

# ICICI BANK CUSTOMER FIRST SERIES

Home Loan Series 1: Article 7 of 7

TIMES BUSINESS ASSOCIATE COMMUNICATION

A consumer education initiative

## Save Money on your Home Loans

Ashvin could not make up his mind on the home loan. He wished to take a 20-year loan in order to keep his EMI low. At the same time, he wanted to save interest and repay the loan in a shorter tenure. Ashvin was a habitual saver who wanted to utilize his savings to reduce his interest burden and loan tenure. However, he also wanted the benefit of liquidity on his savings, since running a household meant keeping money aside for unexpected expenses. Could he have his cake and eat it too?

A Money Saving Home Loan (MSHL) (used generically here – different lenders have their own name for it) is just the home loan product that addresses this requirement.

An MSHL is a unique home loan account with a transactional facility whereby the customer can deposit and withdraw money. The withdrawals are limited to the amount deposited in the account.



### How is an MSHL different from a normal home loan?

In a normal home loan, the interest is calculated on the principal outstanding. In an MSHL account, any surplus money you may have can be deposited in the account. This surplus amount is reduced from the principal outstanding for interest calculation. The money so deposited in the account is also available for withdrawal, thus giving you access

to your money. MSHL accounts provide interest saving on your home loan as well as liquidity.

### How does the deposit of excess funds in the account benefit Ashvin?

The surplus funds deposited in the MSHL account reduce the loan outstanding during the period for which the money remains deposited in the account. This results in reduction of the interest amount.

### How best can Ashvin use an MSHL to maximize interest benefits?

All the money deposited in this account, even for a day, results in reducing the outstanding principal in the home loan account. Thus to get the maximum benefit, Ashvin should ensure that any surplus funds that he may be deposited into this account.

### What are the other benefits, apart from reduction in interest?

Most banks that offer this product provide a normal transactional account with cheque book and debit card facilities. This makes Ashvin's money easily available to him, giving him both liquidity and convenience.

### How is interest calculated in the case of an MSHL?

In many banks, interest on the MSHL account is calculated on the basis of daily outstanding principal. That is,

the money deposited even for a day in the MSHL account would give Ashvin a benefit in interest.

### What happens if the deposits exceed the outstanding principal?

If the deposit exceeds the outstanding principal, the excess amount over the outstanding principal would not result in any benefits.

### Illustration of benefit

In a typical scenario if Ashvin takes a normal home loan of Rs. 25 lac at a rate of interest of 10.5% per annum and tenure of 240 months, the EMI works out to Rs. 24,959.

In the other scenario, Ashvin takes an MSHL loan of Rs 25 lac at a rate of interest of 11.5% per annum and tenure of 240 months. The EMI works out to Rs. 26,661. The customer is a saver and deposits an additional Rs. 10,000 every month in the MSHL account. This works out to a total saving in interest of Rs. 19,25,649 and a reduction in tenure of 129 months.

We welcome your suggestion and feedback on this column. Please use the 'Email Us' link at [www.icicibank.com](http://www.icicibank.com) or send <CF your comments> as an SMS to 53030.

### DID YOU KNOW?

The bifurcation of EMI into principal and interest is computed on the basis of outstanding principal. This computation may consider principal at the end of every month, quarter, or year. More frequent the computation, lower the effective interest burden.



He keeps two separate bags. One for loan installment and another for money saved from that installment!!

### GET SET KNOW



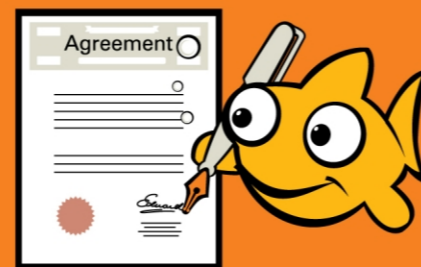
**Question**  
Interest in a home loan is calculated for \_\_\_\_\_.

**Answer**  
A. total principal amount  
B. outstanding principal amount  
C. average principal amount

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