

Take a pause before paying that down payment

Key things to consider to make sure your real estate initial outlay works to your advantage

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A down payment can also have an impact on interest rates
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A down payment is a key up front component on most large loans and a home mortgage is no exception. Typically, banks don't sanction the entire property value as loan. Home buyers should therefore prepare funds for a down payment.

Here are key things to consider prior to making a down payment on a property.

Maximum loan amount

Check the loan-to-value (LTV) ratio for the loan products you shortlist. A higher LTV means a high monthly instalment, while keeping the down payment sum low. About 90 per cent of the banks provide 75-80 per cent of the property value as the maximum loan amount.

The remaining 20-25 per cent should be borne by the loan applicant. In extreme cases, the loan applicant may need to bear a higher down payment of up to 50 per cent of the property value.

Down payment amount

There is no maximum limit for the down payment. A low finance amount is advantageous in several ways; most importantly it reduces the monthly burden and smaller payments on regular basis will have a good impact on credit score. But this doesn't mean that you should put all your savings into a down payment.

Interest rates

Generally, interest rates on a UAE mortgage are around 2.5-8 per cent. The down payment has an impact on the rates as well. Higher down payments make it less riskier for banks if the borrower defaults. With a higher down payment, the lender typically offers a lower interest rate.

Pre-approval details

In the UAE, not many obtain pre-approval details before applying for a loan. A lot have the false notion that applying for a pre-approval affects the credit score – this is a myth. It is highly recommended to get pre-approval before making a down payment. Some financial institutions provide pre-approval details for free, while others charge around Dh1,000-Dh2,000. The pre-approval details are valid for 60 days; beyond this period, the application may need to be revalidated with an additional charge of up to Dh500.

Additional fees

Buying a house includes several fees and charges like the Dubai Land Department fee, registration fee, mortgage registration, estate agency fee, valuation charges and much more. Banks do not consider these additional expenses as part of the loan capital. So, it's essential that homebuyers should not sweep out their savings on down payment. They need to make sure there are enough funds to manage the secondary costs.

Nikhita Devi is a senior analyst at MyMoneySouq.com who writes about personal finance, mortgage and technology in the UAE. The views expressed here are her own.

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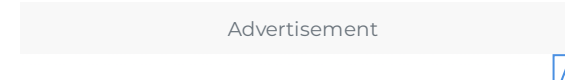
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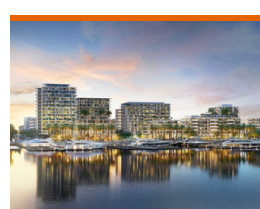
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