Mortgage/ Home Loan: Reduce the Interest Burden

The home is a valuable asset that most home owners acquire over time. Trading it for cash with a mortgage can be a less expensive way to avail of a loan, but it should not be used lightly. It makes sense to shop carefully for mortgage loan quotes before borrowing, and to prioritise the use of the mortgage loan. After all, a mortgage loan uses the property as collateral, so it should only be used to finance purchases that are worth that risk.

In general, a mortgage loan should be used when the following conditions are met:

- The purchase is long-term in nature.
- Loan quotes show a distinct interest rate advantage compared with other methods of financing.
- A repayment plan has been carefully budgeted.

Given below are some examples of possible utilisation of your mortgage loan:

- **Debt consolidation:** This is a common reason why a mortgage loan may be availed of, since such loans generally carry lower interest rates than other loans like personal loans. Debt consolidation allows borrowers to pay less interest by securing their debt with their home.
- **Home improvements:** With the festive season around the corner, home improvements can be a way of adding value to a home or increasing its marketability. Using a mortgage loan to add space may be cheaper and involve less hassles than taking an unsecured loan. The term of repayment for an unsecured loan is shorter, as compared to mortgage loans, which in turn results in a high EMI.
- **For your children's higher education:** While not investing in the house itself, money from a mortgage loan can be utilised for your children's higher education because it represents an investment that has long-term benefits and should produce an eventual financial return. Mortgage loan financing rates compare favourably with most types of private education loans. However, there are many forms of subsidised or assisted financial aid for college, so it would be wise to compare mortgage loan quotes with other education loans before committing.
- **Starting a business:** Banks and finance institutes offering business loans are notorious for the number of hoops they make borrowers jump through with regards to higher rates of interest and short durations. Mortgaging a property, if available, can be more feasible in terms of the rate of interest and the repayment term. Of course, you should put together a business plan before attempting entrepreneurship; receiving a mortgage loan to start a business is likely to take much less time, because valuing a home is easier than evaluating a business.
- **For medical treatments:** With the cost of medical treatments going through the roof, even the well-insured can be hit with more than they can handle -- many treatment centres today want a significant portion of payments to be made up-front. A mortgage loan may be the best way to get top-rated care sooner for a serious condition.
- **Down payment for property investment:** Finance for the down payment of an investment property is a good option, as a boom in the property market can give good returns on the investment made at this point, while paying low interest rates.

As a general rule of thumb, the best matches for long-term financing are long-term purchases. It may be anything from a boat to a medical procedure, as long as the home owner has reasoned that the item justifies using the home as collateral. Easyfinance.in provides information on home loans, car loans, personal loans, mortgage loans, education loans, business loans, term loans & project loans in India

Some steps, which may be reduce your interest burden:

1. **Skip the honeymoon**

   Introductory or honeymoon rates have long been an important marketing tool for lenders. You are initially offered a cheap rate on your loan to get you in the door but once the honeymoon period is over, the lender will switch you to a higher variable rate of interest. Honeymoon rate applies only for the first year or second year of the loan. Normally, tenure of the home/mortgage loan will be 15 to 20 years. Let calculate yourself that, how much you are paying in reduced rate and actual rate.

That's by, don't go for home loan merely watching the attractive add given in newspaper/magazine. Make some calculations and consult the experts before going for home loan.

2. Pay it off in lesser EMI's

Always go for lessor tenure for repayment of your home/mortgage loan. It will give higher repayment amount but sure it will reduce your interest burden. For example, if take out a loan of Rs. 300,000 at 7.07% for 25 years, your repayment will be about Rs. 2,134. This equates to a total repayment of Rs. 640,126 over the term of your loan. You pay the loan out over 10 years rather than 25, your monthly payment will be Rs. 3,494 a month. But the total amount you will repay over the term of the loan will be only Rs. 419,290 – saving you a whopping Rs. 220,836!

3. Make repayments whenever surplus cash obtained.

Over the first few years of your loan, it may seem that you are only paying interest and the principal isn't reducing at all. Unfortunately, you're probably right, as this is one of the unfortunate effects of compound interest. If possible, repay the loan in whenever you get surplus amount. Normally, interest will charged on outstanding balance. If you are paying higher amount means your outstanding balance keep reducing one. So, your interest burden will reduces.

Now, most of all banks and financial institutions are not charging the interest while pre-closing the home loan, if you are repaying from your internal source.

Assume, your LIC policy of Rs. 2,00,000/- maturing next month and use such amount for repaying your home loan instead of using such money for travel or buy the consumer durable items.

4. Consolidate your debts

If you are repaying for two or more loan, bring these are all loans under the one umbrella. Normally, interest on credit card and personal loan is much higher than interest on home loan. In India, average interest on credit card is 30% to 36% per annum and interest on personal loan may vary between 20% to 30%.

Many lenders will allow you to consolidate – refinance – all of your debt under the umbrella of your home loan. This means that instead of paying 30% to 36% on your credit card and 20% to 30% on your personal loan, you can transfer these debts to your home loan and pay it off at 7.07%. .

5. Switch to a lender with a lower rate

Most of people will think that, once they borrowed, then there is no door to exit till all EMI's paid promptly. This is wrong. You can always switch in to another lender, at any time you want. Read daily newspapers/magazines and update your knowledge. Rates change, new products and changes in the market itself may allow you to reduce the interest burden. Keep on analysing the various offers given by the different lender and if you feels switch your loan to another lender. Now you need not to pay pre-closure interest to your lender.

