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The country's top lenders have slashed down the home loan rates following the repo rate cuts with effect from July 01, 2019. This means a better opportunity for people seeking loans from banks and housing finance companies (HFCs) to finance their properties. Property prices are also at an all-time low, which means that the demand for properties will be well met through home loan financing. Income levels, property prices, interest rates and tenure are factors that govern home loan eligibility. However, does the same hold true for contractual employees with fluctuating income levels and frequent job changes too?

Employment status matters

Repaying a home loan involves the liability to pay back the loan amount along with the interest over a tenure spanning 20-30 years. Considering the long-term commitment involved, it is quite obvious that the banks would like to gather information on your earnings and your employment status. Most customers introduce themselves as either salaried or self-employed.

However, before granting home loans, lending officials of either banks or HFCs seek information on whether the employment is contractual or of a permanent nature. Ravindra Sudhalkar, ED and CEO, Reliance Home Finance, says, "While banks and financial institutions normally prefer lending employees under full-time employment, they also give weightage to the continuity of the employment."

If the client is qualified and is having experience in the field where he is contractually employed, has documentary evidence of the salary being credited and is also filing his IT returns, they may look at lending. They may additionally ask for documents to prove recurring or continuous contracts."

Business requirements are largely changing that ex-



Can contract workers avail home loans?

Regular flow of income is a prerequisite for availing home loans, however, contractual employees can also seek loans subject to certain conditions

plains the altering status quo of today's workforce. An increasing number of companies are now hiring employees on a contractual basis according to the nature of the work they need from their workforce.

While permanently employed customers do not find it hard to avail home loans, loan dynamics may be different for employees hired under a contract.

Deo Shankar Tripathi, MD and CEO, Aadhar Housing Finance Ltd, says, "Yes, the affordable housing finance companies do provide home loans to contractual employees also based on their past engagement with

their vendors. If they have been in contractual employment for at least one or two years, then the HFCs can provide them with home loans. With regards to banks, most of the banks do not provide home loans for contractual employees for the purchase of homes."

Contract renewals help

Many Indian companies hire professionals on a contractual basis for specific periods ranging from six months to a year. While the reasons for hiring contractual employees may be varied, the offer letters given to these employees mostly state that the contract would be

reviewed and renewed based on the performance and fulfillment of certain necessary conditions.

Considering that loans are given with the understanding that they would be repaid along with interest, banks and HFCs give preference to customers with increased contract renewal frequencies.

Gaurav Gupta, co-founder and CEO, Myloancare.in, says, "Lenders view frequent contract renewal as an indicator of adequate demand for your skill sets in the market, which gives them an assurance of your continued employability and income."

Your net monthly income matters

Given the prices of properties these days, the minimum home loans that most people apply for is between Rs 30-40 lakh. Assuming that the rate of interest that one has to pay is 8.75% for a loan to be repaid over a span of 240 months, the equated monthly installment (EMI) varies between Rs 26,511 and Rs 35,348. Most banks work on the principle that the proposed EMI must not exceed 60% of the net monthly income (NMI). Raj Khosla, founder and managing director, MyMoneyMantra, says, "The 60% EMI/NMI ratio is a risk mitigation measure

CREDIT FOR ALL

- Before granting home loans, lending officials seek information on applicants employment nature
- For contractual employees, banks and HFCs prefer the EMI/NMI ratio to be less than or equal to 50 %
- Longer-term contracts are more favourable compared to a shorter-term contract when seeking home loan

deployed by lenders to ensure ease of repayment and sufficient purchasing power with the borrower despite the long-term financial commitment of a housing loan." For contractual employees, banks and HFCs prefer the EMI/NMI ratio to be less than or equal to 50 %.

Using the home loan calculator

The home loan calculators published on the sites of various banks and HFCs have saved interested borrowers the trouble of rushing to banks to know the value of their estimated EMIs. Home loan calculators consider three factors including the interest rate, loan amount and tenure before estimating the amount of EMI that would be charged.

Currently, the current home loan rates are in the range of 8.55-10.45% depending on the quantum of loans sought. The greater the loan amount sought from the bank more would be the interest rate charged by the bank. The quantum of loans falls into three different categories including loan amount less than Rs 30 lakhs, loan amount in the range of Rs 30-75 lakhs and loan amount exceeding Rs 75 lakhs.

Find out the estimated EMI from any home loan calculator published online and check its proportion to your NMI. If the EMI/NMI ratio exceeds 50%, then you may have to extend the loan tenure to conform to the desired EMI/NMI ratio.