

How borrowers can save big with home loan overdrafts

Opting for OD over a regular home loan depends on surplus availability, financial discipline

Neil Borate & Aprajita Sharma MUMBAI/NEW DELHI

ormer PhonePe executive Jagadeesh Mohan is building a business around overdraft (OD) home loans like SBI Maxgain. These loans let borrowers park the surplus funds in the loan account, reducing the interest charged. Mohan says replacing a standard loan with an OD loan and shifting idle savings can lead to significant savings. While OD funds don't earn savings-account interest (4-6%), they help cut

Why not simply prepay the loan outstanding with the surplus, you may wonder. That's because unlike prepayment, funds in an OD account remain accessible. "Even if you park surplus at the start of the month and withdraw some later, you still save interest," said Mohan, founder of Emisaver.com. By his estimates, ₹5 lakh parked in a Maxgain-type account can save ₹18 lakh in interest over 25 years.

Home loan maximising

home loan interest (8.25%).

Hyderabad resident Ankur Pathak (43) bought his first flat in 2014, for which he took a regular home loan from HDFC Bank. He got to know about SBI Maxgain through a fellow resident of his society. He then did his $own\,research\,and\,thought\,it\,would\,be$

"The new loan was priced slightly higher to the HDFC ROI. I had to incur some additional cost of transferring the loan to the new bank, too. I did some calculations which suggested that the interest saving with my available surplus parked in the Maxgain account ___ could cover the additional expenses in two years and the rest could be profit. I went ahead with it," he said.

Pathak saved ₹5,000-10,000 interest every month using Maxgain versus a regular home loan, without sacrificing liquid cash. "In 2021 I switched back to the conventional loan as my surplus grew to ₹20 lakh while my outstanding balance was ₹40 lakh. Meanwhile, the interest rate differential between regular and Maxgain account reached 0.50 bps (basis points). I prepaid ₹15 lakh and made use of lower interest rate in the regular account. It's about what works for you in a given situation," he said.

Pathak plans to buy an under-construction house for ₹1 crore. "I decided to go with Bank of India's home loan OD account because the interest rate differential between regular and OD accounts in their case is nil," he said.

Pune resident Venkatesh Rahatkar (32) chose Bank of India's home loan OD account. "I got to know about it at a banking expo. The best part was the EMI was the same in both regular and OD account. It was ₹29,000. In regular account, interest-principal break-up would have been ₹25,000-4,000. It is ₹23,000-6,000 in the OD account. If I withdraw money the break-up changes but broadly my interest cost will be lower in the OD account," he added. What are the risks?

Maxgain and similar products are not without their downsides. First, the interest rate are a bit higher than those of regular term loans. The idea is to choose an OD account for which the interest rate premium is the lowest compared to what you would get in a regular home loan account. You also need enough surplus money to park in the OD account, without which no significant gain is possible.

Maximizing savings with a home loan OD

A home loan over draft (OD) account allows you to park surplus cash, reducing your loan interest burden and shortening the repayment period. While it may have a slightly higher interest rate, the potential savings can be substantial

How a home loan OD works

- ✓ Deposit extra funds into the OD loan account
- ☑ Bank charges interest only on the primary loan amount ✓ Lower interest outgo and loan tenure
- ✓ Withdraw surplus funds when needed.

Case in point

A ₹1 crore home loan with ₹5 lakh parked in the OD account reduces interest and tenure.

Weighing your options

Loan type	Normal term loan	Maxgain-type OD loan		
Loan amount	₹1 crore	₹1 crore		
Interest rate	8.25%	8.45%		
Loan tenure	25 years	21.3 years		
EMI	₹78,845	₹80,186		
Total repayment	₹2.35 crore	₹2.09 crore		
Savings		₹26.1 lakh		
Opportunity cost of ₹5 lakh parked*		-₹7.78 lakh		
Net benefit		₹18.3 lakh		
*A consists of A FOV and According to a spirit of the de-				

suming a 4.5% post-tax return on savings or liquid funds

Home loan OD interest rates by banks OD rates are typically higher, but some banks match regular rates up to a certain loan amount

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Product	Additional OD interest rate	Conditions apply	
SBI Maxgain	HL rate + 0.4 %	Higher rate above ₹30 lakh	
BoB Home Loan Advantage	HL rate + 0.25 %	Higher rate above ₹75 lakh	
Bol Smart Home Loan	HL rate + 0.25 %	Higher rate above ₹2 crore	
Axis Super Saver	HL rate + 0.5%	Higher rate on all loan amounts	
ICICI Bank Money Saver	HL rate + 0.25%	Higher rate on all loan amounts	
ICICI Bank Money Saver	HL rate + 0.25 %	Higher rate on all loan amounts	

Real experiences from home loan OD users



ANKUR PATHAK (43), Hyderabad Corporate finance professional **SBI Maxgain OD**

"I saved ₹5,000-10,000 every month in interest by parking surplus in the OD account."

Unlike

prepayment,

OD funds are

available anytime,

offering liquidity

without losing

interest savings



VENKATESH RAHATKAR (32), Business analyst

Bol smart home loan OD

Common use cases of OD amount

Stock market speculation (not recommended)

How to lower your home

✓ MAKE timely repayments for a

year to improve your credit score.

