Finance (PUN010)

Home Loan: A borrower does not have to pay a penalty on pre-payment after the Reserve Bank of India in 2013 directed financial institutions to waive charges for loans taken on floating rate of interest. However, banks still charge a penalty on transfer if you have taken a home loan on a fixed rate of interest. The answer is no. Banks generally offer only 80 per cent of the total worth of the property as loan. Further, the amount you could borrow from the bank is decided only after banks carry out a technical valuation of the property. If you are asking for a loan of Rs 30 lakh while it is worth only Rs 25 lakh according to the bank's estimates, it would offer you only Rs 20 lakh as loan. A lot would also depend on your income while deciding your eligibility. You can simultaneously apply for other loans, including car loans and personal loans, while you are re-paying a home loan. However, banks will thoroughly examine your repayment capability before issuing you a loan. In the end, it all boils down to your income. Banks charge a late-payment fee upon each such occurrence. In case of an unfortunate event, owing to which you are not able to repay your loan, the bank will have the right to take possession of the property and auction it to recover losses. Due to the Coronavirus outbreak, however, banks are currently offering a three-month moratorium on home and other loans. For this period, a borrower does not have to pay the EMI. He would not incur any penalty over non-payment during the moratorium period. There would also not be any adverse impact on the borrower's credit history, because of the non-payment.

You can change your lender multiple times; in case it helps you reduce your loan burden. However, too much shifting is not advisable as it sends across a wrong impression. Also, kept in mind must be the fact that banks charge a free on loan transfers. Your age and your income are the primary criteria for the bank to decide your credit eligibility. For instance, a bank would be more willing to a younger person, earning a stable monthly salary. Such profiles have lower risk exposure. Banks do not allow co-borrowing among friends. It is only a family member who can be your co-applicant in your home loan application. Even between family and relatives, banks have reservations in granting loans. For instance, a married woman would find it difficult to avail of a home loan with her unmarried sibling a co-applicant. Banks generally prefer lending to spouses as co-borrowers. It is only through online channels or through cheques that scheduled banks allow you to repay your loan. However, there have been instances where banks have recovered outstanding dues in cash. In broad terms, the best bank to borrow a home loan is the one that offers you the cheapest interest rate-- you could get home loans at as less as 8 per cent interest currently. However, it is after doing rounds of calculations that you would be able to find out which bank is best-suited for your individual requirements. Some banks charge a substantial amount as processing fee and other such charges. Public lender SBI, for instance, charges no processing fee on home loans. Now, even if they offer you slightly cheaper loans, charges such as these may jack up the loan cost for you.

Co-signer: A co-signer agrees to take responsibility for repaying a loan if the primary borrower misses a payment. The co-signer typically has better credit or a higher income than the primary borrower, who might otherwise not get a loan application approved without the help of a co-signer. If a young person without established credit wants a personal loan to start a business, for example, the bank might decide that granting the loan is too risky unless someone with better credit agrees to share legal responsibility for repayment. A parent with good credit might agree to co-sign even though they don’t need the loan, with the understanding that their child will pay it back.co-signers typically have a close relationship with the primary borrower. A co-signer is typically a parent, immediate family member or spouse. A co-signer is a guarantor for the primary borrower.co-signers promise to assume responsibility for repayment if the primary borrower doesn’t pay as required; otherwise, payments are the responsibility of the primary borrower. Like co-borrower’s co-signers take on financial risk.co-signers are responsible by law for paying the outstanding debt that the primary borrower fails to pay. With a co-signer, you won’t have to put up collateral or accept responsibility for regular payments. Also, if you make on-time payments as the primary borrower, you may boost your credit score. On the flip side, if you default, the co-signer will be on the hook for payments. Plus, they won’t be able to use the loan funds and might have difficulty getting approved for other loans.

Co-borrowers: A co-borrower, sometimes called a co-applicant, is a person who shares liability for repaying a loan with another person. Applying for a loan with a co-borrower reassures the lender that multiple sources of income can go toward repayment. For example, if two people start a business together, they might take out a personal loan as co-borrowers and work on paying it back together. Both directly benefit from borrowing and enter the transaction knowing that they’ll each be making payments. Applicants with co-borrowers are more likely to receive larger loan amounts, as they represent less risk to lenders. If you go with a co-borrower, they’ll benefit from the loan directly. You may also qualify for lower rates and higher amounts, especially if you both have good credit. The downfall, however, is that you have a shared responsibility for making payments. Additionally, you may need collateral and notice a dip in your credit score as a result of late payments.

