 12 = 0.1025/12

n = Number of monthly installments = 240

- (vii) Inspection of the property is a very important step in the credit appraisal process. Inspection was carried out by bank officials at the pre-sanction as well as at the post-sanction stage. During **Pre-sanction inspection**, the branch official cross verified the information submitted by the applicant with respect to his identity, residence, employment / business and property to be purchased. **Post-Sanction activities** mainly emphasize on verification of the end use of funds after disbursement of the loan by physically verifying the assets created out of bank finance. Valuation of the Property must be done in every three years by Bank's empanelled valuer / engineer. Lastly Proper Monitoring and follow up of

credit by bank are required to ensure that it remains a standard asset.

5.3 Appraisal Note:

Indian Overseas Bank

(Housing Loan Under Shuvagraha Scheme)

Branch: Garia

Loan Amount- Rs. 8,00,000/- + Liability Insurance (Rs. 24080/-)

Name of the Applicant(s) 1 st Applicant 2 nd Applicant	Mrs. V Mr. K
Date of Birth & Age 1 st Applicant 2 nd Applicant	06/04/1980 27/01/1977
Address of the Applicant(s) Permanent Address	Baishnabghata Housing estate, C/1, Rathtala Quarter, N.S.C Bose Road, Kolkata - 700047
PAN NO.	AQIPPXXXXX
Name of the Employer	Sree Ramkrishna Paramhans Hindi Vidyapith.
Designation	Assistant Teacher
Date of Joining	19/04/2005
No. of Years of Service	8 Years
Date of Retirement	30/04/2040
Income from Employment Profession (1 st applicant)	1,65,903.00/12 = Rs.13825/- (As per last 3 years IT return)
Monthly Income (As per Salary Certificate)	Rs. 17,117/- (Present)
Purpose	To buy a Residential Flat
Location & Address of Plot House	Premises no. 485/2, 189, Bidhan Pally (2 nd Floor), P.O- Garia, P.S- Regent Park, Kolkata- 700084
Total Area of the Flat	600 sq. ft
Details of Agreement for Sale	Agreement for sale executed by & between owner and purchasers on 10/02/2013
Estimates Offered	Flat costing Rs. 15.30 lacs.
Loan Amount Applied	Rs. 8,00,000/- (revised)
Loan Amount Eligible	Rs. 8,00,000/-
Stage Wise Disbursement	Single Installment
Details of Advance / Booking Money	Rs. 50,000/-
40% / 50% Income Norms	40% Income norms maintained.
Particulars of Approval for Construction	Sanction letter from KMC has been obtained
Encumbrance Certificate	Property is free of encumbrance. Clearance report has been obtained from bank's empanelled lawyer.
Repayment Period	240 EMIs of Rs. 8090/-
Holiday Period	3 months
Rate of Interest	10.25%
Whether Undertaking Letter from the Employer for Recovery from Salary at Source is Available (In Case of Salaried Person)	No
Any Other Collateral Security	NA

Offered / Suggested for Sanctioning the Limit	
CIBIL Report	Insufficient history to score
Details of Guarantor(s) Proposed with worth	NA
Any Other Information	Nil
Branch Recommendation:	
Mrs. V is a permanent employee & working as an Assistant Teacher in Sree Ramkrishna Paramhans Hindi Vidyapith for las 8 years. She is maintaining savings account with IOB-Garia since 29/06/2009. Her school is also a valued customer of this branch. After scrutiny and verification of all the necessary documents, IOB - Garia recommends sanction of Home loan for Rs. 8,00,000/- with applicable liability insurance amount. Installment holiday period for 3 months is recommended while monthly interest chargeable during the holiday period is to be serviced. Original Title deed of the flat is to be submitted by the borrower for creation of mortgage. CERSAI Registration would be applicable to transactions of security interest over the property created to secure the loan as defined under the SARFAESI Act, 2002.	

