Mortgage Loans/Loan against Property

- **Kalidas Vanjpe**

The other day a person came to me and said," I have a property at Kalyan which is valued at Rs. 200 lakhs. I want a mortgage loan of Rs. 100 lakhs." I said, "Fine. Please give me details for which purpose you will utilise it. Pl also give me the other papers like your Income Tax returns, copies of accounts, bank statements etc as per this list." And I handed over the list. He got puzzled. He said," Why do you want to know for which purpose I want to utilise the loan. I have the property which I am ready to give as security and I want a loan."

Then I explained to him that it is the bank (and not me) which will ask this question. Many people have this misconception that mortgage loan can be availed of for any reason, even for personal reasons, if you have a property. In this article, let us understand the basic features of this type of loan without going into too much technicality.

The first and foremost important feature is that mortgage loan is different from a personal loan. Most of the banks grant mortgage loan only for business purpose. So it is a business loan where a businessman has to offer immovable property against which the bank gives a loan. Needless to say that such property has to be free from any encumbrances and should have a clear and marketable title.

Typically it is a term loan repayable in monthly/quarterly instalments as per the bank's policy. While making an application for such loan you need to submit a detailed proposal as to how you propose to utilise the loan and how the interest and principal amount commitments are going to be met. That is why the banks would normally look at your past track record of business, your Income tax returns and other relevant papers. Remember, banks are in the business of lending money and they are primarily interested in getting back the interest and principal amount. It is not their business to lend money and sell the property and realise their money. Hence they are very particular about end use of loan and the revenue generation from it.

The other important aspect is the value of the property. Everybody feels that his property is worth more than the prevailing market value. The banks normally get the valuation done from their panel valuer. Different banks follow different policies as to margin. Margin is the amount which the banks deduct while lending from the market value arrived at by the valuer. So if the margin is say 40%, then the bank will lend 60% of the value. Normally this margin is between 40 to 50%.

The bank also gets the legal papers as to title vetted either from their own legal department or an outside advocate. This work also takes time. Hence it is advisable to give the legal papers simultaneously for legal processing. Otherwise even after sanction, you will not get the loan for want of a legal clearance.

To sum up, mortgage loan is a business loan and has to be used for business needs only. There should be adequate revenue generation from its end use from which you should be able to meet your commitments of payment of interest and instalment of principal amount.