

Booking govt-built flats: banks lend helping hand

With banks stepping in and giving you time to arrange for enough cash, you may not lose the investment opportunity even if you are short on funds

BY DEVESH CHANDRA SRIVASTAVA
devesh@livemint.com

Every time the Delhi Development Authority (DDA) or your local development authority comes out with a housing scheme, you wish you had not just blown up that Rs2 lakh on the Singapore trip. Here is a perfectly great investment option and you are short of ready cash. These flats usually come at a discount to the private sector builder flats and houses.

You need to submit the earnest money, or the upfront booking cost, that could be Rs1.5-2 lakh, depending on the unit size and specification. The city developers demand that money to ensure that only serious buyers apply. Of course, it helps them earn interest on the float for the two to five months the money remains with them.

But being short of cash is no longer reason enough to let go of this investment opportunity. You can now take banks' help, though at a cost.

Banks are now stepping in to fill the gap and offering to lend you the earnest money in the hope that you get allotment and then they get a home loan customer. State-owned banks such as Central Bank of India, Punjab National Bank, Bank of India and State Bank of India, and private banks such as Axis Bank Ltd, ICICI Bank Ltd and HDFC Bank Ltd are all offering schemes in collaboration with the city housing boards, where they lend the booking amount.

"The trend is more common in north India. It helps the buyer with funds needed at the time of booking," says Harsh Roongta, chief executive officer, ApnaPaisa.com, a home loan portal.

B.N.S Ratnakar, a senior bank official with the Central Bank of India, says, "Through disbursement of earnest money, banks encourage people to buy a house indirectly. But as banks are sitting on huge amounts of liquidity, lending becomes easier when the applicant approaches after the allotment."

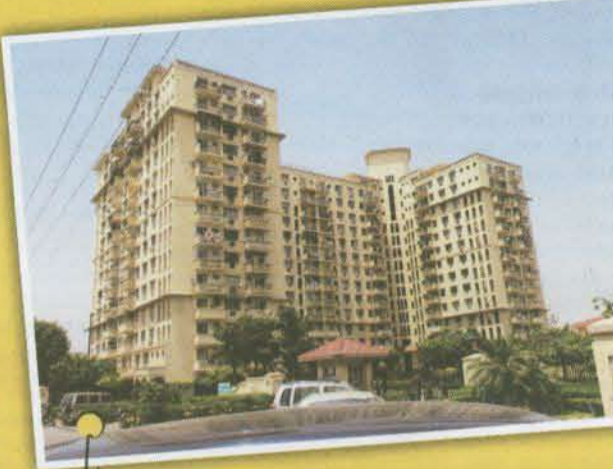
The trend began in August 2008 with the housing scheme launched by DDA and was also seen in January's residential plot scheme by the Haryana Urban Development Authority when the home loan market was sluggish. Other schemes, such as the Greater Noida Authority's housing scheme in February, too, witnessed the trend.

What it costs?

You can ask the bank to pay the initial deposit on your behalf. The bank will charge a margin amount, usually 4-10% of the earnest money, which includes processing fee and six months' interest. If the booking amount is, say, Rs1.5 lakh, you have to pay up to Rs15,000 as the margin money at 10%. At 4%, it would amount to Rs6,000. Margin amount is non-refundable in case you are not allotted a house. The main purpose of such an arrangement is to make the process of application smoother. Also, it gives the applicant time to arrange the money within a period of time. Kamal Gupta, a

HOW MUCH YOU PAY

Banks readily give the booking amount for projects launched by local development authorities. But at a cost.



BOOKING
AMOUNT:
**Rs1.5
lakh**

THROUGH A BANK

● Interest on 4-10% of the earnest money:

Rs6,000-15,000

● Non-refundable

DIRECT PAYMENT

● No interest on earnest money.

● Refundable in case of non-allotment.

● File charges: **Rs500-1,000**

BANKS OFFERING SUCH SCHEMES*

STATE-OWNED: Central Bank of India, Punjab National Bank, Bank of India and State Bank of India.

PRIVATE BANKS: Axis Bank Ltd, ICICI Bank Ltd and HDFC Bank Ltd

* List not exhaustive

Source: Mint research

YOGESH KUMAR/MINT

successful allottee of the DDA draw in 2008, says, "If the applicant gets the allotment after the draw, he has to pay the bank the entire sum within the next 30-40 days."

However, before applying, the applicant should be sure that he would be able to pay back the money. Says Navin Raheja, managing director of Raheja Developers Ltd: "Banks keep the margin money to secure the interest. But before anyone goes into such an arrangement, he should have the financial resources to fund the booking money payable to the bank in case of successful allotment." It is only after the earnest money is paid back that the applicant can get a housing loan.

How it works?

Banks usually sell the forms through their select branches. They process the application forms through these select branches. So, all you have to do is to pay Rs100-200 per form. Often due to a huge number of buyers you may have to take the pain to stand in a queue.

Later officials from the authority who sit at these select branches collect your complete form. Before giving you the receipt, they cross-check for errors. Make no mistakes such as overwriting or you may be asked to fill another form. Along with the earnest money, you have to submit the margin amount in cash. Some banks take the same amount through

cheques.

A majority of applicants approach private banks. "Due to bureaucratic hurdles people prefer to go to private banks. For banks it is easier to recover the money," says Sanjay Sharma, managing director, Qubrex.com, a real estate brokering and consulting firm.

In case of successful allotment, the applicant has the choice to repay the earnest money and move to some other bank for the rest of the loan. But before you switch to any other bank, make sure to collect the proof of your payment made to the authority by the previous bank. You should have the proof of submitting the earnest money before you start the procedure of getting the home loan.

What you need

You need to have a residence proof—passport, driving licence, electricity bill or your voter identity card would do. Banks will also require a photocopy of your permanent account number card. Some banks also ask for income-tax return receipt. It is easier to get the earnest money from a bank if you have an account with it, says Pradeep Mishra, Delhi-based independent real estate analyst. However, public sector banks have stringent measures—applicants living in a rented accommodation are often rejected. And do remember to do some research on banks that are asking for the lowest margin money.