

Guide to the Home Loan Process

Buying a home is one of the major decisions a person has to take during his life. It is rare to find someone who pays the entire cost of home at one go. A home loan is an essential part of any home buying endeavor. Taking a home loan is a long journey, which involves many stages. The key to getting your home loan in a smooth way is being familiar with the entire home loan process.

Beginning the home loan process in India

The process of getting a home loan starts with a formal application for the loan. The application form requires certain basic information about you. This will include your personal, residential, income, employment, educational details and details about the property, estimated costs and current means of financing the property. Though the requirements may vary from bank to bank but there certain thing which every bank will ask.

The application form must be supported with valid documents to substantiate the facts. Generally the banks will ask you to submit following documents.

- Income proof
- Age proof
- Identity proof
- Address proof
- Employment details
- Proof of educational qualifications
- Details about the property if finalized
- Bank statements

Proof of income: This will need to be backed up by proof such as copies of last three years' Income Tax returns (along with copies of Computation of Income/Annual accounts, if any), Form 16/Form 16A, last three months' salary slips, copies of the last 6 months' statements of all your active bank accounts in which your salary/business income details are reflected, etc. Other documents that you need to provide with your application form include age proof, address proof and identification proof. You may also be asked to give your employment details.

Age proof: Copy of your school leaving certificate/Driving license/Passport/ration card/PAN card/Election Commission's card/etc.

Identification proof: Same as above, but with photograph. Sometimes, the same document if it contains a photograph, the current residential address and the correct age can be the proof for all 3 things.

Address proof: Similar documents need to be provided to prove that you are actually staying at your current address.

Your employment details: If your company is not well-known, then a short summary about the nature of the company, its business lines, its main customers, its competitors, number of offices, number of employees, turnover, profit, etc may be needed. Usually, the company profile that is available on the standard website of the company is enough.

Educational Qualification: The copy of passing certificates of your higher educational qualification needs to be submitted.

The purpose of the entire exercise is to ascertain the suitability of an applicant for a home loan. The income documents and bank statements provide vital clues to the bank regarding your financial health.

Processing fees for home loans in India

An important thing to note about home loans is the processing fee. Banks charge a processing fee for every home loan application. This fee is non refundable. The processing fee varies from bank to bank and is generally between 0.7% to 4.22% of the loan amount. This fee is used by the bank to start and maintain the home loan process including completing the various formalities during the entire period.

Evaluation and verification of home loan applicant

After applying successfully for the home loan and submitting the processing fees, the bank evaluates your application, decides in principle about your home loan and requires a personal meeting with the bank officials. This decision for personal interaction can be taken within 2-3 days of submitting a complete application. The purpose of this personal interaction is to know more about the borrower and his repayment capacity.

Being satisfied by your application and personal interaction, the bank proceeds to verify all the facts that you mentioned in your application for home loan. A field investigation process is initiated - to confirm and validate everything stated in the application form. Qualified representatives are sent by the bank to your office and place of residence to ascertain the facts. The references provided in the application are cross checked and verified.

Verification of repayment capacity

Once the field investigations over, the bank now goes ahead to verify your repayment capacity. This is the most vital part of any home loan process. If the bank finds that you'll not be able to repay the money back with interest on time, it will simply deny you any home loan offer. On the other hand if the bank finds that all's well and is convinced by your repayment capacity, it sanctions your home loan. Based on how well the bank is satisfied by your financial conditions

and repayment capacity the bank can issue a conditional sanction or unconditional sanction. If the sanction is conditional, you'll have to fulfill the conditions imposed before the loan is disbursed.

Sanction letter for home loan

The bank then prepares an sanction letter which contains the following detail:

- The amount of home loan sanctioned
- The interest rate applicable on your home loan
- Whether the interest rate is fixed or floating
- Your home loan tenure
- The mode of repayment of the home loan
- If any special scheme applies to the home loan, its details
- The terms and conditions associated with the home loan

If you find the offer attractive and agree with all the facts mentioned in the sanction letter, you will have to provide an acceptance copy to the bank. This is generally a duplicate of the sanction letter signed by you, provided to the bank for its records. If the bank charges any Administrative fee, it will have to be submitted at this stage.

Verification of the property

Now the bank will verify the property in question. The home loan is a secured loan with the property being used as the security or collateral. So, to get the home loan you must submit the original documents of the property to the bank. The title deeds, no-objection certificates and other documents required by the bank are to be submitted in original and the bank keeps them safely until you repay the entire loan amount. After taking the papers, bank conducts a legal check so as to verify that the property has a clear title and the home loan is being disbursed to the right person and for the right reasons. Banks don't lend for disputed properties and for titles where ownership cannot be easily enforced.

Along with the legal check, banks also send experts to the location of your property to conduct a technical valuation. If the property is under construction, the banks verify the stage of construction, quality of construction, progress of construction, locality etc. and evaluate the property on established parameters. In case where the property is ready or is being resold the bank verifies the ownership, maintenance, age of property, quality of construction, locality and required legal clearances. The banks have qualified valuers, which assess the value of property on various parameters and decide on the amount of loan

The sole purpose of all this exercise is to ensure that the property has a clear title, is technically sound and meets the valuation standards of the bank.

note: Verification is not necessary if loan is being sanctioned by a tie-up Bank.

The disbursal of home loan

Once the formalities are completed and the bank is satisfied with the legal, technical and financial valuation of the property, the registration process for the home loan begins. The legal documents are to be prepared on stamp papers of required denominations in a format approved by the bank's lawyer. The home loan agreement is then signed and you need to submit the post dated cheques for the agreed term. After the home loan agreement the loan disbursal process begins. Depending on the home loan purpose, and the agreed type of disbursal (lump sum or in stages), banks disburse the home loan amount.

Income Tax certificate

Every bank issues an income tax certificate that serves as requisite proof to let you avail of tax benefits that accrue on repayment of a home loan. This will typically contain the total amount of interest and capital repaid during the year. This is mandatory to claim the tax benefit in respect of self-occupied property. You will have to file this with your tax returns and submit this to your employer or chartered accountant to calculate your tax liability.