Personal Loan: Most lenders specify the eligibility criteria that you will need to meet for your loan application to be approved on their respective websites. You can also use the personal loan eligibility calculator tool. The maximum sum of money that you will be able to borrow from a bank will vary based on a number of factors. If you are a salaried employee, your monthly EMI should ideally not exceed 30% of your monthly pay. Also, the bank/NBFC will take into account if you have any existing loans for which you pay EMIs. Individuals who are self-employed will be offered a loan amount as per the profits that are earned through their business. The concerned individual's other financial liabilities will also be taken into account. The maximum loan amount offered will also depend on the lender's own terms and conditions. Yes, applying for a personal loan online saves you a considerable amount of time and effort, given that you can do it from the comfort of your house. Certain third-party financial services websites like BankBazaar.com also offer paperless approval, wherein you will not be required to submit any paperwork to the lender for your loan to be approved. The application process is also completely secure. Most banks/financial institutions allow borrowers to choose a loan tenure between 1 year and 5 years, based on their convenience.
While the exact documents required vary from lender to lender, listed below are a few general documents that most banks/financial institutions usually require applicants to submit:

- Proof of identity
- Address proof
- Proof of income
- Proof of business (applicable only for self-employed individuals)
- Any other documents requested by the lender
- **Interest Rates**: The interest rate charged for a personal loan can go from as low as 10% p.a. to as high as 24% p.a. based on the lender's terms and conditions and your credit score. The interest rate makes a substantial difference to the cumulative cost of the loan.
- **Repayment Flexibility**: Make sure to check if the lender allows part-payments or pre-payments and if there is any penalty levied for making the payment.
- **Processing Fee**: Even if you are offered a low interest rate, a high processing fee could bump up the cost of your loan.
- **Customer Service**: Ensure that the lender has sufficient customer care channels for you to reach them on.

Your loan provider should also answer your queries in a prompt manner. You can reduce the EMI for a personal loan by improving/maintaining a credit score over 750. If you have a good relationship with the bank, you can negotiate for a better interest rate or a relationship discount. Certain lenders may allow you to pre-pay the loan amount, based on their respective terms and conditions. It is likely that you will be charged a pre-payment fee. Thus, if you intend to pre-pay your loan during the loan tenure, make sure to check if your lender allows this. If you have a good credit score, the chances of you being offered the loan at a low interest rate are quite high. Your credit score indicates your creditworthiness and your repayment ability. If you are looking to apply for a personal loan, it is advisable to maintain a credit score that is over 750. Individuals with a very low credit score may be denied a loan altogether, while those with a moderate credit score may be offered a personal loan, but at a high interest rate. If you are a pre-approved customer, the loan amount will be disbursed to your account quickly. If you are applying through offline channels, you will need to submit the required documents and wait for your loan request to be approved, post which you will receive the loan amount. If you apply through third-party financial services websites like BankBazaar.com, your loan amount will be disbursed in a timely manner once your application is approved. As mentioned earlier, it is important to do your research before applying for a personal loan. It is advisable to use a third-party aggregator website like BankBazaar.com to compare loans offered by different banks and financial institutions. You can, thus, check and compare the interest rate charged, processing fee charged, loan amount offered, etc., by different lenders and make a decision accordingly.

Collateral: Collateral refers to a valuable asset that the borrower agrees to liquidate the asset for loan repayment if the borrower cannot maintain the loan payments further. Thus, the amount of loan will be usually less than the assessed value of the collateral. In practice, bank loans can be classified as unsecured loans and secured loans. Unsecured loans refer to all types of credit that the lender will not require any collateral. The loan's approval decision is declared according to the borrower's historical credit worthiness. Usually, the credit report plays an import role in granting an unsecured loan. However, a lender will require a collateral associated with a large loan to protect against the potential collection loss in the future. If the value of asset exceeds the loan amount significantly, the lender is ensured to recover the initial loan principal and interest charge. In this case, the lender will lower the interest rate as less risk is expected. If the quality of a collateral decreases during the term of loan, the lender might raise the interest rate to collect more money from the borrower. In conclusion, it is obvious that the liquidated value of the collateral indicates whether the lender can recover the initial principal. If this value is maintained consistently, the lender will reduce the interest rate on the loan and vice versa.

