

## BENEFITS OF INSTALMENTS

At the time of purchasing property it is important to decide that a person wants to pay in cash total amount or one wish to purchase a property in instalment payment.

1. **Factors related to locality and region**
  - 1.1 Emergency or the use of the property
  - 1.2 The gestation period or ripping period of the property
  - 1.3 Need of the use of property
  - 1.4 Development of surroundings and price escalation
  - 1.5 Project taking place near by
2. **Personal Factors**
  - 2.1. Interest in property
  - 2.2. Regional or personal factors with the region
3. **Factors related to the Financial Impact**
  - 3.1. Interest rate of the Loan
  - 3.2. Down payment of the loan
  - 3.3. Duration of the loan period
  - 3.4. Monthly instalment or EMI
  - 3.5. Effective inflation rate

Financial factor always plays a significant role. Therefore, it is also essential statically, that what is real benefit and what a person gets by making deferred payment of a property and choosing an option of loan. A small working is attached herewith to show this fact.

While arriving to the statistics following observations are made. A person has a two choice he can buy a property worth 9.6 Lack either in cash or in the instalments (Rs. 20,000 in present case). Benefit in the purchasing in cash is he can save interest burden (0% in the present case) and need of down payment (0% in the present case). On other hand he can save a net payment by paying instalments at a later date (inflation effect, say 10% in present case). The payment at later date will have lesser time value of money. i.e. today's money will have high buying power compared to tomorrow and vice-versa. Besides this he is also saving a simple monthly banking interest on the amount of money that he decides to pay at a later date (5% banking interest in this case). Combining all this benefits a net effective payment for the purchase of property would be significant, as shown under.

Monthly Instalments	20000											
Inflation rate	10%											
Interest Earned from payment	5%											
Year of Instalments	1		2		3		4					
Months	1	2	11	12	13	14	23	24	25	36	37	48
Monthly Cash flow	20000	20000	20000	20000	20000	20000	20000	20000	20000	20000	20000	20000
Cumulative Cash flow	20000	40000	220000	240000	260000	280000	460000	480000	500000	720000	740000	960000
Present Value of Cash flow	20000	19833	18394	18241	18089	17938	16637	16498	16361	14922	14798	13496
Income from interest (6%)	3917	3833	3083	3000	2917	2833	2083	2000	1917	1000	917	0
PV of net Cum Cash flow	16083	32083	172559	187800	202972	218077	351194	365692	380136	535770	549651	699926
Ratio of rate of reduction	80.42%	80.21%	78.44%	78.25%	78.07%	77.88%	76.35%	76.19%	76.03%	74.41%	74.28%	72.91%

Inflation rate	10%	5%	10%	12%	15%
Effective Rate reduction - Benefit	27.1%	19.0%	27.0%	30.1%	34.0%
Basic Price		4000	4000	4000	4000
Effective Price		3240	2920	2796	2640
Net reduction due to instalment		760	1080	1204	1360