

ICICI BANK CUSTOMER FIRST SERIES

Home Loan Series I: Article 6 of 7

TIMES BUSINESS ASSOCIATE COMMUNICATION

A consumer education initiative

'PROPER' TY LOANS

Atit and Jagruti had reasons to be pleased with themselves. The house they had bought in 1997 had now appreciated significantly, more than doubling in value. The house was their first large investment and it seems to have been the right one, at the right time. And now, Jagruti decided to begin a business of her own. She had been toying with the idea of a boutique for a long time, and the availability of a shop-space for sale in her locality tempted her to make her move. But how would they find the money? And could they afford to pay another loan, when they had only recently repaid the earlier one? When they went to check with their banker, they were in for a pleasant surprise.

■ ■ ■ HOME EQUITY

Atit and Jagruti had paid off their earlier home loan and now the property was theirs. They can now unlock the value of this property and borrow against the house for meeting Jagruti's business needs. Offering an immovable asset, like a house or office, as security for the purpose of taking a loan is called mortgage. Banks tend to offer up to 60% of the home equity as loan.

■ ■ ■ INTEREST RATE

Home equity is the value that is locked into a house. It can be unlocked for weddings in the family, children's education and business, as such needs arise. The loan that the bank will give Jagruti is secured by the value of the house. Therefore the interest rate will be lower than what she can get for a personal loan, or a loan against her credit card.

■ ■ ■ END USE

A home loan has to be used for purchasing or renovating a house. However, a home equity loan can be used for any purpose the borrower may have, as long as it is legal and not for speculative purposes. Atit thought that it would be a good idea to pay off the high-cost personal loans and credit-card dues and consolidate all the borrowings into the home equity loan.

■ ■ ■ TAX BENEFIT

Tax benefits are available to Jagruti only on a home loan, or any loan that she takes to renovate, repair or remodel her house. If she takes a home equity loan, it is used

for other purposes and therefore not eligible for any special tax benefits.

■ ■ ■ REPAYMENT AND TERM

The repayment of a home equity loan can be made in EMIs. Home equity loans are usually given for 10-15 years, depending on the bank and the repaying ability of the borrower.

■ ■ ■ TOP-UP

Jagruti can take a loan against her house, depending on her needs. If the value of the property further appreciates and she needs money

after few years, she can seek a top-up loan depending on the equity that her house has acquired in that period. The equity of the house will be determined as the value of the house, less loans pending against it.

Jagruti is happy to have discovered that she could live in her dream house and also pursue the business she always wanted to run. Would you like to take a look at your home equity and consider a cheaper source of borrowing for your needs?

Centre for Investment Education and Learning



FAQS

Is it possible to club all the assets, such as gold, house, and equity shares and get a loan against them?

No, The risk in the value of each of these assets is different. So banks will give loans against each of these on separate terms. The interest rate, tenure and amount of loan will differ, depending on the type of security being offered for the loan.

Is a home equity loan available only for residential property?

No, A loan against property can be availed for both residential and commercial properties. The rate and loan amount, however, may vary.

Why is the interest rate on a home equity loan, lower than that on a personal loan?

A personal loan is not secured by any asset. It is therefore more risky for the lender. A home equity loan is secured by the house, and therefore less risky, and features a lower interest rate.

We welcome your suggestions and feedback on this column. Please use the 'Email Us' link at www.icicibank.com or send <CF your comments> as an SMS to 53030.

DID YOU KNOW ?

If you take an insurance cover for your loan against property, your family is not burdened with the EMIs, in the face of an unforeseen event. Most banks offer such insurance.



A few years ago, it was an immovable property. But a seed below it grew into a tree and now my house has become a movable property!

GET SET KNOW

CONTEST

Question
Select the incorrect option. A loan against property can be taken _____.

Answer
A. for children's education
B. to invest in stocks
C. for marriage expenses

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