Credit Score: Generally speaking, a credit score is a three-digit number ranging from 300 to 850. Credit scores are calculated using information in your credit report, including your payment history; the amount of debt you have; and the length of your credit history. There are many different scoring models, and some use other data in calculating credit scores. Credit scores are used by potential lenders and creditors, such as banks, credit card companies or car dealerships, as one factor when deciding whether to offer you credit, like a loan or credit card. It's one factor among many to help them determine how likely you are to pay back money they lend. It's important to remember that everyone's financial and credit situation is different, and there's no "magic number" that may guarantee better loan rates and terms. Although ranges vary depending on the credit scoring model, generally credit scores from 580 to 669 are considered fair; 670 to 739 are considered good; 740 to 799 are considered very good; and 800 and up are considered excellent. Higher credit scores mean you have demonstrated responsible credit behaviour in the past, which may make potential lenders and creditors more confident when evaluating a request for credit. Lenders generally see those with credit scores 670 and up as acceptable or lower-risk borrowers. Those with credit scores from 580 to 669 are generally seen as "subprime borrowers," meaning they may find it more difficult to qualify for better loan terms. Those with lower scores – under 580 – generally fall into the "poor" credit range and may have difficulty getting credit or qualifying for better loan terms. Different lenders have different criteria when it comes to granting credit, which may include information such as your income or other factors. That means the credit scores they accept may vary depending on that criteria. Credit scores may differ between the three major credit bureaus (Equifax, Experian and TransUnion) as not all creditors and lenders report to all three. Many creditors do report to all three, but you may have an account with a creditor that only reports to one, two or none at all. In addition, there are many different scoring models available, and those scoring models may differ depending on the type of loan and lenders' preference for certain criteria.

Car Loan: The first and foremost question that you should ask regarding a car loan should be the interest rate that the bank would charge you on your loan. There are many banks that offer car loans at low interest rates. Generally, borrowers having existing relationship with a bank get loans at relatively lower interest rates. Some banks offer loans at rates as less as 9.5% per annum. It is always advisable to pay around 20% of your car price on your own and get the remaining amount financed by the bank. However, many banks offer loans up to 100% of the ex-showroom price of the car. Applicants should try to follow the 20% rule under which they should not take a loan which would eat up more than 20% of their monthly income in EMIs. Paying a higher EMI amount every month can put a strain on your finances. Even if the interest rate is low, some lenders charge borrowers heavily for processing, documentation, prepayment, foreclosure, late charges, default in payment, etc. This increases the overall amount paid for the car. The borrower should check the final amount that he will have to pay over the period by using the car loan EMI calculator. You should check various aspects such as the principal loan amount and tenure to get the lowest interest and save on your final car amount. Applicants should understand that their car loan would stay with them for some time and they will have to pay a regular amount in EMI every month for years. Smart financial planning is the key here. Applicants should not agree to the higher EMI amount which may put an immense financial pressure on their daily budget in order to keep the tenure on the lower side and save on interests. They should also refrain from choosing the longest tenure as it will increase the interest payable on the loan amount. A balanced EMI with a sensible tenure that does not put excessive pressure on earnings should be chosen. part from the interest amount, a borrower has to pay a number of charges and fee on the car loan. You should always ask about the charges and fee applicable on the loan both at the time of sanctioning the loan and while paying off the debt. Some of the most common charges and fee levied on the customer are loan processing fee, documentation charges, credit report charges, registration certificate collection charges, stamp duty, part prepayment charges, foreclosure charges, late payment charges, amortisation schedule charges, loan cancellation charges, swap charges, bounce charges, etc. You should compare additional fee and charges of various banks before choosing your lender. You should always choose a bank that charges you the minimum in such events. Many banks do not levy foreclosure charges after two years of the sanctioning of the loan. Those banks should be given a preference which levy low or no foreclosure charges. In order to get the loan sanctioned, an applicant should provide a range of documents to show the bank that he has the ability to repay back the loan amount. Even though the applicant's credit score illustrates his creditworthiness, banks need more assurance and proof from the borrower that he is financially healthy enough to pay off his debts quite easily. To prove it, he has to provide following documents:

- KYC documents for identity proof, address proof and age proof.
- Bank statement
- Income proof such as Form 16 or latest salary slip, income tax return with complete audit report of the last two financial years, etc.
- Business stability proof/ownership proof
- Employment stability proof
- Partnership deeds

A person who keeps all these documents handy at the time of applying for the loan gets his loan sanctioned and amount disbursed in very less time.

