LOAN AGAINST MORTGAGE

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You have just graduated with an MBA degree and have been offered a job in Mumbai with a well-known company as an associate in the project-finance division. You are very enthused and excited about this job opportunity. You have already moved to Mumbai and checked out a few plots and have decided to purchase a flat for Rs 12 lakh. You have only Rs 2 lakh in cash and you intend to finance the rest of Rs 10 Lakh, by taking a mortgage loan against the house for the amount. The mortgage manager has offered you multiple options as follows, which one you would prefer:

Option A:- Traditional fixed note loan :- A 30 year loan of Rs 10 lakh at a fixed 10 % annual interest with monthly payments. The house, which is priced at Rs 12 lakh is mortgaged against the loan.

Option B: Bi-weekly, traditional fixed rate loan: A 30 – Year mortgage loan at 11 % annual interest but with payments every two weeks.

Option C : A 7- Year Balloon loan at 8 % annual interest. The loan payments are calculated as if the loan was a traditional 30 year, fixed rate,mortgage loan, at 8 % annual interest. However, the loan is only for 7 years but the payments are made as if the loan was for 30 years. At the end of 7 years, the remaining Principal is due.

Option D: Interest only 7 year loan at 8 % annual interest. This loan is similar to the 7 year Ballon loan, except that you pay only the interest and not the principal with every payment.

Option E : A 30 year loan with 7 year ARM loan: For the first 7 years, the rate stays at fixed at 8.5 % and then becomes floating. The float = Prime index (floating) + 2 percent premium.