

## Home Loans Explained

Our society thrives on credit. We borrow money to purchase cars, vacations and everyday necessities. We even borrow money to pay off our debts! In light of this, the market for home loans has never been so hot.

In the past, home ownership could seem like a daunting task. Today, however, it's relatively easy to secure the funds needed to purchase a home. More and more people are able to buy property with home loans. The market has become extremely competitive, with banks and other lenders constantly offering lower rates and better services. It can be hard to know where you'll get the best deal.

Here are some tips that can help you sort out the facts and find the best home loans:

**Who is eligible for a home loan?**

There are two basic factors that come into play when lenders decide who will receive home loans. The home loan disbursement is based on the amount you can afford to pay on loan repayment, and the specified percentage of the cost of the property.

Your household income plays a major role in assessing your ability to repay. Monthly expenditure patterns are also taken into account. If your monthly income is \$10,000 and your monthly expenses total \$8,000, then you have \$2,000 that you are able to pay towards your home loan. This amount is now taken as an installment amount, and your eligibility will be reverse-calculated.

With these figures at hand, you decide to take out a home loan. At an interest rate of 9%, the monthly installment of your 20-year loan will be \$900. The higher your repayment capacity, the higher your loan amount can be.

The amount that you will receive in your home loan largely depends on a combination of other contributing factors. In addition to your salary, the lender will also consider your age, profession and the city you reside in, among other points. The amounts of home loans may also vary, depending on the lenders.

**What interest rates are charged on home loans?**

Interest rates for home loans will differ from lender to lender. Some can be as low as 1%, while others can reach 12% or even higher. The interest on home loans is usually calculated on a monthly reducing or a yearly-reducing balance. In some cases, a daily-reducing basis is incorporated.

The most common of these is annual reducing, in which the principal (the amount that you pay interest on) is reduced at the end of the year. In this arrangement, you essentially pay interest on money that you have already repaid. Obviously, fining a monthly, weekly or daily-reducing home loan will save you a bundle of money in interest.

While home loans can provide the cash you need to purchase a home, don't be too quick to agree to the first offer you receive. Shop around for the best rates and terms, and make sure that you'll be living comfortably with the costs as you settle in to your new home.