

LOAN TO VALUE (LTV) RATIO RBI

In order to prevent excessive leveraging, the LTV ratio in respect of housing loans should not exceed 80 per cent. However, for small value housing loans i.e. housing loans up to Rs. 20 lakh (which get categorized as priority sector advances), the LTV ratio should not exceed 90 per cent.

It has been brought to our notice that banks adopt different practices for deciding the value of the house property while sanctioning housing loans. Some banks include stamp duty, registration and other documentation charges in the cost of the house property. This overstates the realizable value of the property as stamp duty, registration and other documentation charges are not realizable and consequently the margin stipulated gets diluted. Accordingly, banks should not include these charges in the cost of the housing property they finance so that the effectiveness of LTV norms is not diluted. **SBI Max Gain –**

Why should you choose this home saver loan?

Most home loan borrowers face the dilemma of whether to use their monthly savings to prepay their loan or set it aside for emergencies. In most cases, the extra money just sits in their savings accounts earning below par (and taxable) interest. A home saver loan lets you have the cake and eat it too. You will be able to park this amount in the home loan account for any number of days and pull it out anytime for your urgent needs or regular expenses when they become due (e.g., paying kids school fees every quarter). The money thus kept in the home loan account reduces the total interest outgo on your home loan and helps you close your loan faster.

Max Gain is a popular home saver loan product from SBI.).

We will focus exclusively on SBI Max Gain in this article. Other home saver loans listed above are quite similar and may differ in minor details. Before we delve deeper into SBI Max Gain, let's understand what an overdraft (OD) account is.

What is overdraft (OD)?

An **overdraft facility** is a credit line provided to individuals against their assets. You can think of it as being similar to a credit card with a limit but without the interest-free (grace) period. i.e., the interest clock starts ticking as soon as the amount is withdrawn instead of waiting until the payment due date. The interest rate on overdraft account is typically lower than credit card. You can withdraw money upto the sanctioned limit and will have to repay the outstanding balance along with interest only for the duration that you utilize the money from the account.

How is SBI Max Gain different from regular home loans?

SBI Max Gain is a home loan that is sanctioned as an OD with a limit that is equal to the approved loan amount. Your home acts as the underlying security for the OD account. This product has the same interest rate as the other home loans from SBI up to Rs. 1 core (as of this writing). A premium of 0.25% is applied for home loans above Rs. 1 core. There is no extra charge for use of OD facility. The current account (OD) comes with cheque book and net banking facility.

Home saver loans are suited for those individuals:

- At a recent real estate expo, SBI told me that Max Gain isn't available for the self-employed and businessmen.
- Who have a periodic (quarterly, semi-annual or annual) bonus or variable pay component that can be parked in the OD account?
- Who have savings after paying EMI and other monthly expenses?
- NRIs and professionals with higher income.

How does monthly payment work?

A typical Max Gain account statement looks like this:

Description	SBI H L MAXGAIN AUG11
Name	Mr. FIRSTNAME LASTNAME

Book Balance	-14,62,750.00
Available Balance	1,00,366.00
Limit	15,63,116.00
Uncleared balance	0.00
Drawing Power	15,63,116.00
Currency	INR
Rate of Interest (% p.a.)	10.3%
Lien Amount	0.00

Here are a few points to help understand the how monthly payment works:

1. Upon final disbursement, your Limit and Drawing Power will equal the sanctioned loan amount. These amounts will reduce with each EMI payment.
2. **Drawing Power** = Outstanding principal loan amount.
3. **Available Balance** = Any surplus amount parked in this account + accrued interest savings. More on this below (Point 5 thru 8).
4. **Book Balance** = Drawing Power – Available Balance. This is shown as a negative (minus) amount.
5. Your monthly EMI will not vary despite surplus amount in the OD account.
6. Principal portion of the EMI is applied on the date of EMI payment and goes to reduce the Drawing Power and the Limit. The principal portion of the EMI is calculated as per the original amortization schedule. Surplus amount deposited in the OD account and accrued interest savings do not alter the principal portion of the EMI.
7. Interest portion is calculated against the Book Balance on a daily basis and is debited at the end of the month.
8. All surplus money parked in the home loan account goes towards Available Balance. Even if the surplus amount is kept only for a few days during the month, it helps reduce the interest component of the EMI for that month. Since the interest is calculated on the Book Balance instead of outstanding principal, any excess amount (i.e., EMI – Principal – Interest) is added to the Available Balance.