Loan Against Property: A personal loan against property can be used for a variety of purposes. If you are a salaried individual, you can utilize the funds for a mortgage buyout or balance transfer of an existing loan, new investments, education or marriage-related expenses, and even for the consolidation of debt. The loan against property eligibility is ascertained on the basis of age, income, existing obligations (if any), track record, the market value of the property, and the stability or continuity of the business or employment. If you are a salaried individual, you will need to provide income proof and ITR. The property should be free of litigation, have no existing mortgage or loan, and should have a clear title. If there is more than one owner for the property, all the co-owners will be taken as co-applicants for the borrowing. Also, you should furnish proof of insurance as and when required. The EMI essentially consists of the principal amount and interest. The EMI amount will depend on the amount borrowed, tenure, and rate of interest. Further, you can reduce your EMIs with partial prepayment. FinServ MARKETS offers Loan Against Property with repayment tenures that range from 2 – 20 years. First, you will need to provide eligibility-related and other documentation. The lender will assess your creditworthiness on the basis of your age, income, employment status or type of business, bank statements, and CIBIL report. Next, the lender will issue a loan sanction letter with terms and conditions on the borrowing. If you choose to accept the terms, the loan will be disbursed after a thorough assessment of your property documentation and any other relevant material provided. The amortization schedule is a table that highlights the break-up of EMIs and the impact on interest repayment and the outstanding principal amount. If the interest rate increases, there is a direct impact on the interest component of the EMI. Even though the EMI remains the same, the principal amount reduces. In case the rates continue to increase, the interest component could become more than the EMI itself- leading to a negative principal component. The outstanding amount increases with this negative principal amount. This is called negative amortization. If your loan comes with floating interest, the interest component can be impacted. In the case of a change in interest rates, the tenure for the loan can be increased or reduced, or the EMI amount can be reset. The property dossier provided by FinServ MARKETS is an industry-first customized report to help you understand the legal and technical parts of owning real estate. It also includes information and tips and elaborates on macro factors such as the property index of the city. You can obtain a LAP with a self-occupied residential, rented residential or commercial, vacant residential or commercial or shared property. Plots, industrial property, illegal property, property outside the city or municipal limits, property with structural flaws, a property built on agricultural or farmland, property with existing mortgages, property with tenants for over five years and no renewed rent agreement, schools, under construction property (except NRP transaction), residential property utilized for commercial purpose without authorization, and hotels are among properties that are not eligible for LAP. A competitive policy could offer flexible tenure and other facilities to increase the convenience of accessing and repaying a loan against property. FinServ MARKETS offers flexible tenure between 2 and 20 years, a part-payment facility at a minimal cost, and a balance transfer and top-up option.

<u>Working Capital:</u> Working capital represents the operating liquidity available to a business organization. Working capital may mean. The working capital cycle measures the amount of time that elapses between the moment when the organization. Factors affecting working capital requirement. Fixed working capital is that portion of the total capital that is required to be maintained in the business. Spontaneous source of financing variable working arises in the normal course of business operations. Commercial papers are an unsecured promissory note issued at a discount with a fixed maturity of 1-270 days. Inter Corporate Deposits indicates unsecured short-term funding raised by one company from another company. Nature of a commercial paper - It can be issued for the maturity period of 7 days to 1 year. Every company issuing the CP should appoint a scheduled bank as the issuing and paying agent. Working capital assistance is provided by the bank in order to bridge the gap between current assets and current liabilities. A bank can disburse the amount of assistance in any of the following forms. Non fund-based lending, where the lending bank does not commit any physical outflow of funds. Bank Guarantee is a non-fund-based lending given by the bank to ensure that the liabilities of a debtor will be met. Letter of Credit is a non-fund-based lending which is very regularly found in international trade. Different types of Letter of Credit: 1) Revocable Letter of Credit 2) Irrevocable Letter of Credit Fund based lending, where the lending bank commits the physical outflow of funds. a.) Loan b.) Over draft c.) Cash credit d.) Bills Purchased/ discounted e.) WC Term loans f.) Packing credit

