ADVISORY FOR AVAILING HOUSE BUILDING LOAN
INTRODUCTION

1. Air Force Naval Housing Board is a welfare organisation catering to the housing needs of serving/retired personnel and families of Indian Air Force and Indian Navy. This is a 'No Profit No Loss' Organisation established to provide housing to the entitled personnel at the most affordable cost. Owning a house involves thorough financial planning and in depth analysis. In order to ensure maximum benefit to the allottees with optimum and best utilisation of available resources, few tips/suggestions are mentioned in the succeeding paragraphs.

PRIORITISING FACTOR

2. Prior to venturing into purchase of a house, one has to analyse the following parameters:

(a) **Requirement** : Each individual has varied requirement of owning a DU. Necessity of owning a DU stems out of various major factors like number of family members, whether already owning a DU, geographic location, investment needs, availability of required facilities in the vicinity, settling down options, current commitments, and future needs. These governing factors are to be kept in mind while assessing the requirement of owning a DU. The factors listed above are only indicative and not exhaustive.

(b) **Capability**: This necessarily implies financial affordability. In order to assess financial capability, one must have budgetary plans. In simplest terms, budget is **an estimate of income and expenditure for a set period of time**. The allottee must budget for a period of 06 years being average gestation period of a residential project from conceptualisation till its completion. As a start, one must have at least sufficient savings to pay 20% - 30% of the cost of the house, saving every month from the very beginning in order to keep the financial burden at the minimum in future.

LOAN OPTIONS

3. After catering for the capital requirement, while entering the market for loan options, the following aspects should be considered:

(a) Monthly cash flow should be reviewed, as the thumb rule, one must be able to take home at least 60% of the net monthly income after taxes,this means that 40% of monthly income should only be considered to pay EMI for loans. In case any existing loan is outstanding then paying capacity of the fresh loan (EMI) should be considered at 40% of monthly net earning less EMI of existing loan.

(b) There must be a minimum saving of individual to pay off the first two instalments minimum of 20-30% of the project cost rather than going for HBL at first instance.

(c) The third choice one has to make is tenure of the loan. This varies from person to person with their paying capacity in future to finance/repay the EMI. It may range from 15 to 20 years generally.

(d) Selection of loaning Agency of compensation of rate of interest etc.: The various agencies use different accounting norms and the best method to compare is the EMI per lakh of loan rather than comparing the rate of interest. The loans from AFGIS & NGIF are also available and can be transferred to a bank on reti rement.

4. **Right time to avail loan** : The aim of availing loan at one hand is to save on the opportunity cost of the money by partly financing the cost of DU, and on the other hand to reduce the burden of paying the total amount out of own savings and also availing Income tax benefits. In today's competitive world where plethora of loaning

agencies is available, it becomes very difficult to choose the right loan scheme. One must choose a loan with long tenure so as to have a fairly comfortable EMI. Over a period of time with the increase in monthly income, the effect of the EMIs gradually reduces and at one stage the pinch is hardly felt.

5. There are various tax benefits available in respect of home loan under the Income Tax Act. Home loan has two components and both these entitle the individual to avail tax benefits, but not without certain conditions. The components are:

(a) Principal amount.

(b) Interest payable based on rate of interest and tenure of loan.

INCOME TAX PROVISIONS

6. **Deduction under Section 80 C for Principal amount** : In accordance with section 80 C of IT Act, an Individual can claim principal repayment component of a Housing loan along with other eligible items like Life Insurance Premium, NSCs, EPF, ELSS and stamp duty and registration charges etc. The overall deduction under this section is restricted to **Rs. 1.50 Lacs in a year**. This rebate can only be claimed on principal repayment if the loan is availed from authorized FI / Banks.

7. In case the acquired house where home loan is obtained is sold , within five years from the possession of the house was taken, all the deduction allowed for Principal repayment (under section 80-C) in earlier years shall be withdrawn. This shall be treated as income of the year in which this property is sold. Also deduction under Section 80 C shall not be allowed for principal repayment made during the year when property sold.

