Important Terms and Definitions related to Loans in India

A

1. **Acceptance Letter**: After you collect your sanction letter, you should, if you accept the terms of contract, communicate your willingness to accept the loan by way of an acceptance letter. You should do it within a particular time-frame which may vary between 1-3 months from the date of the sanction letter.

2. **Accrual Basis**: A method of accounting that allows revenues and expenses to be accrued, even if cash had not been received or paid during the accrual period.

3. **Administrative Fee**: The fee you pay for meeting the overheads of the administrative work handled by the housing finance firm. Usually to be paid while giving the acceptance letter.

4. **ADR**: An acronym for American Depository Receipt. Currently popular because of the rush of Indian firms to issue ADRs. Technically, it is an instrument traded at exchanges in the US representing a fixed number of shares of a foreign company that is traded in the foreign country.

5. **Allotment**: The acceptance of an application subscribing to the shares of a company. Establishes a contract that underlies an investment through public subscription.

6. **Amortisation**: Reduction of an amount at regular intervals over a certain time period. Usually, refers to the reduction of debt by regular payment of loan installments during the life of a loan. Also describes the accounting process of writing off an intangible asset.

7. **Annual Reducing Method**: A method of calculating interest on the reduced principal at the end of every year. However as repayments for all loans are EMI, though the principal is reduced every month, the interest is calculated on the original loan amount for twelve months after which the repayments towards principal are taken into account. Basically, this method will benefit you the least.

8. **Annual Rest**: A method of calculating EMI in which the appropriation towards interest and principal is made at the end of the financial year.

B

9. **Balloon Mortgage**: A balloon mortgage is a financing mechanism where the payments are not fully amortized over the term of the loan. Sometimes the borrower needs to pay only the interest on the loan. As the loan is not fully amortized, the borrower needs to pay a large sum of money at maturity, in some cases the full principal, in order to close the loan. As the closure amount is often large, this is called balloon payment.

10. **Balloon Payment**: The final payment on a debt, which is larger than the previous sums paid.

11. **Borrower category**: Defining the status of a borrower as salaried or self-employed.

C

12. **Carpet areas**: Areas of useable at any floor level as worked out in the plinth area minus the area occupied by the walls.

13. **Clear title**: It is a title which is free from any reasonable doubt and also free from all encumbrances.

14. **Credit Appraisal**: It is an assessment of the borrower's repayment capacity done by the lender before approving the home loan. Old credit history, present income, Income tax returns, bank statements and other personal details are used by the lender to arrive at the credit profile of the applicant and thus the eligibility and eligible amount.

D

15. **Down payment**: Money paid up front to make up the difference between the purchase price and loan amount.

E

16. **Estimation:** Estimating the value of the asset, especially if the asset is property that is not newly developed. Same as Valuation.

17. **Extent of loan**: The extent or percentage of loan a home finance company would disburse, given the value of the property. Same as Exposure.

F

18. **Foreclosure**: Sometimes if the cash flows are healthy and enough, a borrower may decide to pay up the entire amount of loan before the tenure and close it. This step helps in saving interest but it comes at an extra cost. This is why borrower must check the terms and conditions of the loan to see if the option of foreclosure exists and the charges for the same before taking the loan.

19. **Flat rate**: Percentage representation of the amount of annual interest on the total loan amount.

20. **Flexible installment**: Fixing the installment amount to a changeable benchmark.

I

21. **Incidental Charges**: In case the customer delays the payment of the monthly instalment, a collection team is sent to the customer's house to recover the money. The expenses incurred on such occasions are called Incidental Charges (IC).

22. **Instalment to Income Ratio**: The Instalment to Income Ratio (IIR) denotes the portion of your monthly instalment on your home loan. Very commonly used by Banks/ HFIs to calculate your loan eligibility, IIR is generally expressed as a percentage. Normally pegged at 40%, the IIR figure can vary on the basis of actual salary details, qualifications, employer / business, years of experience, growth prospects and sources of other income. For example, if your IIR is 40 per cent and your gross income is Rs. 10,000 per month, then as per the IIR ratio you will be eligible for a loan where the instalment does not exceed Rs. 4,000 per month (40% multiplied by gross monthly income). Some banks peg IIR at even 55%, which increases your eligibility for a housing loan.

23. **IRR**: Internal Rate of Return or the IRR is a measure of cost of capital and the earnings from the cash flows to be made on the loan disbursed.

L

24. **LTV/ LCR**: There is a limit on the maximum loan amount that a person can get for a property irrespective of the loan eligibility. LTV stands for the Loan to Value ratio while LCR stands for the Loan to Cost ratio. Banks/ HFIs use this to signify the loan amount that a person is eligible for on the total cost of the property.

M

25. **Marketable title**: When the title to the property is clear and the person has the right and capacity to transfer the same then he is said to have a marketable title.

26. **Moratorium period**: A moratorium period is a time during the loan term when the borrower is not required to make any repayment. It is a waiting period before which repayment by way of EMIs begins. Normally, the repayment begins after the loan is disbursed and the payments have to be made each month. However due to this moratorium period, the payment starts after some time.

    Education loans provide this feature. This is because education loans are repaid by the students after they start earning and build their finances.

27. **Margin:** Under a home loan, Bank/ HFIs fund only around 80% to 85% of the cost of the house. The remaining 20% to 15% has to be borne by the customer himself. This amount paid by the customer out of his own pocket is called the Margin or also the Own Contribution towards the cost of the house. The Margin amount is subject to the eligibility of the individual.

N

28. **Obligation of the borrower**: The borrower in terms of the agreement will be obligated to keep up the schedule of repayment, to deposit the post dated cheques periodically and to keep the property free from encumbrance.

P

29. **Penal interest**: If the installments are not received as per the repayment terms, by the end of the month, the borrower will be charged interest on the installments delayed which is called as penal interest.

30. **PEMI**: The disbursal of a home loan is made according to the completion stage of the property. When your loan is partly disbursed, you cannot start paying your EMI. Instead, you pay simple interest on the part amount drawn by you at the rate that is applicable to you. This is called PEMI.

R

31. **Refinance**: Loan or any additional loan financed on an existing property.

32. **Registration value**: It is the value of the property at which the property is registered. Generally the rates for the value for registration is fixed for specific areas by the authorities in many places.

S

33. **Sale Agreement**: It is an agreement which is entered into between the parties for dealing with the property and which creates a right to obtain a sale deed mentioning the property. Normally it fixes a time for completion, payment of earnest money or part payment of purchase consideration. Generally it is a document that precedes a sale deed and in such cases does not require registration and will also not confer any charge or right on the property. However in some states the sale agreement itself will be registered and will act as a sale deed.

33. **Sale Deed**: It is an instrument in writing which transfers the ownership of the property or properties in exchange for a price paid/consideration. This is a document that requires to be registered compulsorily.

T

35. **Tenure**: Period from the date of disbursement of loan to the date of the last EMI payment or the date of closure of loan.

35. **Total initial payment**: Initial payment made by the customer when the asset is purchased, also includes service charges and advance EMIs if any.