

## **Transfer your home loan with a top-up**

### ***But tax exemption will depend on the purpose***

Balance transfer of home loans has become very common after the removal of penalty on pre-payment. Many banks are offering borrowers the option to avail of a top-up loan while doing the transfer. The advantage is the possibility to shift to a lower interest rate loan and getting a higher amount at the same time. The additional amount can be used for any purpose as long, as it is not speculative in nature.

Today, banks are willing to offer top-up home loans at the same rate as a home loan, as a strategy to entice borrowers to do a balance transfer, says Gaurav Gupta, of Myloancare.in, a home loan advisory.

“Most banks tend to price top-up loans closer to rates on loan against property (LAP). But to make balance transfers attractive, many are offering discounts on top-ups as an incentive,” Gupta says.

As compared to an LAP, the advantage of a top-up home loan is a lower interest rate and longer repayment period. Processing is also faster since the bank already has your property documents, says an official from State Bank of India. “We offer up to a maximum of Rs 5 crore and repayment period of up to 15 years on a top-up loan. If the repayment period on the original home loan is 10 years, the top-up can continue up to five years after that.”

Some reasons why people take a top-up loan include home renovation, home extension, childrens’ education, medical emergency, etc. In the case of businessmen, the loan can be used to meet a cash flow requirement. Remember that the tax exemption will be available only if the purpose is home extension or home renovation and not for any other purpose, points out Gupta.

“The bank will take an undertaking from the borrower about the purpose of the loan. If the purpose is children's education or investing in business, then the top-up amount will not be eligible for tax exemption,” he points out.

A top-up loan can also be used for repaying off other loans like auto loan or personal loans, says Brijesh Parnami, chief executive officer, Destimoney Advisors. “If customers have the ability then we advise them to take a top-up and consolidate other loans, as it will work out cheaper. Today, with banks offering similar repayment terms as a home loan, it makes sense to take a top-up loan. We see lot of customers opting for top-up while doing balance transfer,” he says.

Typically, the rate on LAP is 11-12 per cent, while on top-ups it is around 9.5-10.5 per cent. The eligibility for top-up depends upon two factors — value of the property and the EMI paying capacity of the borrower.

Assume, borrower took a 25-year home loan of Rs 50 lakh at 10 per cent to buy a property worth Rs 65 lakh when he was getting a salary of Rs 75,000 per month. The EMI would come to Rs 45,435. Then after five years, the borrower wants to take a top-up loan.

Assuming the property value has grown at nine per cent, it will be worth around Rs 1 crore. The bank will offer home loan at a loan to value (LTV) of 75 per cent and top-up loan at 65-70 per

cent LTV. In this scenario, the maximum top-up loan possible is around Rs 25 lakh (given that the home loan is still running). The combined LTV would be around 73 per cent.

Similarly, if the customer's income has grown to Rs 1,25,000 per month, he would be eligible for a top-up loan of up to Rs 35-37 lakh. So, the customer would be eligible for the lower of the two amounts as a top-up loan – that is Rs 25 lakh in this case.

The eligible amount for LAP would be lower by about 20 per cent due to the higher rate of interest. The second issue is that since the house is already mortgaged to the bank for a home loan, an LAP might not be possible on the same property at the same time.

All said and done, borrowers should avail of loans only if extremely necessary. For those borrowing more or merely extending the tenure, they will end up paying more interest to banks, not prudent for their financials. But, if one is combining all other high-cost loans into a single top-up loan at a lower interest rate, it would be the best, provided the tenure is the same or lesser.

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