Here's a comparison of amortization schedule (first 24 months only) of regular home loan and SBI Max Gain:

	constant throughout the loan tenure.	
2	Principal and Interest components are calculated as per the original amortization table.	Principal component is calculated as per the original amortization table. The Drawing Power is reduced by the principal amount of the EMI each month. Interest component, however, varies depending on Book Balance.
3	Interest is calculated on the outstanding principal loan amount (as in the original amortization table).	Interest is calculated on the Book Balance on a daily basis and is debited at the end of the month. Excess amount from the monthly payment (i.e., EMI – Principal – Interest), if any, is applied towards the Available Balance.
4	Principal and Interest components are applied on the EMI payment date itself.	Principal is applied on the EMI payment date itself whereas Interest is debited at the end of the month. Until then, the entire interest portion is shown as part of the Available Balance.
5	Cannot be used like SB or current account for outgoing transactions and bill payments.	You can use the home loan account to do funds transfer (NEFT, RTGS etc.) and bill payments using cheque book and net banking facility. Available Balance is the limit for such transactions.
6	Home loan is closed when the outstanding	You can approach the bank to close your home loan when the Book Balance

principal amount is zero.	reaches zero.
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Pre-payment vs. Parking Surplus Funds

	Pre-Payment (in regular home loan or Max Gain)	Parking Surplus Funds in SBI Max Gain
1	Reduces outstanding Principal Balance.	Increases your Available Balance and reduces your Book Balance.
2	<p>Your amortization schedule changes. You can opt to reduce either your loan tenure or loan EMI.</p> <p>1) If you opted for lesser loan tenure, then more of your future EMI goes towards Principal.</p> <p>2) If you opted for lesser EMI, your future EMI (and consequently your principal and interest portions) will reduce.</p>	Your amortization schedule remains unchanged. However, more of your interest portion goes towards Available Balance.
3	The money is gone forever. You cannot undo this action.	You can withdraw the surplus amount at any time. Your amortization schedule remains unchanged. Now, less of your interest portion goes towards Available Balance.
4	Tax deductible under Section 80C.	Interest savings are not tax deductible.

Advantages of SBI Max Gain

Liquidity

If you make partial prepayment on your home loan, that money goes to reduce the outstanding principal and is not available to you anymore. However, any surplus funds parked in Max Gain home loan account can be withdrawn anytime.

However, surplus fund deposited before full disbursement or for under construction property cannot be withdrawn until complete disbursement. Your interest outgo will reduce because of this deposit and interest saved will get added to available balance, but you cannot withdraw till you get possession.

Interest Savings

If surplus funds are parked in the OD account, it saves interest outgo on the home loan. Helps you close the loan faster.

Better yield than other deposit / investment products

Interest saved is interest earned. Experts [recommend this product over other investment products](#) including tax free bonds and FD.

Instead of opening a Fixed Deposit (FD) for 1-5 years, if you park the same funds in the OD account, you will get 1 to 3% higher savings. Note that you will be realizing this rate even if you park your funds temporarily unlike FD where you will pay a penalty for premature withdrawal. On top of that the savings with Max Gain are tax free.

Tax deduction

Any amount that you deposit to Max gain will not be treated as “pre-payment” under Section 80C. Hence, that amount does not qualify for Section 80C rebate. Experts advice that you should only park amount over and above the tax deductible interest portion. Interest saved (as shown under Available Balance) is not tax deductible under Section 24.

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