Understand Prepayment Clauses - Repay Your Home Loan by Moneylaxmi

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Recent time has witnessed an unprecedented increase in home loan repayment trend. The sudden inflation coupled with unexpected mount in the rate of interest forced a large segment to break their deposits and pre pay the existing home loan. It's just what the name implies: prepaying all or part of the loan amount before it is actually due.

Saving on the net interest is the significant benefit of prepaying the home loan, other than the fact that you will retain the complete ownership of the house earlier than planned. The longer the loan tenure, the more the interest repaid, hence its best to repay your home loan in the shortest loan tenure possible, provided it can be managed comfortably within your income. Home loan is one of the biggest debts that anyone can have. Hence most people want to pay off the loan before the stipulated tenor to deal with the high-ceilinged interest rates.

Banks generally give two options for the home loan repayment:

â€¢ Part prepayment

â€¢ Full Prepayment

Part prepayment

Some banks allow for part-prepayments say every quarter. This could effectively bring down the principle amount, the outstanding loan amount and subsequently the net interest. Prepayment refers to a benefit given by the lender, permitting the borrower to make partial payments in advance of their due date. One can prepay the amount that is around 3-4 times of the EMI periodically like once a quarter.

Recently NHB (National Housing Board) has banned the housing finance companies (HFCs) from charging prepayment penalty on floating rate home loans. In case of the fixed rate home loan, the prepayment penalty can be charged. But the definition of partial pre-payment charges may vary from bank to bank. At times it can be something where enough pre-payment can be made to ensure that you still need to pay a few more EMIs to completely clear off the loan. This would help you to save on pre-payment penalty along with high interest costs on a significant portion of the loan.

Full Pre-Payment

Here the borrower can pay a lump-sum amount and prepay the entire balance outstanding of the loan at once. The charge for full and final foreclosure of loan varies from bank to bank.

Under this scheme you need to spend huge sum so as to be able to pay off the dues. However, no charges are levied if the prepayment is made with the borrowerâ€™s own money.

Prepayment penalties can be negotiated if you have a good credit history.

One needs to go through the pre payment clause thoroughly before deciding on the pre payment. Prepayment charges differ across banks. Usually, the prepayment charge levied is two percent of the principal outstanding at the time of foreclosure and amount paid in excess of the monthly installments in the last one year. In some cases, no charges are levied if the prepayment is made after three years of availing the loan and if it is from own savings.

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