

Twitter Thread by Stable Investor



Stable Investor

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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 $20 \times 12 \times 4200$, 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 on why principal gets repaid slowly initially & how to prepay smartly

(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>

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— Stable Investor (@StableInvestor) December 18, 2022