Twitter Thread by Stable Investor



Stable Investor
@StableInvestor

SIP (Trick) of 1% of the Home Loan amount.

Many call it the SIP trick to compensate for home loan interest.

What exactly is it?

Here is the thread■that tries to explain this simple idea ■■

(1/n)

Suppose you take a Rs 50 lakh home loan at 8.5% for 20 years. Your EMI will be Rs 43,391 per month. The total interest you pay to the bank will be Rs 54-55 lakh.

So in total, and including principal repayment of Rs 50 lakh as well, you pay the bank Rs 1.05 Cr in 20 years

(2/n)

Now let's see what is this so-called 1% SIP trick for Home Loans

(3/n)

You start a SIP for the same tenure as your home loan (20 years). The home loan is Rs 50 lakh.

So SIP of 1% of the home loan amount, comes to Rs 50,000 (i.e. 1% of Rs 50 lakh). This is the annual SIP amount.

(4/n)

Converting this annual investment of Rs 50,000 to monthly figures, we have Rs 4167 or Rs 4200 per month – that becomes your 1% SIP investment.

(5/n)

Your total investment over 20 years would be 20 x 12 x 4200, which is Rs 10.1 lakh.

(6/n)

Assuming your investments generate returns ranging from 9-12%, here is how much you will have in 20 years:

- At 9% returns, you have Rs 28-29 lakh
- At 10% returns, you have Rs 31-32 lakh
- At 11% returns, you have Rs 35-36 lakh
- At 12% returns, you have Rs 40-41 lakh

(7/n)

Depending on returns (9-12%), you will have between Rs 29 lakh to Rs 41 lakh after 20 years.

(8/n)

Even if you deduct your SIP money invested which was Rs 10.1 lakh from the total amount, even then you will get Rs 18-30+ lakh – which, in a way, takes care of a decent portion of your overall home loan interest of Rs 54 lakh, if not full amount.

(9/n)

I have heard people call this approach as SIP based Interest-free home loan, and at times interest-free home loan mutual fund trick, and what not. I don't want to call it that.

(10/n)

But nevertheless, it's a useful idea to invest some additional amount so that if need be, you can one day prepay your home loan with the accumulated amount even earlier.

(11/n)

I have written an article on this topic as well. Please do check –

Doing SIP of 1% of the Home loan – SIP Trick?

https://t.co/wqBeUZHQPG

(12/n)

I know you might be thinking that what if instead of monthly SIP, you started doing a monthly prepayment of Rs 4200 per month towards the home loan itself.

(13/n)

In that case, your loan tenure will come down to 17 years (from 20), and your total interest outgo will come down to Rs 42 lakh (from Rs 54 lakh).

(14/n)

If home loan prepayment interests you, then do check the 3 popular threads I wrote ■■

(15/n)

How to quickly prepay Rs 50 lakh home loan in a few years ■■

https://t.co/XNiJz2sEKe

(16/n)

> If you have a Rs 50 lakh home loan \U0001f3e1 or plan to take one soon, here is a long thread on how to manage it well. It discusses various options you can use to become loan-free quickly.
>
> Here is the thread\U0001f9f5& it highlights all possible home loan prepayment scenarios \U0001f447\U0001f447
>
> (1/n)
>
> — Stable Investor (@StableInvestor) November 19, 2022

What happens when you pay just ONE extra EMI every year towards your home loan -

https://t.co/EFnOtJEz0a

(17/n)

> What happens when you pay just 1 Extra EMI for your home loan every year?
>
> This a short, simple thread \U0001f9f5 for those who want to get rid of their home loans but don\u2019t have a large surplus to start prepayments.
>
> <1/n>
>
> — Stable Investor (@StableInvestor) November 24, 2022

When is the best time to prepay your home loans ■■

https://t.co/e187EDmHbG

(18/n)

> If you take a home loan, you will realize that loan principal gets paid off slowly during initial years. This is exactly why it is better to make prepayments earlier in tenure than later.
>
> A thread\U0001f9f5on why principal gets repaid slowly initially & how to prepay smartly\U0001f447
>
> (1/n)
>
> — Stable Investor (@StableInvestor) December 9, 2022

So eventually, it is up to you. Some want to get rid of their home loans quickly (& as fast as possible). Others want to just keep paying the basic EMI & let the loan run its course. They instead invest extra amounts elsewhere (mostly equity) to get higher returns.

(19/n)

Depending on what your risk appetite and preferences are, you should pick an approach accordingly.

But remember - Your home loan is not your only priority. You need to invest for other financial goals as well. So don't get too obsessed with the home loan prepayment.

(20/n)

That was the thread about 1% SIP of Home Loans. If you found this thread ■useful, then do share it with others.

You can also retweet the link to the first tweet of this thread to spread the word. Link below ■■

https://t.co/JFI3CkC1lj

> SIP (Trick) of 1% of the Home Loan amount.
>
> Many call it the SIP trick to compensate for home loan interest.
>
> What exactly is it?
>
> Here is the thread\U0001f9f5that tries to explain this simple idea \U0001f447\U0001f447
>
> (1/n)
>
> — Stable Investor (@StableInvestor) December 18, 2022