



Should you really take that home loan?

By Pooja Sarkar

Sreejit Nair (name changed), a 34-year-old information technology (IT) employee with an Indian conglomerate, spent the past few months of the pandemic shopping around for the perfect house to move into. He sold his existing home for a loss of nearly Rs 4 lakh during the pandemic and has now bought a ready-to-move-in 865 square foot apartment, for Rs 1.07 crore in Thane. The price is inclusive of all charges.

Of course, he has topped the buy with a home loan, which are attractive these days. With his credit score, he has managed to borrow at 7.10 percent from state lender SBI.

He isn't alone in this home buying frenzy, visible in certain pockets of the country. According to data from CRE Matrix Research, a real estate research firm, sales in Thane and in Mumbai's central suburbs had dipped to zero in April this year, but managed to recover to 5,839 units in September.

While this is still far from the January peak of 8,259 home sales, a recovery on a monthly basis is visible. Does this mean you should go after that home purchase?

Abhishek Kiran Gupta, chief executive officer at CRE Matrix, says that if you plan to buy a ready home, now is the time.

But for an under-construction property, you can bide your time. He adds that in a trend reversal, about 70 percent of buyers in Thane are now to buy homes for personal use, versus those for investment purposes.

One reason for the sales boost in Maharashtra is the government's move to cut stamp duty rates, which has reduced property prices across the state, especially helping sales in Mumbai and Pune.

Recently, veteran banker Uday Kotak tweeted about Kotak Mahindra Bank's home loans at 6.75 percent to his 1-million followers, saying, "... covid has made our home the centre of life. Lower prices, lower stamp duty, low interest rates could support home values going forward, like old times!"

While there is no denying that home loan rates are at a multi-decadal low, there are some key factors you should consider before signing that cheque.

First, assess your financial standing. Vishal Dhawan, founder and chief executive officer at Plan Ahead Wealth Advisors, says that before anyone begins to get the idea of owning real estate, "...the first thing one should look at is the stability of one's income, and if the salary can see any likely impact for the coming 20 -30 years."

In the wake of the 2008 global financial crisis and now the Covid-19 pandemic, which has taken the world by surprise, one common thesis building up is the rise in black swan events across the globe and one's preparedness for such blinding events. Coupled with this is the rising disruption and instability at workplaces.

"The buying of a home does tend to override all other financial goals and decisions. It is a tempting idea to expand into a slightly larger apartment or upgrade to a better view, due to which people tend to stretch themselves. First to buy, and then with refurbishing the apartment." Dhawan reasons.

Whether you are single or buying a house together as a couple, **your equated monthly instalment (EMI) to income ratio should not exceed beyond 30 percent per month**, says Dhawan. This means that if you earn Rs 100 in a month, you should keep your EMI at Rs 30. If you end up paying more than that, it would mean you have to start deducting money from other activities—including existing rent, that annual holiday, regular outings and so on. If you have high medical expenses in the family, be careful before stretching your budget.

“Ideally, one should be in a position to pay 20 percent to 25 percent of the flat’s value as upfront payment to book the house. If you can’t afford this, don’t contemplate buying a house just because rates are low today,” says Suresh Sadgopan, founder at Ladder7 Financial Services.

So if your house costs Rs 1 crore, you should pay Rs 25 lakh up front to book it. In fact, Sadagopan says, you should have a safe kitty of 40 percent—in this case, Rs 40 lakh—to be able to pay as own equity, and the rest can be a loan.

Paying up your token money isn’t the only capital you should have. If you are a single person then you need to save up one year’s expenses, including your EMI value, before you sign up for this commitment. While couples have it a little easier, experts that *Forbes India* spoke to advise that they should avoid stretching their joint loans much, as it won’t allow a partner to take a break from work if they wish to. Loans are a 20 to 25-year commitment.

As some state governments and the central government are trying to help bring down circle rates and stamp duty registration costs to earn money through house registrations, residential rates have also fallen across cities, especially Mumbai.

“Over time, there has been a price correction. A house that cost Rs 70 lakh in 2012-13 continues to cost about the same, which means the real value of the house has come down. In some cases, there is a further correction, so if you have

enough savings then you could consider buying. But this does not mean prices are going to move up in a hurry, and there is no need to rush the decision,” Sadagopan adds.

India has enough supply of unsold homes that you can tap into, so you won't lose much by not signing the cheque immediately.

The next question that has prospective buyers talking is the low interest rates (See chart).



The Cheapest Home Loans

Bank	Interest Rate in %	EMI*
Kotak Mahindra Bank	6.75	22811
Union Bank of India	6.8	22900
Bank of Baroda	6.85	22990
Central Bank of India	6.85	22900
Canara Bank	6.9	23079
HDFC Ltd	6.9	23079
ICICI Bank Ltd	6.9	23079
Punjab and Sind Bank	6.9	23079
LIC Housing Finance	6.9	23079

Rates as advertised by lenders. EMI has been calculated for a Rs 30 lakh home loan with a 20 year tenure.

SOURCE MoneyControl

Kotak Mahindra Bank, as of now, is offering the lowest rate. Ambuj Chandna, president - consumer assets at Kotak, says, “The cost of home ownership is coming down and we are seeing a reflection of that as business volumes go up month on month. Apart from the average retail loan, over the last 20 days, we have seen a lot of large ticket deals of above Rs 2 crore picking up too.”

Kotak currently offers 6.75 percent rate to a customer who has a credit score of 750 and above and the loan to value (LTV) of 80 percent and below.

At a lot of banks, the lowest rates are reserved for affordable housing loans and very high credit scores.

While the numbers look tempting, home loan rates are 'floating', which means they will change according to external benchmark rates or repo rates. The repo rate is at which the RBI lends to banks. This rate changes as per RBI's policies.

Dhawan says, "The loan rate resets every time RBI changes it, so if six months later, the central bank firms up the rate, your interest cost will increase. You have to be prepared for such ups and downs for the next 20 years."

Banking, real estate and personal finance advisors all believe that interest rates are at bottom end of the cycle. The consumer price index (CPI) based inflation is at 7.61 percent, much beyond RBI's comfort zone, causing a headache for central bankers. It is expected that the rates will only inch upwards from here rather than moving downwards.

"Interest rates have hit rock bottom and during the pandemic, a lot of people have managed to save money, which they are using to either buy a new house or get a better deal with developers for existing purchases. While rates are bound to move up from here, we are also witnessing sales where projects are ready to move in, but not for those that are under construction," says Abhimanyu Sofat, head of research at IIFL Securities Ltd.

While most banks are not uttering the words 'fixed loan' any more, there is no harm in checking if you can find a fixed cost loan. This means that the rate is fixed and final, not floating or dependent on external factors.

Sadagopan says, "We are at the fag-end of the interest cycle in the downward direction. Banks or home loan agencies are not going to show much interest in offering

fixed loans, and even if they do, they will offer very high rates that will deter people from taking them.”

While a lot of people are looking into buying homes now, they must not discount the fact that rents have become cheaper too. This means your rental yields have fallen. In most metro cities in India, rental yields are at 2-3 percent, while you will be borrowing at 7 percent on your loan. Even though the Indian economy is witnessing a slow recovery, the pandemic isn't over yet, and the job market is yet to revive in the country.