<u>Overdraft Facility:</u> Overdrafts are linked to your current account and are to be used to manage short term cash flows. Personal loans are designed for specific purchases or projects and are available over a much longer period. Once the overdraft limit is applied to your current account, you may access funds in the same way you access funds normally: • through the ATM with your existing card • by using your cheque book • by setting direct debits and standing instructions • through Internet Banking • over the counter in our branches. Since the overdraft limit is designed to help manage temporary cash flow problems, the overdraft should be repaid each month. However, the overdraft limit can be reused thereafter. Unless specified otherwise, the overdraft facility is assessed for renewal on an annual basis. If your limit will not be renewed, we shall inform you one month prior to the expiry. You will need to ensure that any balances due to the bank has been repaid. a Mauritian citizen over 18 years and hold a current account can apply for overdraft facility. As a general rule, the overdraft facility should not exceed the equivalent of your 1 month's salary for Asset Vantage customers. For others, a cash collateral may be required.

Triger Points:

- The consumer's assets are not an essential piece of the Good Faith Estimate. A Good Faith Estimate (Loan Estimate) must be provided to the consumer no later than three business days after the receipt of an application. An application is considered received when the consumer provides the following information: consumer's name, consumer's income, consumer's social security number to obtain a credit report, address of the property, estimate of the value of the property, and the mortgage loan amount sought.
- Real Estate Settlement Procedures Act (RESPA) typically applies to any loan that is secured by a first or second lien on a residential property. The property may be one to four units, and the proceeds are used to purchase or pay off an existing lien. Temporary loans (such as a construction loan) and business loans do not fall in this category and are therefore exempt.
- Homeowners association dues are not collected into the escrow account and are not a part of the monthly mortgage payment. The initial statement will have an itemization of the taxes, insurance, and mortgage insurance (if applicable) being placed into the escrow account. It will also have a schedule of anticipated disbursements for the next 12 months.
- On a mortgage application, an adverse action is a negative action reported to a consumer regarding the denial of the credit application. If a complete or incomplete application has an adverse action taken, a notice must be issued. If a counteroffer is issued and is rejected, a notice must be issued as well. Accepted counteroffers, withdrawn applications, and applications that do not involve credit do not require an adverse action notice to be issued.
- Because an individual's immigration status can affect his or her ability to repay a loan, immigration status can be considered when reviewing the application. Income and credit history also are factors in determining whether to extend credit. A borrower's race, sex, religion, national origin, marital status, and childbearing should not be considered when evaluating an application.
- Educational military benefits will not continue after the borrower has finished his or her education and therefore cannot be considered a source of income. As long as an income source can be determined to be consistent and continue for a sufficient amount of time, it can be considered a source of income.
- The right of rescission applies only to a refinance of a principal residence. This law is covered under the Truth and Lending Act. It allows a consumer to cancel a transaction within 3 days after a loan closing. It is applicable regardless if the property has one to four units.
- According to 12 CFR 1026-TRUTH-IN-LENDING ACT (TILA-REG Z), the definition of a finance charge is "the cost of consumer credit as a dollar amount. It includes any charge payable directly or indirectly by the consumer and imposed directly or indirectly by the creditor as an incident to or a condition of the extension of credit.
- A majority of home mortgages are required to be covered by HOEPA. This includes owner-occupied, second home, and investment properties. HELOCS also requires HÓEPA coverage. Construction loans that finance the initial construction do not require coverage. Loans directly originated by the Housing Finance Agency and the US Department of Agriculture's 502 Direct Loan program do not require HOEPA coverage.
- A change of circumstance includes emergencies, disasters, war, and acts of God. It also includes Information that was disclosed on a Good Faith Estimate that is found to be incorrect. This may include the loan amount, fees, and the interest rate. Boundary disputes, the discovery that a property is located in a flood zone, or environmental issues can also be considered a change of circumstance. A borrower's income, assets, or spelling of the name do not require a change of circumstance. In addition, information that was collected from the credit report prior to the Good Faith Estimate being issued is not a change of circumstance.
- A lender must ensure that a loan estimate is delivered (including electronic delivery) to a borrower or placed in the mail to the borrower no later than the third business day after receipt of the borrower's application. Also, it should not be issued less than 7 days before the loan closing. Failure to follow this regulation can result in the lender paying for some of the borrower's loan fees.
- The Truth and Lending Act does not tell a lender whether to grant a loan to a borrower or how much interest it can charge. According to the CFBP "The Truth in Lending Act (TILA) is intended to ensure that credit terms are disclosed in a meaningful way so consumers can compare credit terms more readily and knowledgeably. Before its enactment, consumers were faced with a bewildering array of credit terms and rates. It was difficult to compare loans because they were seldom presented in the same format. Now, all creditors must use the same credit terminology and expressions of rates.