But, before switch your loan read all the terms and conditions of new lender. Take the advice of consultant if required. Normally, most of people think that, consultant advice is nothing but waste expenditure. They will decide merely reading the newspaper articles and internet clippings. But, requirement of loan is one to one basis. Each person requirement, repay schedule is unique. Any mistake while taking mortgage/home loan will steal lacs of rupees from your pocket.

6. Forgo those minor luxuries

This is the bit you don't want to read. For the sake of your health you should quit smoking and drink less anyway. Take your lunch from home and save on bad fast food. Trust me, your body will thank you for it.

If you're still not convinced consider the following example. A typical day include a pack of smokes (Rs. 50/-), a coffee (Rs. 15/-), lunch (Rs. 75/-) and a couple of beers after work (Rs. 80/-). That's Rs. 220/- a day or Rs. 1320/- a week or Rs. 5280/- a month or Rs. 63,360/- a year. Assuming a mortgage of Rs. 300,000 at 7.07% over 25 years, by making Rs. 5,280/- in extra repayments each month, you will save in interest and loan will payable very sooner.

7. Use your surplus to repayment

The amount kept as a fixed deposit in the banks for securing your future will reduce your interest burden effectively. Instead of earning interest, any money you have as a fixed deposit works to reduce the interest you are paying on your home loan. For example you may have a mortgage of Rs. 300,000/- at 12% and an fixed deposit of Rs. 50,000/- in it earning 8%. This means that Rs. 250,000 of your loan is accruing interest at 12% but the rest is accruing interest at just over 4% (12% on your loan less the 8% the Rs. 50,000/- in your fixed deposit is earning). Instead of paying 4% you can pay Rs. 50,000/- to lender and save 12% interest. Imaging home much you can save!

8. Pay all your mortgage fees and processing charges of loan up front

Normally, lender will charge some percentage on loan amount as a processing fee. Some lenders allow you to add the amount you borrow instead of coming up with cash for your upfront costs. While this can seem a blessing try to avoid doing this. Consider the following example:

Borrower A borrows Rs. 300,000 over 25 years at 7.07%. Her processing charges 3% on loan amount i.e., Rs. 9,000 and she able to pay in advance. Her total repayment over 25 years will be Rs. 640,200. Borrower B takes out the same loan but doesn't have enough cash to cover the upfront costs. So he borrows Rs. 309,000, at the same rate. Her total repayment over 25 years will be Rs. 659,400. So, now you decide yourself if, Rs. 19,200 remains with your pocket, what could you buy?

9. Shop around and make sure your lender knows it

One of the most powerful tools you can have in the search for the best home loan is information. Make sure you have rung half a dozen lenders and brokers (as well done some internet research) before you start talking to your preferred lender about getting a new loan or refinancing your existing loan. Make sure you know what rates and features are offered by each of your lender's competitors on comparable products. Don't hesitate to tell the lender what you are looking for and don't be afraid to ask for extras. If they want your business, and you know what you are talking about, they may be prepared to work that little bit harder to get your business. Don't be afraid to walk out if you aren't getting the best possible deal you can.

You can bargain the interest rate also. Ask your lender to charge lesser rate of interest instead of charging standard one. Normally people will prefer to borrow with private sector bankers. Because, they ask less documents. People don't like nationalised banks, because their lending process is lengthy one. They ask too many documents. But, do you aware that, nationalised banks will charge lower rate of interest compare to private sector lenders.

10. Choose the loan that suits your needs

Choosing a loan is about knowing what you want. Draw up a table of potential home loans and rank them. Make a list of all the features that are important to you and rank them according to importance. Give each feature a score out of 5 – one for unimportant right through 5 for indispensable.

Use this technique for ranking the loans on offer and pretty soon you'll see the one that's right for you. Remember, different loans have different purposes so you need to match a loan to your need. Taking out an interest only loan suitable for investors if you are planning to live in the house is just foolish.

Ditching the features you don't need can save you up to 1% on the interest rate of your loan. Over 25 years that's a whole lot of money you've just saved yourself.

11. Don't depend 100% on your rental income to repay your home loan

Most of people think, while taking a home loan, repayment by using the rental income instead of their own funds. For example, borrower A plans like, building value is Rs. One crore. Banker ready to lend 85% of building value at the rate of 10% for total repayment schedule of 20 years. Then, monthly EMI will be Rs. 96,502/- if let-out the building after construction or purchased from builder, monthly rental income may be Rs. 70,000/- remaining portion, I need to pay from my pocket. Every year 10% to 15% increment in the rental income. After 4 to 5 years, I need not pay from my pocket. Rental income is sufficient to repay the home loan, etc.

Most of borrowers plans like this, and face a problem after 2 or 3 years. Sometimes home remains as vacant and no rental income during such period. But, borrower should pay regular EMI's without any fault. Otherwise huge penalty, late payment charges, cheque return charges, etc. Please remember, if your income sufficient to repay at least 60% to 70% of you loan EMI, go for home loan. Remaining 30% to 40% you can pay by using your rental income. .

12. Find out if your profession will get you a discount

Some lenders offer discounts to specific professional groups or members of professional organizations. Ask your lender if your occupation qualifies you for any discount. You might be pleasantly surprised.