8. **Implication:** To avail the best benefit the contribution to DSOP etc. can be reduced if required to assist in EMI repayment. This can help in ensuring that the carry home salary is not effected or its effects is reduced. (DSOP interest rate is 8% and following loan is 10.15 hence by increasing EMI amount & reducing DSOP brings in relief of 2.15%)

9. **Deduction under Section 24(b) for Interest payment :** In addition to deduction for Principal, Section 24(b) of the IT Act allows deduction for interest payable on loan taken to buy or construct a house property, or even for repair or reconstruction of an existing property. This benefit is available for residential and commercial property as well. It may be interesting to note that even processing fee paid in respect of home loan shall also be treated as interest so you can claim deduction in respect of processing fee paid for taking such loan. Even in cases where loan is prepaid the individual is also entitled to claim the amount of any prepayment fee paid to the bank.

10. For under construction property, one can only claim the interest deduction from the year construction is completed and possession taken. However in respect of interest paid for the period prior to the year for taking possession, you can claim aggregate of such interest in five equal installments from the year in which construction is completed. There is no reversal of interest benefit even if you sell the house before five years as is applicable for repayment benefits wrt to the capital element.

11. **Deduction under Section 80EE for the current year:** For this financial year an additional deduction of Rs. 2 Lacs for interest is available under Section 80EE. This deduction can only be claimed if the loan amount is not more than Rs. 25 lacs and the value of house does not exceed Rs. 40 lacs. However, the

individual should not own any other house. Here the loan should have been sanctioned during 1st April 2013 to 31st March 2014. This deduction has only limited benefit in respect of self occupied residential house property purchased with loan sanction and disbursed during financial year 2013-2014 as you are entitled to claim full interest benefit in respect of let out property.

TO DERIVE THE MAXIMUM BENEFIT OF SUCH TAX BENEFITS HOME LOAN SHOULD BE CAREFULLY AVAILED KEEPING IN VIEW THE PROJECT LIFE CYCLE.

12. The right time to avail a loan is not immediately on commencement of construction. To draw the maximum benefits as mentioned above are should bring in the loan element as late as possible.

LIFE CYCLE OF A HOUSING PROJECT

13. Life cycle of any project involves various stages:

(a) **Conceptual stage**. This stage involves visualising the geographical location of the project and the demands in various locations. During this stage, census is carried out and based on the results of the same, the cities/towns are short listed. This process generally takes about 6-12 months.

(b) **Procurement of land**. This comprises of assessing extent of land required, verifying the legal documents, purchasing the suitable land, accurate demarcation and registration the land. Further, in few cases the land may have to be converted for usage of residential purposes. Post allotment of land (in case of Govt. Land) and finalisation of land (in case of pvt. Land) and after requisite conversions are made, the time frame involved for other activities is 6-9 months.

(c) **Preparation of plans**. At this stage the consultant is appointed who prepares the plans in conjunction with AFNHB and readies the necessary drawings. This process generally takes about 3-4 months.

(d) **Plan approvals**. As a pre-requisite, the plans are to be approved bt the local development authority prior to execution. Towards this, NOCs are to be obtained from various Government Departments like Fire Dept, Pollution control board, water supply board, electricity board etc,. This is a time consuming activity and on an average will take 02 years.

(e) **Construction stage**. Post approval of plans, the contractor is selected and the construction commences. The work is generally completed in 2.5 to 3 years.

14. Hence, it can be clearly seen that the life cycle of a project is above 06 years on an average after procurement of land.

CONCLUSION

15. After having studied the requirement, capabilities, loan options and the project life cycle, the following are suggested:

(a) Assess the present requirement of owning a house properly based on the listed major factors.

(b) Analyse the financial capabilities in terms of capital and recurring monthly EMIs.

(c) Select a long term loan of 15-20 years.

(d) Select Fixed interest rate loans so as to have a proper plan.

(e) Avail IT benefits as per existing policies.

(f) Keeping the life cycle in mind, avail loan only when the construction begins. The initial investment for land is to be met out of own savings.