- A lender is required to send a copy of a consumer's appraisal 3 days before the loan closes. They should also send it as soon as possible after they receive the report. All consumers have a right to receive a free copy of the appraisal report.
- A social security number must be provided on a mortgage application so that a credit report can be ordered. According to the Home Mortgage Disclosure Act an applicant does not need to provide information regarding race, sex or ethnicity. If an application is taken in person, this information may be input based on a visual observation and surname. If the application is taken over the phone, by mail, or on the internet, the data does not need to be provided.
- Fraud alerts do not pertain to those who commit fraud but to victims of fraud. According to the Fair Reporting Credit Act a fraud alert "notifies all prospective users of a consumer report relating to the consumer that the consumer may be a victim of fraud, including identity theft, or is an active duty military consumer, as applicable." A lender must verify additional information pertaining to the borrower if a fraud alert is triggered. They may ask for additional identification or ask the consumer specific information regarding their credit history.
- A bankruptcy will typically remain on a consumer report for 10 years from the discharge date. Paid tax liens, collections, judgments, charge offs, and any conviction of a crime should not be included on the report. Delinquent student loan debt in some case can remain on a report for longer than 7 years.
- A suspicious activity report (SAR) must be filed no later than 30 calendar days after the detection of a suspicious activity. Some examples of suspicious activity could be large and irregular cash deposits. irregular incoming wires, and hacking into a financial institution's server. This report primarily pertains to acts of money laundering and fraud. The report is filed with the Financial Crimes Enforcement Network. Financial institutions and their employees are not allowed to notify those individuals accused of the suspicious activity.
- A residence that has not opted to be on the do-not call list may not be contacted before 8 a.m. or after 9 p.m. This includes the delivery of pre-recorded information as well. If a consumer gives permission to be called outside of these hours, it is not a violation by the telemarketer to do so. Also, if a call is made in error or the telemarketer has a personal relationship with the consumer, it is not a violation of the regulation.
- A consumer will remain on the national do-not call list indefinitely or until he or she requests that his or her name be removed from the list. If a solicitor contacts a consumer, and the consumer requests his or her name to be removed from the solicitor's call list, the solicitor must document that they have removed the consumer's name and phone number from the list. A solicitor must also have their written policy on hand regarding how they maintain their do-not call list.
- A consumer must properly consent to receive electronic records. He or she must be provided with information regarding the rights to receive the same information in a paper form as well. He or she must also be given information that clarifies that the electronic record being provided only pertains to the specific transaction and that they can withdraw consent at any time. In addition, a consumer must be notified of the specific hardware or software that may be needed to receive electronic disclosures.
- The Financial Crimes Enforcement Network website states the following regarding the Patriot Act: "The purpose of the USA PATRIOT Act is to deter and punish terrorist acts in the United States and around the world, to enhance law enforcement investigatory tools, and other purposes." Some of the other purposes include financial services providers to report potential money laundering and to help retrieve stolen assets.
- There is not a requirement that a borrower's credit be checked when requesting the removal of private mortgage insurance (PMI). A written request must be provided to the servicer to remove the insurance. There must be a good payment history, and the borrower must be current. Also, the requirements that were set up at the time of origination must be met. For example, there must be some type of evidence that the property value has not decreased below the value at the time the loan was originated. Typically, the loan amount must be 80% of the value of the property. PMI can be cancelled only on conventional loans.
- According to regulation N, records of any advertising done regarding a mortgage product must be kept for 24 months. This includes copies of the actual material and/or records that provide evidence of the material that was presented. The specific names and details of each mortgage product advertised must also be a part of this record.

Thank You…