5.4 Documentation

The following documents were required during the whole process,

- Application form
- Appraisal note
- KYC Documents (Voter ID, PAN Card, Aadhar Card, Electric Bill)
- CIBIL Report
- Credit Report Cum Opinion Sheet (CRCOS)
- Salary Certificate of last 3 months
- IT return for last 3 years
- Agreement for Sale
- Certified copy of Mother Deed
- Sanction Plan of KMC
- Copy of Development Agreement
- Copy of Power of Attorney
- Possession Certificate
- Notarized Undertaking
- Indemnity
- Up-to-date Municipality Tax receipt
- Legal Opinion from empanelled lawyer
- Valuation report of the property from empanelled valuer / Engineer
- Pre-sanction Inspection Report
- Title Deed or Deed of Conveyance
- Asset-Liability Statements of Applicant & Guarantor
- Term Loan Agreement for Home Loan
- Demand Promissory Note
- Letter of Undertaking to Repay in Installments
- Confirmation Letter of deposit of Title Deeds
- Details of Property proposed as Security
- Regional Office Sanction Letter
- Branch Sanction Letter
- Post dated cheques for the EMIs
- CERSAI Registration form

5.5 Tables and Charts

Table 1: Loan Structure

Loan Amount	8,24,080.00
Payment Duration	240 Months
Rate of Interest	10.25%
Calculated Monthly EMI	8089.53
Total Amount with Interest	19,41,487.20
Flat Interest Rate Per Annum	6.78%
Flat Interest Rate Per Month	0.56%
Total Interest Amount	11,17,407.20
Average Yearly Interest Amount	55,870.36

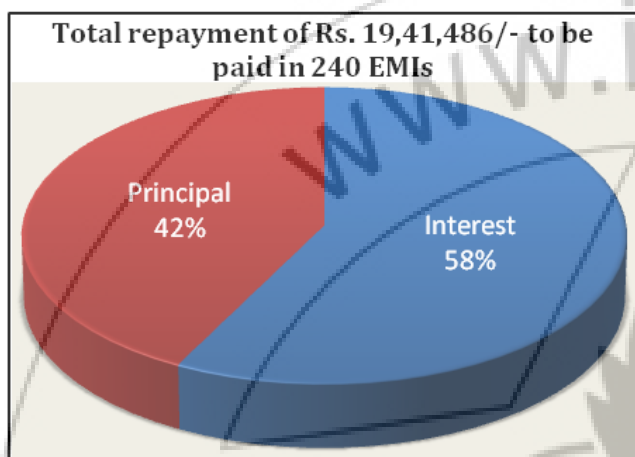


Figure 1: Breakup of Principal and Interest Amount from Total Repayment

6. Findings

At the time of sourcing the loan, banks are required to provide information about the interest rate applicable, the fees / charges and any other matter which affects customer's interest and the same are usually furnished in the product brochure of the banks. Complete transparency is mandatory. A bank cannot reject a loan application without furnishing valid reason(s) for the same.

To increase the loan eligibility the following can be considered,

- **Clubbing income-** Income of spouse also can be considered (if he/she is a permanent employee) if applied jointly.
- **Increasing Tenure-** When EMIs are high, eligibility will become less. The more the tenure is, less the EMI will be. So, one should opt for a higher tenure. Usually banks offer a maximum of 20-30 years tenure.
- **Additional Income-** Applicant's consistent additional incomes like rental income qualify. Expected rental income from the property purchasing, performance linked pay can be considered to enhance loan eligibility.
- **Pre-closure of Existing Loans-** Outstanding loans like car loans or personal loans may reduce one's loan eligibility. As per norms, only existing loans with over 12 unpaid installments are taken into account while computing home loan eligibility. So, prepaying the existing loans in full or part will help.
- **Employer-Bank relationship-** A lesser interest rate will naturally increase one's eligibility. Customer should check with the banks if there are any schemes running with

his/her employer. Banks usually categorize companies into A, B, C based on company profiles and run different schemes like special interest rates, processing fee waiver etc. People working in MNCs are benefited out of this usually.

7. Conclusion

The housing sector is one of the major contributors to the economy and provides growth impulses to the broader economic development of the country. The role of the financing institutions viz. Banks and Housing Finance Companies has grown significantly over the years in the housing sector. While appraising a home loan, lenders look for personal details such as a good credit history, annual and monthly income, existing EMIs of the consumer, a clean title to the house / property and the location of the house before approving a home loan application. It should always be kept in mind that taking too many loans would restrict customer's credit worthiness. Also maintaining credit score in good shape and Good and steady repayments keep one out of debt traps and will enhance applicant's credit worthiness in future.

