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CRUNCH THOSE NUMBERS

With people willing to invest in a property of their own; at times, they ignore the basic principles of financial prudence. The wise thing to do is plan right. **Here's how...**

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You have decided that it's time to make the first big purchase of your life, your dream home. After figuring out your budget and the loan amount, the real planning begins. While a home loan can cover up to 75 per cent of the cost, it is crucial that you plan well and factor in the additional expenses to avoid any financial crunch. Since a loan is a large sum to be managed for a long period, it is wise to get it covered by the appropriate insurance so that your family's lifestyle is always protected and maintained in case of any unforeseen eventuality.

SMART LOANS

With smartphone devices and smart cities on the horizon, home loans, too, have evolved and gone the smart way. Instead of following the 'one size fits all' mentality, you can have your home loan tailor-made for you. Sona Gaharwar, business head – home loans and home equity, Tata Capital Housing Finance Ltd, explains, "Customers can choose from an array of flexible loan options. One can choose to start with smaller EMIs and gradually increase them; this helps when a customer is at a nascent career stage. Additionally, one tends to replace existing consumer durables while buying a new house. Careful planning can help you take home improvement or home equity loans as well."

Ravindra Sudhalkar, ED and CEO, Reliance Home Finance and Co-Chairman, ASSOCHAM National Council Committee on Real Estate, Housing and Urban development, says, "If your loan is leaving you with insufficient income to meet household expenses, this indicates a financial crisis. Financial planning ideally should involve a monthly budget, future savings and investments for long- and short-term goals. Try to ensure that these are not shadowed by your debt obligations."

THUMB RULES:

- **Your EMI should not exceed 50 per cent of your monthly income;**
- **Always choose a RERA-registered developer;**
- **Buy a house earlier in life, preferably at the start of your career since the loan can be availed for a longer tenure;**
- **Factor in other allied costs including stamp duty and registration charges, processing costs, brokerage, etc; it is best to take a loan of a longer tenure but part-pay whenever possible;**
- **Check eligibility under Pradhan Mantri Awas Yojana (PMAY) and apply for the same at the time of availing the loan. The benefit can be availed by families with an annual income of up to Rs 18 lakh. Interest subsidy benefit up to Rs 2.67 lakh and tax benefits on housing loan significantly reduce the effective EMI;**
- **In case of rising interest rate regime, it is advisable to make regular part prepayments to reduce the loan outstanding;**
- **One should be aware of the prevailing interest rates and approach their lender to lower the same when the market rates are lower.**

5-POINT SAVINGS PROGRAMME

Jagruti Darji, assistant professor (accounts), KPB Hinduja College of Commerce, provides pointers on the basics of managing your accounts. Follow this for your daily expenditure and to discipline your spending habits:

1. **If you feel you are spending too much, maintain a log book to keep your expenses in check;**
2. Refer to your account statement regularly and analyse your spending habits. If you notice any avoidable expenditure, try to cut it out;
3. **It's important to clear your credit card spends every month to ensure the interest amount does not mount and eat into your savings;**
4. Regular monthly savings will help avoid financial debt trap. Investing might seem like a hard nut to crack but it will save you a lot of money trouble in the future. However, one must invest in real assets that can help them earn more money rather than assets that are merely for materialistic display. For example, if you invest in a property and rent it out, it can earn you more than your investment over a period of time. But, if you invest in a high-end luxury car, it is strictly an expense-driven investment;
5. **There are various investment options – public provident fund, fixed deposit, equity and stock market trade. But bear in mind, financial planning is done to ensure investments at regular intervals.**

TOP MISTAKES TO AVOID

- Not having enough savings (which should be at least 15 -30 per cent of the property value) as your own contribution towards availing a home loan. Thus, some end up seeking financial assistance from relatives/unorganised market. Home loan obligations combined with additional obligation (to return the money to relatives) could be stressful and lead to financial crunch;
- **Not keeping a contingency fund (six-eight months of income) to meet any temporary income loss can lead to a debt trap;**
- Total monthly obligations (EMIs) as percentage to the total family income (this should not exceed 60 per cent). Borrowers tend to avail loan with a high monthly obligation (EMIs) on the presumption that the income would keep rising and expenses will be curtailed. However, these factors often get misjudged. Also, most borrowers do not factor the increase in EMIs on account of the interest rate cycles;
- **Not having adequate health and life insurance cover to deal with any uncertainties can put a strain on one's ability to repay the EMIs.**

RAJAN PENTAL,
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HOW DID YOU MANAGE YOUR EMIs? Let us know on the above mentioned email id