What are different Factors Affecting the EMI Amount.docx - Edited

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The number of EMIs as well as the amount can increase or decrease with the prevailing market rates, tenure, and other factors. Here are the major factors that can affect the EMI amount on loans:

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1. **Loan amount, interest rate, and repayment tenure**

Higher the loan amount and the rate of interest charged by lending institutions, higher will be the EMI amount. This EMI amount can vary depending on the tenure for the repayment of loan. The EMI amount one pays monthly will decrease with the increase in repayment tenure, and vice-versa.

2. **Fixed or floating rate of interest on loans**

Banks mostly use MCLR as the base lending rate to determine the floating rates of interest on loans. The revision in MCLR rate is done individually by banks, especially when the RBI revises the repo rate.

Typically, MCLR is an “internal benchmark” for banks to fix their lending rates, or floating rates of interest on loans. The EMI amount varies with the change in base rate linked to the repayment tenure of the loan.

Unlike the floating rate of interest, fixed rates are relatively high. The EMI amount remains fixed or unchanged through the repayment period in loans that offer fixed rates of interest.

3. Pre-payment or foreclosure of loans

Foreclosure of loans allow borrowers to reduce the remaining number of EMIs. Loans can be closed before the scheduled closing date by paying the remaining balance, either in lump sum or partial payments. Remember, additional rates as well as GST may be levied upon the lending rate as per lender's policy.

4. Down payment on loans

Making a down payment, or accumulating a certain fund before applying for a loan and paying it as a lump sum, will help borrowers reduce the EMI amount.

5. Compound interest on loan EMIs

Banks may charge compound interest on loans. In compound interest, the interest on the principal amount on loans is added up on the previously accrued interest. In simple terms, compound interest is the interest you pay on interest, and your EMI amount can vary as per calculating frequency, either monthly, quarterly, half-yearly or annually.

Lenders may charge compound interest rates in the form of annual percentage rate (APR) that calculates the EMI taking into account the interest rate, any

fees charged by the lender, and the tenure of the loan. On the contrary, compound interest on savings or investment instruments can be beneficial to earn wealth.

6. Mis-payment of EMI on loans

If the borrower is irregular or fails to pay the installment and exceeds the scheduled due date for a certain period of days, lending institutions will levy additional interest over and above the EMI amount.

Borrowers should ensure that enough funds are available on the account for banks to deduct the EMI amount on the due date, and hence avoid default on loans, which will cost you extra as well as hamper your credit score.

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