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02

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Finance and Law

Here's a quick look at ways to raise a Loan Against Property (LAP) at the time of financial distress

LAP IT UP

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Home is said to be the last saviour at the time of a financial crisis when no other options are available. A home can be used as a security to raise the loan by mortgaging it with the bank.

"LAP is a loan facility provided by banks and financial institutions by mortgaging property owned by the borrower. LAP can only be availed against ready, completed, clear properties with occupation certificate, un-encroached and easily marketable titles," explains Amit Goenka, MD & CEO, Nisus Finance.

LAP V/S PERSONAL LOAN

→ Some people have the misconception that LAP and personal loan are similar products, but in reality, these are totally different instruments. LAP is provided against mortgage of property. It could be any immovable asset including land, apartment, office, shop, warehouse, etc. On the other hand, personal loans are unsecured in nature.

PICS: IMAGESBAZAAR

WHEN TO CONSIDER LAP?

→ "A home-owner should use LAP as a funding option only in the case of any emergency where money would be required in a very short span of time. Alternately, if you have too many outstanding high cost loans, you can avail LAP and close these high cost loans. One good thing about LAP is that it can be used to consolidate all your high cost outstanding loans," suggests **Eapen Alexander, director, Muthoot Homefin (India) Limited.**

BEAR IN MIND

→ LAP should be taken for long-term loan requirements and not to bridge/short-term borrowings;
→ LAP should be cheaper than most other forms of financing except home loans;
→ The Loan-to-Value (LTV) should be between 50 and 75 per cent;
→ The property available for mortgage must be clear, marketable, of liquidation value and for self-use or licensing. A latest title certificate and valuation report must be handy. If the property is from inheritance or family/ joint asset, then all interested parties, heirs, joint owners must be willing to provide the property against the loan, including becoming co-borrowers/ co-applicants to the loan;
→ Income/ potential income of the borrower should be sufficient to be able to retire the LAP facility within five years, even if the provided tenure is higher. If the property itself generates some income like rents, then LAP makes good sense, since the burden on the other income is reduced.

Here are the key differences between LAP and personal loans:

Loan Against Property	Personal Loan
The individual takes the loan by mortgaging the house/ property	An individual can take a personal loan without any security or guarantor
One of the cheapest retail loans after home loans, usually about 12-16 per cent	Higher interest rates compared to LAP, usually in the range of 16-21 per cent
Since the rate of interest is lower, LAP Equated Monthly Installments (EMIs) turn out cheaper	Since the rate of interest is high, EMIs for personal loans are also high
Maximum loan eligibility is determined by the value of the property and income	Maximum loan eligibility is determined primarily by an individual's income
Maximum loan tenure is upto 15 years (180 months)	Maximum loan tenure for a personal loan is upto 5 years (60 months)
Secured loan	Unsecured loan

– Muthoot Homefin (India) Limited

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