REQUEST a lower interest rate by

loan OD interest rate

emailing your bank

► Tactical investments (not recommended)

Emergency withdrawals

"The interest was the same for both regular and OD home loan in case of Bol which made me opt for it."

Source: Jagadeesh Mohan, former PhonePe executive & founder, Emisaver.com

"A few people even transfer their monthly salary into the overdraft account, spend using credit cards, and then clear their credit card bills by transferring the funds back. That way they squeeze more out of this facility,' said Abhishek Kumar of Sahajmoney, a Sebi-registered investment advisor in Bengaluru.

However, it's important that you only use only idle cash for this. Don't compro- | in 10 years. Salaried borrowers like

mise your investments. "If you have a long-term outlook you can invest surplus funds in, say, equity mutual funds, as you can earn more than what you would save on loan inter $est. Finding \, that \, balance \, is \,$

important," said Kumar. Second, the EMI is fixed and the outstanding bal-

ance drops over time, reducing your ability to deposit extra funds. Here's an example. Let's say only ₹38 lakh of your ₹1 crore home loan is outstanding after 20 years. You have a surplus of ₹40 lakh from accumulated savings. In this case, you can deposit a maximum of ₹38 lakh and cut the interest charged to zero (the entire EMI goes towards paying principal). However the additional ₹2 lakh is of no use. You will need to actively track your loan journey so you can close your loan early or convert it back to a normal loan to optimise savings. If you cannot track it actively, a regu-

lar home loan is better for you. "There are many ways to achieve home loan savings. A voluntary EMI hike of just 5% annually is an achievable, simple, and powerful accellerant. Similarly, prenaving 7% of your loan balance once annually can help pay off a 20-year loan

home loan ODs for the interest savings. However, it requires financial savvy to understand the net benefit of loan interest savings against the loss of returns on the emergency funds parked in the OD. In Bank-Bazaar simulations, the net returns are minimal in

the first year of the loan but improve over time," said Adhil Shetty, CEO, Bankbazaar.com.

OD account for stock investment Amit Upadhyaya, a former tech executive in Pune, who retired early to live off his investments, had a different use case. He strategically withdrew money from his SBI Maxgain home loan account during the pandemic to invest in stocks. The subsequent market rally helped him accumulate a larger corpus than anticipated and retire early. The

8-9% interest was a lot cheaper than any other kind of borrowing, whether personal or credit card loans or even margin funding. Financial planners advise strongly against borrowing to invest but Upadhyaya took a calculated risk and it paid off.

Others like Upadhyaya may be tempted to use this money to invest in the stock market. Essentially it amounts to borrowing money cheap (8-9%) for possible returns of 12% or more.

However this can easily backfire in a falling market. If you then default on the loan, the bank can not only seize your house but also initiate legal action for misusing the loan, so do it at your

However, for a conservative investor who is willing to move a part of his emergency corpus - otherwise parked in a liquid fund or savings account into the home loan account to reduce the interest outgo, this strategy can indeed pay off.

neil.b@livemint.com



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Can Reliance deliver on the Campa promise?

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register their complaint on SEBI SCORES portal. Investors are cautioned to deal only with the Mutual Funds registered with SEBI, details of which can be verified on the SEBI website under

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SECRET SAUCE

A side from fixing Campa's supply chain issues, Reliance Consumer's next challenge will be to replicate this playbook for the other brands it has incubated and acquired in recent years. In official communication, the company has said it is focused on becoming a "total beverages business", launching an energy drink under Campa and sports hydration variant under Ras-Kik along with Spinner, a brand backed by former Sri Lanka cricketer Muttiah Muralitharan.

WEEKLY

WORD

INVESTO

market prices will rise?

Last week's answer: HEDGE

Intermediaries/Market Infrastructure institutions '

Last week's winners: Saba Hawaldar, Suyog Kulkarani

CHALLENGE

What five-letter word describes investors who believe that

SCAN,

PLAY &

MOVE UP

the score board to see

where you rank in India.

This year, despite its supply challenges, expanded Campa to the UAE. It also acquired the rights to sell Sri Lankan fruit beverage Sun Crush in India.

However, the other brands it owns will need a lot more money to revive their fortunes. Some are sub-scale, running in losses, or operating at rather anaemic margins. Others are vet to reach scale in the general trade, where Campa has found its success.

Take, for instance, SIL, a brand of sauces and other condiments that Reliance Consumer acquired in January; SIL was founded in 1951 and changed hands several times until it landed with Ajay Mariwala, managing director of B2B foods business Food Service India.

Mariwala had earlier founded packaged spices brand VKL Seasonings, which he sold to private equity firm True North in 2019. Company filings show SIL has been

BASKET OF BRANDS

Since 2022, Reliance Consumer has acquired businesses and India territory rights to various legacy and local FMCG brands.

