

Home buying Tips

While the profile, age, socio-economic status of the first time homeowner is changing, what is not changing is the hesitance and trepidation that comes with making such a major decision. Home buyers in India need to be cautious and do their due diligence before signing on the dotted lines of a home buyer's agreement.

The following tips are intended to guide first time homebuyers as they finalize one of the most crucial investment to be made.

1) Financial Planning

It is essential to ensure proper financial planning before you make the decision to invest in a property. The first step would be to review your current financial obligations such as existing loans, life insurance or any other commitments to get an essence of your net monthly income. Your budget for buying your home should be based on your household budget and how much money you can afford put aside for the EMI of a home loan. Besides the EMI you should have a healthy savings account that can pay for the additional incidentals such as stamp duty, registration, car parking, club house charges and other sundry charges by the builder. An important advice by financial experts is to set aside 4 to 5 EMIs for any contingency.

2) Assess Your Future Needs and Goals

When deciding to invest in a property, it is important to not only have a clear picture of your present needs but also take into account your future needs and goals. Some of us are just looking for a home for our family, some of us want capital appreciation through a long term investment. Some just want to be part of a new upcoming complex or some want to move closer to their workplace. When we invest we should be clear about our goals to ensure we make an informed choice.

For example, If you are planning on raising a family, investing in a bigger house, it is advisable to invest in a property located within an integrated township with good schools, healthcare, convenience stores, health clubs and parks.

3) Learn About Different Interest Rate Options

A common dilemma for the home investor is choosing between a fixed rate of interest and a floating rate of interest. A consumer has to choose between peace of mind by opting for fixed home loan where the interest rate remains constant during the entire loan tenure and does not change with market fluctuation or should they take a risk by going for floating loans. In this scenario the interest rate is dependent on the market and fluctuates according to economic situation in the country.

A new option that is growing in popularity is the fixed-floating home loans that come with a fixed interest rate in the initial years and floating rates thereafter. This option gives customers stability on their EMIs outflows for the first few years, thus helping them plan finances better and provides protection against future fluctuations in interest rates.

4) Improve Your CIBIL Score

CIBIL is India's first Credit Information Company, also commonly referred as a Credit Bureau. The CIBIL TransUnion Score plays a critical role in the loan application process. After an applicant fills out the home loan application form and hands it over to the lender, the credit score and credit report of the applicant is immediately checked. If the credit score is low, the lender may not even consider the application further. However if the applicant has a good credit score, he is considered credit-worthy and this better the chances of the loan being approved. A high CIBIL score also can make the loan available at a cheaper interest rate.

5) Go Loan Shopping

Shopping around for a home loan will give you a great market insight and help you select the best suited financing option. Comparing loans and negotiating with banks can save you a lot of money. Once you know what each bank has to offer in terms of rates and fees, negotiate for the best deal. These days, banks also offer home loan insurance as a bundled product along with your home loan that protects your family from loan liabilities in case of your unfortunate demise within the policy term.

When selecting for a lender, it is also advisable to check the prepayment penalty and foreclosure charges. You can also consider co-ownership between family members to get a bigger loan amount.

6) Get a pre-loan approval

A pre-approved home loan means that the bank or financial institution has carried out their due diligence checks on buyer's credit report and have made a virtual confirmation of the loan and loan amount.

This pre-approved home loan boosts the confidence level of the purchaser and gives him a clear idea of the budget within which he will be able to buy a house. He also has clarity on the EMIs that will need to be paid and can accordingly plan his finances better.

However the buyer must be aware that once he gets a pre-approval for a loan, he has only a limited timeframe within which to finalize the property, failing which the pre-approval can be cancelled.

7) Research Locations

Location is another key factor to consider before making an investment. It is always prudent to buy in a high-growth area where there is potential for growth and subsequent capital gains. Keep things like connectivity to business areas, proximity to educational institutions, malls and hospitals in mind. It is also important to be aware of future planned developments in the area that could have a positive or detrimental effect on the future value of the property.

At the same time, the location should be suited to your personal requirements and budget.

A healthy mix of the two above considerations will guide you towards your ideal location.

8) Credibility of the Builder

Before purchasing a property one should look into the credibility of the builder. This essentially means checking on the developers past projects, quality of construction, rate of appreciation in value, current demand in the market and number of future projects that are being undertaken. It is also an added advantage if the developer is affiliated with a governing body like NAREDCO

9) Understand your Payment Plan

For a new property it is also advisable to check with the builder on a construction-linked payment plan or a time-linked payment plan. This will have an effect on your cash flow and other aspects of your personal finance.

a) Construction linked Payment Plan: Under this plan you are paying an initial booking amount upfront while the rest is linked to construction milestones, say 10% with each floor constructed.

b) Time linked: You pay according to a set timetable, whether the construction is on time or not. Under this plan you are contractually bound to pay your installments, even though the property has been delayed.

10) Legal Due Diligence of the Property

One must also check all the sanctions, plan approvals and agreements to ensure that the builder has completed regulatory and legislative obligations before investing in a property. Any deficiency on this front can lead to serious consequences for the buyer.

11) Allotment Letter

Once you have selected a property and made the initial payment, you will receive an allotment letter from the builder. This allotment letter includes the details of the flat that has been allotted to with details like the flat number, area, price, payment details, extra charges levied to you for amenities such as car parking, club membership, and maintenance charges to be levied at time of occupancy.

If you have a preference for a certain floor or view, then you must request this from the builder at the time of the initial application with the builder. Once the allotment letter is given to you, your flexibility to change your unit might be limited.

12) The Sale Deed

A sale deed is one of the most valuable legal documents in a purchase or sale of a property. It is governed by the Registration Act and is an important document for both the buyer and the seller. The purchase or sale of property is not legally complete until a sale deed is signed between the buyer and the seller. Usually a sale deed is signed only after both the parties are satisfied and comply with the terms and conditions as said in the Agreement.

13) Verify All Legal Documents

There are a lot of important legal documents without which the sale of a property is not complete. It is the duty of the buyers to verify all these documents and ensure that they are duly signed. Some of these legal documents include the share certificate, sale agreement, society documents, sanction plans, encumbrance certificate, etc.

14) Possession and Registration

The final step that completes the purchasing process, is the Possession And Registration

Possession is the physical transfer of the property, but is not sufficient to establish legal transfer of ownership. For this you will have to get the property registered in your name with the local authority, with the seller documenting that the property is being transferred to you. At the time of registration you will also have to pay Stamp Duty which is a government tax levied on property transactions.

15) Maintenance by the Builder

When the construction is complete the developer receives an Occupancy Certificate (O.C) by the local body that confirms the hand over of the property to the buyers. From the date of receiving this certificate to the next 18 months the developer is responsible for the maintenance of the building. This includes general cleaning, security, payment of electric charges for the common areas, property tax, running costs of DG sets and any repair or maintenance works.

16) Formation of the Housing Society

The developer initiates the formation of a housing society. The builder normally creates a bank account in the name of the society and transfers the unspent money on the project. The society elects its representatives and takes the responsibility of the maintenance of the building and collection of maintenance charges.