MORTGAGE ADVICE

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- It refers to **professional guidance** provided by financial experts, such as mortgage advisors or brokers, to individuals or businesses **seeking a home loan or property financing**.
- This advice helps borrowers **choose the right mortgage product based** on their financial situation, creditworthiness, and long-term goals.

MORTGAGE ADVICE IN INDIA

- In India, mortgage advice profession is carried out **without any regulations.**
- There is **no entry barrier and no code of conduct or ethics** are stipulated by any regulation.
- **Any person can enter the profession** and can provide advice and do business.
- There are **regulations in US, UK** and other countries regulating the mortgage advice services.

DEVELOPMENT OF "HOME INFORMATION PACKS

INFORMATION PACK

- It is a **collection of important documents** that provide crucial information for both buyers and sellers involved in a property transaction.
- For **buyers,** the Pack provides **essential information free of charge** about properties they are considering buying.

COMPONENTS

Compulsory documents

- **Sale statement** providing basic information about the site including the **address of the property being sold**, whether the property is **freehold, leasehold**, whether or not the property is being sold with vacant possession.
- **Evidence of title to prove** that the seller owns the property and therefore has the **right to sell it.**
- **Energy Performance Certificate** indicating how energy efficient a home is on a scale of A-G.

Optional documents

- **Home Condition Report** containing information about the **physical condition of a property**, which sellers, buyers and lenders will be able to rely on legally as an accurate report.
- **Legal summary** giving summary of the **legal aspects** helpful to buyers. However, buyer can take his own legal advice as well.
- **Home use/contents forms** providing information on a range of matters relating to the property. These include information on **boundaries, notices, services, sharing with neighbours, and other matters of interest to potential buyers**.

TIME VALUE OF MONEY-INTEREST AND ANNUITIES

It is a fundamental financial concept, stating that the **current value of money is higher than its future value**, given its potential to earn in the years to come.

Future Value of Money

Future Value is used to **determine** how much an investment, or an **amount of money will be worth in the future**, given a certain interest rate or investment return.

Calculation of Future Value

EXAMPLE

John is considering investing some money in a savings account. He has 5,0000 that he's thinking of putting into the account, and the bank offers an annual interest rate of 4%. If he leaves the money in the account for 5 years, how much will he have in the account at the end of the 5 years?

Solution

Present Value of Money

- It represents the **current value of a future sum of money**, taking into account the time value of money.
- Present Value is used to evaluate how much a future cash flow or amount is worth in today's terms.

EXAMPLE

Lisa is planning to receive a payment of 1,5000 one year from now. However, she wants to know how much that payment is worth in today's terms. If the annual discount rate is 6%, what is the present value of the 1,5000 payment?

INTEREST

When money is lent, the **borrower usually pays a fee** to the lender.

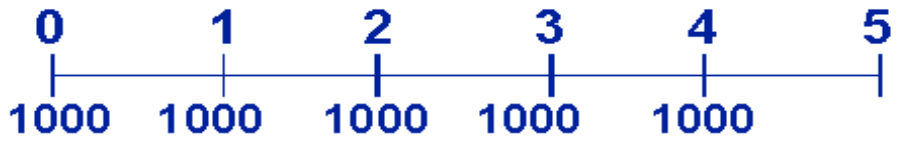
This fee is called 'interest'.

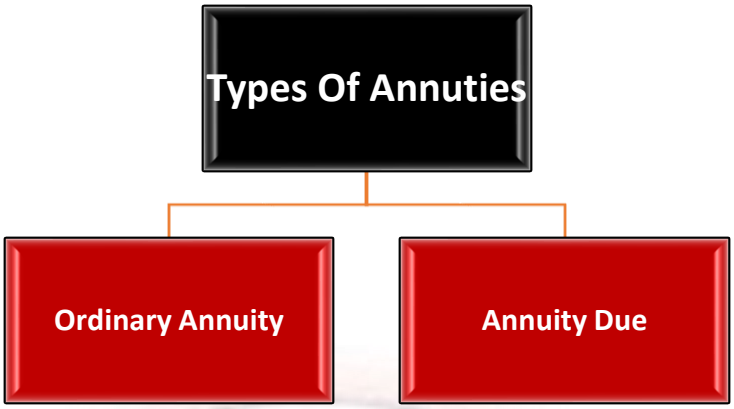
The Rule of 72,115,144

- You can use this to **estimate the number of years** it takes for **your money to double, triple and four times** with yearly compounding.
- Simply **divide the number 72,115,144 by the annual interest rate** (expressed as a percentage) you are paying on your debt or earning on your investment.

ANNUITIES

Annuities are defined as a **series of fixed payments** that are made or received over a specific duration of time.



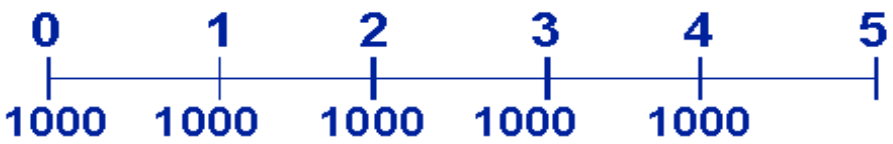


Ordinary Annuity

It refers to a series of **equal and regular cash flows or payments that occur at the end of each period** such as at the end of a month, year, or any other defined time interval.

Annuity Due

It refers to a series of **equal and regular cash flows** or payments where each payment is made at the **beginning of each period** such as at the beginning of a month, year.