Year	Name	Category
2022	Campa Cola	Beverages
2022	Independence	Staples
2022	Lotus Chocolate Company	Confectionary
2023	Maliban Biscuits	Snacks
2023	Alan's Bugles	Snacks
2023	Toffeeman (Sweet Confectionary Pvt Ltd)	Confectionary
2023	RasKiK (VSA Health & Wellness)	Juices
2023	Glimmer, Get Real, Puric, Dozo, Enzo, HomeGuard	Personal and home care
2023	Sosyo Hajoori	Beverages
2024	Elephant House	Beverages
2024	Pan Pasand, Mango Mood, Coffee Break and others (Ravalgaon Sugar Farm)	Confectionary
2024	TagZ Foods	Snacks
2025	Spinner	Sports drink
2025	Velvette	Shampoo
2025	SIL Foods	Sauces and Condiments
mint		Source: Mint research

struggling to grow for a couple of years now. From ₹13.26 crore in FY21, the company's total revenue fell to ₹7.18 crore in FY24: it has been in losses ever since. Mariwala declined to comment for this story. Moreover, the senior indus-

try executive quoted above said that while Campa Cola reaches more than 9 lakh retail outlets, that is still only 35% of all retail outlets and kirana stores selling soft drinks and other packaged consumer goods across the country.

In March, Mint exclusively

reported that Reliance will roll out more brands in the next 18months, but will need 3-4 years to make them available nationally "It is a mistake to assume

Reliance Consumer is just selling Campa," the senior industry executive said. "The company has its own brands under personal care [Petals, Glimmer] and home care [Enzo, myhome]. The idea is that a retailer does not need to go to anyone else to buy what he needs. Reliance can provide everything."

ART OF INVESTING IN EQUITIES: BUYING AT THE RIGHT TIME IS ONLY HALF THE STORY



We welcome your views and comments at

nvestors are often advised to buy equity funds and to stay invested for the long term to achieve optimal returns. However, an equally important aspect-knowing when and how to exit—often takes a back seat or is overlooked.

There is no doubt buying quality equity funds and staying invested in them for the long-term will help generate optimum returns. Surprisingly, this may not be enough to achieve and realise these returns. Eventually, it boils down to when and at what levels one exits in the equity markets, which truly decides the trajectory of the returns.

As per historical data, investors who stayed invested over the long term and, sold equity funds during good market conditions at higher levels proved to be more successful in achieving and realising optimum returns.

Should investors buy at any level in the equity markets? Ideally lumpsum investors are recommended to buy at lower levels and exit at higher levels and for systematic investment plan (SIP) investors the starting point does not matter much but are strictly recommended to exit during good market conditions at higher market levels.

Let us understand this with an example. Say, if one got lucky and bought BSE 100 TRI in March 2009 during the global financial crises (lower market levels) and sold in 2019 or 2020 before or after the covid fall (higher market levels), one would have achieved around 17-18% CAGR returns. However, if one sold in March 2020 during the covid fall (lower market levels) one would have only achieved around 12% CAGR returns despite of buying in March 2009 (lower market levels).

On the other hand, if an investor started an SIP (systematic investment plan) in January 2008 (higher market levels) and continued till January 2020 (higher market levels) the investor would have achieved around 12% CAGR returns. But if they sold in March 2020 (lower market levels), the investor would have only achieved around 5-6% CAGR returns.

This example clearly shows that the exit point and selling during good market conditions at higher levels is utmost and more important for all investors (especially SIP investors) to achieve and realise optimum returns. Now that we know when to exit to optimise returns, the next question arises:

How to follow the exit strategy?

First and foremost, investors should understand that they need to be extremely lucky to buy at the exact bottom and sell at the exact top in the equity markets which can be very difficult as no



one cannot accurately predict. The best and easiest way to take an exit call is when the valuations (particularly price to earnings ratio) of the underlying equity product's portfolio and markets start becoming expensive by trading at decent premium levels over and above their long-term averages. This indicates that the equity product and markets have entered premium valuation/ higher level range which can be a good time to exit.

Secondly, exiting will be subject to taxation and churning frequently will break the process of compounding which can put a

dent on achieving optimum returns. Thus, to avoid denting returns, investors should primarily sell when they absolutely need money or when their goal amount is nearing or has been achieved. Regardless of the market levels, if one has achieved the goal amount, it is wise to completely get out of the equity markets and not fall in any kind of greed.

Thirdly, if one stays invested for the long-term and, depending on the product's nature, if active equity funds underperform on

Never try to predict market peaks & troughs and sell when a stock becomes overvalued

the basis of a 5-10-year return versus their respective benchmarks by a decent margin, then it is important to exit from those funds and venture into consistently outperforming ones. Let us not forget that investors are silently paying an extra fee, which automatically drains out of these active funds for outperforming returns

Fourthly, investors can even look at

partial exit to reduce risk in their portfolios. Say, if an investor allocated 50% towards mid and small caps or 50% towards overall equity and over a period of five years the allocation shifted from 50% to 70% then the investor may rebalance to reduce risk based on the latest risk profiling. But if the investor is comfortable with taking risks and has a further medium to long time horizon, staying invested is the wise thing to do to benefit from the power and process of compounding.

Desai is founder of Rupee With Rushabh Investment Services