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Appendix

Table 2: Amortization Schedule - Yearly View

Year	Opening Balance (Rs.)	EMI (Rs.)	Interest Paid (Rs.)	Principle Paid (Rs.)	Closing Balance (Rs.)
2013	824080.00	24268.59	21090.05	3178.54	820901.46
2014	820901.46	97074.36	90413.30	14750.59	807344.33
2015	807344.33	97074.36	81932.20	15142.16	792330.42
2016	792330.42	97074.36	80305.09	16769.27	775703.17
2017	775703.17	97074.29	78503.15	18571.14	757289.31
2018	757289.31	97074.30	76507.60	20566.70	736896.79
2019	736896.79	97074.31	74297.60	22776.71	714312.99
2020	714312.99	97074.29	71850.12	25224.17	689302.45
2021	689302.45	97074.31	69139.66	27934.65	661604.40
2022	661604.40	97074.28	66137.92	30936.36	630930.04
2023	630930.04	97074.30	62813.67	34260.63	596959.58
2024	596959.58	97074.30	59132.19	37942.11	559338.80
2025	559338.80	97074.30	55055.10	42019.20	517675.48
2026	517675.48	97074.29	50539.93	46534.36	471535.23
2027	471535.23	97074.30	45539.56	51534.74	420436.97
2028	420436.97	97074.30	40001.91	57072.39	363847.94
2029	363847.94	97074.30	33869.17	63205.13	301178.12
2030	301178.12	97074.29	27077.46	69996.83	231774.11
2031	231774.11	97074.32	19555.97	77518.35	154912.29
2032	154912.29	97074.30	11226.19	85848.11	69791.26
2033	69791.26	72805.73	3,014.47	69791.26	0
TOTAL PAYMENT		1941486.17	1117406.17	824080.00	

PAY OFF DATE – September 2033

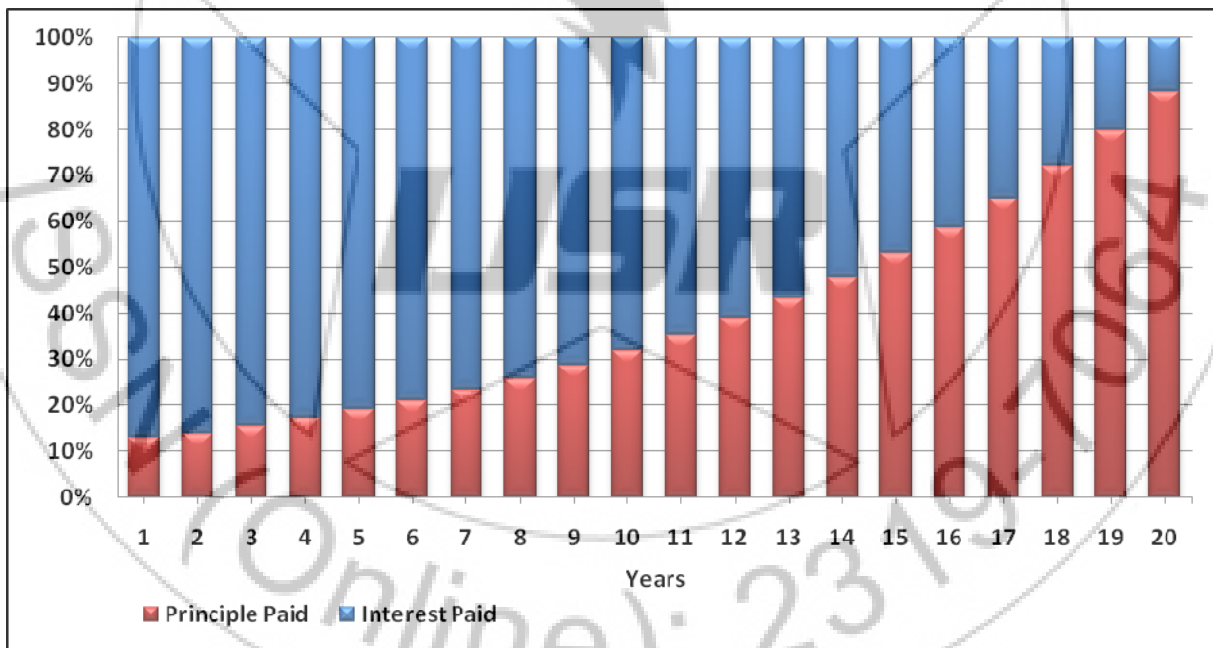


Figure 2: Year Wise Breakup of Principal and Interest Amount of EMI

The above chart shows the breakup of Interest and Principal payment for each year for an 8.24 lacs loan for 20 years tenure assuming interest @10.25%. So each bar is broken into two parts, where Blue bar represents Interest part and Red bar represents Principal part. It is clearly visible that how interest forms a major part of overall EMI in initial years and in the later year’s principal part becomes high.