COMMON TERMINOLOGIES

Used in this Thesis

Floating Rate

Constant "spread" to Prime Lending Rate (PLR) fixed at the time of taking the loan.

0.5 – 1 percent of the outstanding loan is charged to negotiate a better spread.

Check whether the home finance company revises the PLR to which home loan interest rate is pegged. Lending rate will not be automatically adjusted to the market rate.

Fixed rate for the entire tenure of the loan / "reset" clause. The Banks reserves the right to revise the interest rate upward / downward once in three or five years. ICICI and HDFC offer fixed rate for the entire tenure of the loan.

Interest rate on housing loan will move up or down with each revision in the benchmark rate of the home finance companies.

Every percentage point increase in the interest rate could see house loan balloon by a few lakh rupees.
**Fixed Rate**

The interest rate charged on a fixed rate loan may be 0.5 – 1 percentage points higher than that on a floating rate loan.

**Switch option**

To move from one to another. A move is permitted only by a few, on payment of a fee 1.5 – 2 percent of the loan amounts.

Interest rate may be drifting down when customers take the loan, but could begin to edge up after they began repayments.

**Prepayment**

If customer’s pay rises sharply after he has taken the loan., he may like to repay his loan much earlier than he originally planned.

- Some banks do not welcome such prepayment
- Place an embargo on prepayment in the initial years.
- Allow customers to prepay only a certain portion of the loan each year.

Prepayment penalty is levied at 1.5 – 2 percent irrespective of customer’s source of funds. If from own funds, a few banks do not levy any penalty.

**Take over charge**

In case, customers wish to switch over to a competitor, then the new lending institution issues a cheque to settle the customers claims with his
present lender. A take over fee will be charged on the outstanding loan amount.

Other charges

Processing fee, a service fee and administrative charges