Future Value of an Annuity

It represents the **total value of a series of cash flows at a specified future date**. It shows accumulated value of a stream of payments in the future.

Future Value of Ordinary Annuity

Q:1 A opened a recurring account with a bank to deposit Rs.16000 by the end of each year at 10% interest rate. How much he would get at the end of 3rd year?

Solution

FV (ordinary annuity) = $C\left[\frac{(1+i)^n-1}{i}\right]$

Future Value of an Annuity Due

Q:1 If a person is depositing Rs 20000 per year for 5 years in the beginning of each year at 10% per annum how much amount will be available with him at the end of 5 years.

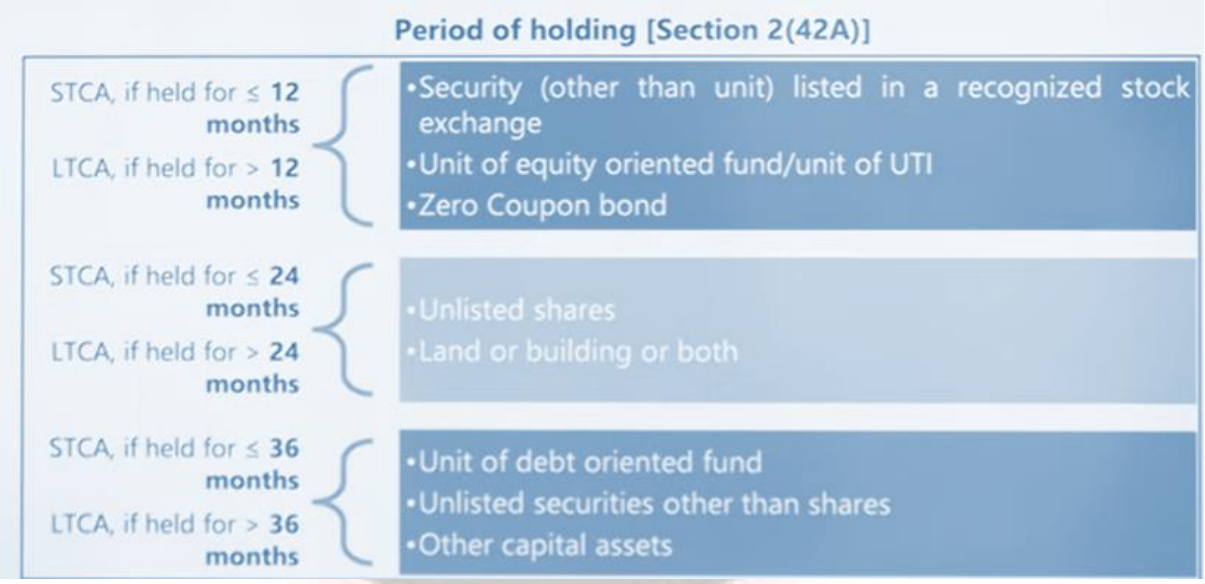
Solution

$$Future\ value = C\left[\frac{(1+i)^n-1}{i}\right]\times(1+i)$$

CAPITAL GAINS TAX

- When an individual or entity **sells a capital asset for a higher price than its purchase price**, the **difference** between the sale price and the purchase price is **considered a capital gain**.
- Capital gains tax is a tax levied on the **profits earned from the sale of capital assets.** This gain is subject to taxation as per the capital gains tax laws of the country.

TYPES OF CAPITAL GAIN



FEW IMPORTANT TERMS

Full Value Consideration: The consideration amount received or to be **received by the seller** as a result of transfer of capital assets.

Cost of Acquisition: The cost at which **the asset was acquired by the seller.**

Cost of Improvement: All expenses of capital nature incurred by the seller by making additions or alterations to the capital asset.

Indexed Cost of Acquisition/ Improvement: The cost of acquisition and improvement is indexed by applying CII (cost inflation index) in **order to adjust for inflation over the years of holding the asset.** With this**, the cost base is increased** which effectively, **lowers the capital gains.**

Indexed cost of acquisition $\frac{\text{cost of acquisition X CII of the Year of Sale}}{\text{Base Year CII FY } 2001-02}$

Indexed cost of improvement $= \frac{\text{cost of improvement X CII of the Year of Sale}}{\text{CII o year of asset improvement}}$

CASE STUDY

Rahul purchased a house in **2003** for **₹8,00,000** and sold it in **2023** for **₹40,00,000**. He also spent **₹2,00,000** on renovations in **2010**. Given that the **Cost Inflation Index (CII)** for 2003 is **109**, for 2010 is **167**, and for 2023 is **348**, calculate:

1. **Indexed Cost of Acquisition (ICA)**
2. **Indexed Cost of Improvement (ICI)**
3. **Long-Term Capital Gain (LTCG)**

Solution:

Step 1: Calculate Indexed Cost of Acquisition (ICA)

$$\text{ICA} = \left(\frac{348}{109}\right) \times 8,00,000$$

$$= 3.1927 \times 8,00,000$$

$$= 25,54,128.44$$

Step 2: Calculate Indexed Cost of Improvement (ICI)

$$\text{ICI} = \left(\frac{348}{167}\right) \times 2,00,000$$

$$= 2.085 \times 2,00,000$$

$$= 4,16,766.47$$

Step 3: Calculate Long-Term Capital Gain (LTCG)

$$\text{LTCG} = \text{Sale Price} - \text{ICA} - \text{ICI}$$

$$= 40,00,000 - 25,54,128.44 - 4,16,766.47$$

$$= 10,29,105.09$$