



HOME LOAN SCHEME: PERSPECTIVE BANGLADESH

It wasn't long ago when the central bank launched a re-financing scheme for housing loans at 9 percent interest rate. This was Fiscal Year 2007-08 and the fund stood at BDT 300 crore. In the following fiscal year, the fund was increased to BDT 700 crore to meet the growing demand of the borrowers. Even then, the fund was not enough as the entire amount of BDT 700 crore had been exhausted in three months time.

After 6 to 7 years, the home loan scenario has changed drastically. The market doesn't need any re-financing scheme as the bank interest rates have been on the decline for the past couple of years. Now the interest rate for home loans at commercial banks has come down to around 9 percent from 15 to 16 percent five years ago. Some lenders offer even lower rates for customers with good track records.

Lenders attributed this fall in the cost of loans to the fall in the cost of funds and surplus liquidity in the market. "We offer home loans at around 9 percent interest rate, down from 12 percent a year ago," said a BRAC Bank official. "Depending on the profile of the customer, interest rate may be lowered further", he added.

The BRAC Bank official said that the response from home loan borrowers has been positive. The bank is also taking over home loans of customers of other lenders.

It's not just BRAC Bank doing this. Almost all the banks are offering competitive prices to borrowers who are seeking their dream home. IFIC Bank's website, however, says that it offers home loans at 11.95 percent interest, much higher than the market rate.

Non-bank lenders, such as Delta Brac Housing (DBH), IDLC Finance and National Housing and Finance charge 9 to 10 percent interest rates for home loans, down from 13 to 14 percent a year ago.

Major features of home loans in Bangladesh:

Maximum loan: Most of the lenders offer up to 70 percent of the cost of the property

Maximum Term: In most cases, home loan is given for minimum 5 years and maximum 25 years

Eligibility: An applicant must be 25 years of age to be eligible for a home loan. But HSBC accepts the offer of an applicant if he/she is 23 years old. Most of the lenders have the condition that no applicant 65 years of age will be eligible for the loan. IDLC Finance says the

applicant must be less than 60 years old.

Another important criterion is the applicant's income per month. Some banks accept applications from buyers with an income of BDT 25,000 per month, while others put the minimum ceiling at BDT 40,000. For self-employed people, the amount is higher by BDT 10,000.

Common documents required for a home loan:



Personal bank statement for the last year, tax clearance certificate (where applicable), copy of National ID Card, allotment letter/allotment agreement/byna deed and price quotation.

For salaried individuals, the letter of introduction and

the salary account statement have to be enclosed with the application. A businessman has to additionally provide a copy of a trade license. A self-employed applicant has to give a certificate of membership in their respective professional association, declaration with a personal letterhead and seal, and certificate of a professional degree. A landlord will need to submit registered ownership deed, rental deed and copy of any utility bill.

However, analysts say that this is not the only cost that you will incur for your home loan. Apart from the interest cost, there are numerous charges, some of them as high as 2 percent of the total amount borrowed that you must take into consideration. Comparing these charges can help you decide between two lenders offering similar interest rates.

Yet, like any other loan, interest payout remains the biggest concern for a home loan borrower. A small difference in the rate of interest can lead to a sizeable hike in a borrower's equal monthly instalment (EMIs) and interest payout. For example, the difference in the total interest payout on two home loans of BDT 40 lakh for 20 years tenure with interest rates of 9.5 percent and 10 percent respectively will be about BDT 3.15 lakh.

Most of the lenders prefer variable interest rate to fixed rate. Variable or floating rate is a type of pricing where the interest rate is revised at pre-determined intervals based on the movement of a market benchmark till the end of the loan tenor. During disbursement, one's home loan interest rate is linked to the average rate of the 182 Day Treasury Bill. A borrower's home loan interest rate will be reviewed (decreased or increased) after every 6 months from the date of disbursement based on the movement of the average rate of the 182 Day Treasury bill.

The decision of choosing between a fixed and variable rate of interest will also impact one's EMIs and interest payout. If you choose a fixed rate of interest, your interest payout and EMIs will remain the same throughout the tenure of your loan. Experts suggest that one should go for a fixed rate if he/she expects the interest rates to rise. Go for a floating rate if you expect the interest rates to fall in the future. Also remember that a longer tenure loan will mean a higher EMI for the same loan amount at the same interest rate.

Processing fee: This fee is charged by the lenders to cover various expenses incurred during assessing an applicant's home loan eligibility and evaluating the value of the property. This fee varies from banks to banks and can range anywhere between 0.5 to 1 percent.

Home loan interest rate, fees and charges:

If you are working towards getting a home loan and scouting through websites or talking to marketing executives of various lenders, probably the only yardstick of comparison would be their interest rates.

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DBH HOME LOANS

EVERYONE
BENEFITS
FROM EXPERT
ADVICE