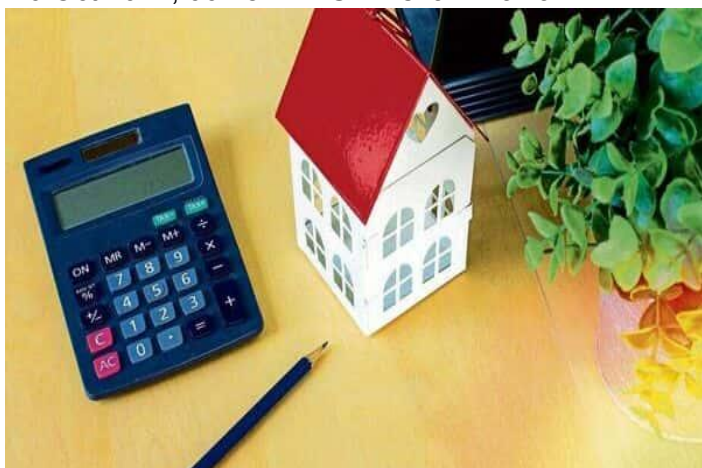


What should my MF mix be to clear the home loan earlier?

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I am 35 years old and earn 2.2 lakh per month. I invest 70,000 per month in mutual funds (MFs). The current value of my MF investments is 53 lakh. I have recently taken a home loan of 1.5 crore, with EMI of 1.15 lakh per month for 25 years. How do I clear the home loan earlier? What should my ideal MF mix be? How do I save on taxes since I cannot claim house rent allowance (HRA)?

It is a good idea to work towards prepaying your loan, along with investing a portion of your funds in MFs. Use your yearly bonuses /variable components in compensation (if any) to prepay the loan which will help reduce the tenor of your loan and save on interest costs. Also, increase the EMI amount whenever you get yearly salary increments.

Considering that you have a home loan already and are probably also contributing to an Employee Provident Fund (EPF) account, your MF portfolio should ideally be tilted towards equity if your risk tolerance and investment time horizon permit, as the cost of the loan may be higher than the returns on your debt MF investments, and prepaying the loan may therefore be a superior alternative vis-a-vis debt MFs. Considering that you are still young, the equity MF investments could possibly deliver superior outcomes over debt over very long time frames.

For incremental tax savings, consider investing in the National Pension System (NPS), which gives an additional 50,000 tax benefit to the tax payer post utilisation of the 1.5 lakh limit under section 80 C. Additionally, if your family does not have health insurance, then under section 80D, an individual paying Medclaim for self, spouse and children can claim a maximum deduction of 25,000 per annum. If your parents are more than 60 years old, you could also consider taking a separate policy for them as the premium paying person can get an additional deduction of up to 50,000.

Vishal Dhawan is a certified financial planner and founder of Plan Ahead Wealth Advisors, a Sebi-registered investment advisory firm.