



# Advantages and Disadvantages of Home Loans

In this era of skyrocketing property prices, buying a home is almost impossible without availing a home loan. However, availing a home loan comes with its advantages and disadvantages. A mortgage is a loan that you take to buy a property and the lender holds the title deed till you repay it along with the interest. It helps you build equity in your longterm appreciating asset.

## 1. Tax Benefits

Home loans are an important tool for borrowers who don't have enough cash to purchase a property outright. Thankfully, there are many tax benefits available to help you save on your loan payments.

Mortgage interest is tax-deductible, and homeowners can also deduct mortgage insurance premiums. In addition, homeowners can often get a deduction for loan origination fees paid to their lender.

Conventional [home loans](#) are the most popular type of mortgages, but governmentbacked mortgages like FHA, VA, and USDA are an excellent choice for first-time buyers and those with less savings and credit issues. A construction-to-permanent loan can also be an excellent way to buy a new home, and can transition into a traditional mortgage once you move in. These types of loans may require a higher down payment.

## 2. Flexibility

[Home loans](#) allow people to buy a property that they can call their own, which provides a sense of security and stability. This can also reduce their reliance on government assistance. Mortgage lenders may have different eligibility criteria for applicants, and they offer flexible terms to meet the needs of each borrower. For example, some lenders require a lower down payment for borrowers with a higher credit score. Others have a 'piggyback' loan product, which combines two loans into one -- 80 percent from the lender and 10 percent from another source.

In addition, most lenders don't charge prepayment or foreclosure fees. This makes it easier to pay off a home loan early, which reduces the overall debt burden and interest costs. Moreover, timely repayment of EMIs improves your creditworthiness and increases your credit score.

## 3. Tax Deductions

Home loan interest is deductible if you itemize your deductions. This is an extra incentive for homeowners, especially in this age of high mortgage rates. [Home loans](#) also typically have a fixed interest rate, which can be easier to budget for than a variable rate such as with a credit card or personal loan.

However, it's important to understand the rules regarding home equity loan interest. Under the new tax law, you can only deduct interest if you use your home equity loan to "buy, build, or substantially improve" the property that secures it—a home, co-op, condo, or mobile home. And the debt must be secured by your primary residence, which is the place where you live most of the year and that you intend to keep as your home.

## 4. Long Tenure

Home loans have a repayment period that can extend to up to 30 years, which gives borrowers the opportunity to meet their financial goals without putting pressure on their monthly budget. This can help you achieve the dream of owning your own home faster, even if you cannot afford to pay off the loan in full.

However, the choice of home loan tenure should be based on your financial stability and future goals. A longer tenure can reduce your EMI and expenses, but may also cost you more in the long run through increased interest payments. You can check the feasibility of a particular home loan tenure by using an EMI calculator. Alternatively, you can also prepay part of your home loan to shorten the tenure.

## 5. Balance Transfer Facility

Home Loan balance transfer helps you save on your EMIs by switching to a lender that offers lower interest rates. However, do keep in mind that this process isn't free and comes with certain charges. Therefore, it is important to examine whether the benefits of shifting your home loan balance to a new lender are worth these charges.

Aside from lower rates, some lenders offer great customer service. This can be a crucial factor, especially if you're looking to make prepayments or require frequent statements.

To start the process, you'll need to acquire a letter of consent from your existing lender and submit all necessary documents to the new lender. Once you've completed the process, your EMIs will decrease drastically. You can also avail of topup loans during this process, which is particularly helpful for those who are planning major financial goals like a wedding or debt consolidation.