



Personal Loans

Things to Know and Deals to Go for

Several banks offer loans for personal use and choosing the right bank to avail of the most suitable scheme becomes difficult for a general consumer. He either asks friends who may have only partial knowledge or relies upon agents of the banks whose focus is either to meet his own monthly targets or to sell loans that can get him more commission. Hence, in order to make the comparison practical for consumers, *Consumer Voice* conducted a comparative study of personal loan schemes offered by popular banks. The comparisons were based on parameters that influenced the common man's decision while choosing the bank or the loan scheme.

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With loan-availing procedures becoming lenient and the RBI mandating loan disbursement within a month of completion of formalities for eligible individuals, the demand for loans for personal use has seen an upwards trend. More often than not, many of us consider a personal loan as the best option to

meet contingencies, be it a foreign trip, a marriage, or other ceremonies considered to be unavoidable. However, opting for a personal loan without studying its terms and conditions and services can turn out to be an imprudent step and cost dearly.

Several banks and financial institutions offer attractive deals on personal loan offers with lucrative interest rates. Each personal loan-lending institution

has different eligibility criteria, rates of interest, and repayment tenures, which should be reviewed and compared to make an informed and smart decision before applying.

Personal loans are also called 'clean' or 'unsecured'

loans as they can be obtained without any tangible security like property, fixed deposits or bonds. Only the personal sureties are required to be furnished to confirm that you are a dependable person and will not default on the loan.

Mandatory 30-Day Loan Disbursal Time

The Reserve Bank of India (RBI) has come down heavily on commercial banks for causing inordinate delays in conveying their credit decisions/credit disbursal. In its latest notification dated 1 September 2014, all banks have been asked to carry out due diligence before arriving at credit decisions to ensure timely and adequate availability of credit.

RBI has said that banks must put in place loan disbursal timelines within 30 days of the RBI circular. Banks are also expected to make suitable disclosures on the timelines for conveying credit decisions through their websites, notice boards, product literature, etc.

Leading bankers have opined that this move could push banks to cut procedural delays. They say that individual banks already have their own internal guidelines and timelines for disposal of small loans. A centralized system as suggested by RBI will help in speeding up matters.

Under the RBI guidelines on Fair Practices Code for lenders, it has been stipulated that the time frame for disposal of loan application up to Rs 200,000 should be indicated at the time of accepting the loan application.

GENERAL ELIGIBILITY CONDITIONS

◆ For salaried class

- One should have a running bank account where salary is being credited regularly. The bank account need not be with the bank where one is applying for a personal loan. However, banks prefer to consider such loans to be given to their own clientele on priority.
- One should have a job of permanent nature as banks would not give a loan to a person without job surety.



- The length of service or employment plays a part in expediting the loan sanction.
- Place of residence should either be owned or rented with a lease agreement.
- Residence proof like voter identity card, passport and Aadhaar card, and identity proof like employment identity card and PAN card have to be produced duly self-attested along with bank application form. At least two photographs of applicant are required.
- While disclosing the purpose of the personal loan is not mandatory, the bank will like you to state some reason (any one of the above or other purposes, which can be vague – for example, meeting unplanned domestic expenses).
- If you already have another loan like car loan or home loan, those deductions will be taken into account to calculate total deductions out of the salary and arrive at the eligible loan amount.
- Your CIBIL score will also play a significant part in the bank's decision in granting a personal loan.

CV RECOMMENDATION*

	Private Sector Banks	Public Sector Banks
BEST BUY	ICICI Bank	Vijaya Bank
GOOD BUYS	Axis Bank	Union Bank
FAIR BUYS	Kotak Mahindra	State Bank of India

*Based on thorough research and comparison of offerings from banks from consumers' point of view

CV Weightage (Criteria) Points 100	Personal Loans by Banks	Union Bank	Vijaya Bank	PNB	Oriental Bank	
15	Maximum Loan (in lakh)	5 (5)	5 (5)	10 (10)	3 (5)	
10	Processing Charge (%)	0.5 (7)	2000 + ST (10)	1.8 + ST (4)	0.5 (7)	
15	Rate of Interest (%)	15 (11)	14.3 (11)	16.25 (5)	13.5 (15)	
5	Max. Repayment Period (in Months)	60 (5)	60 (5)	60 (5)	60 (5)	
10	Security/Collateral	No (10)	No (10)	Yes (0)	Yes (0)	
10	Guarantor	Yes (0)	Yes (0)	Yes (0)	Yes (0)	
5	Insurance Cover	No (10)	No (10)	No (10)	No (10)	
15	Time Taken for Sanction (Claimed Days)	10+ (2)	10+ (2)	10+ (2)	10+ (2)	
5	Online Application	Yes (5)	Yes (5)	Yes (5)	No (0)	
10	Pre-Payment Charge	No (10)	No (10)	No (10)	No (10)	
Total		65	68	51	54	

ST: Service tax

Notes: a) We have sourced the product information from banks' websites.

b) Some of the variables have contrasting opinion when ascertained from the user-consumers as against the banks' claims in their websites. Therefore, we have assigned points based on consumers' point of view only.



- There is no fixed criterion for arriving at the eligible loan amount, as individual banks have different methods of calculation. The generally accepted practice is to fix a ceiling of about 50 per cent of deductions from salary including the repayment of the loan to be granted. If you are within this ceiling, then the eligible amount could be about 10/12 times the gross monthly salary or 6 times the total taxable income as declared in Form 16 or income tax returns (ITR). This can vary among nationalized banks and also among

private banks (private banks compute on the take-home pay).

◆ For the self-employed

For those who either do business or are freelancers, additional conditions may apply.

- Since he does not get a salary, the business income as reflected in the income tax returns will be the basis of ascertaining his total

income. He may be required to submit details of his enterprise/nature of income.

- The performance of the business can also be a factor that influences the loan sanction. In case of a new enterprise, banks can insist on collateral securities like bank deposits and bonds, in addition to providing one or more personal surety of adequate net worth.

	State Bank of India	Bank of India	Canara Bank	HDFC Bank	ICICI Bank	Karur Vysya	Axis Bank	Kotak Mahindra
	15 (15)	10 (10)	1 (5)	15 (15)	15 (15)	100 (15)	15 (15)	15 (15)
	1.01 (4)	2 (4)	1 (7)	2.5 (2)	2.25 (2)	0.4 (7)	2 (4)	3 (2)
	15 (11)	15.2 (5)	14.2 (11)	15.75 to 20 (5)	13.49 (15)	17 to 19.75 (5)	15.50 to 24 (5)	15 to 24 (5)
	60 (5)	60 (5)	36 (2)	60 (5)	60 (5)	36 (2)	60 (5)	60 (5)
	No (10)	Yes (0)	Yes (0)	Yes (0)	No (10)	Yes (0)	No (10)	No (10)
	Yes (0)	Yes (0)	Yes (0)	Yes (0)	No (10)	Yes (0)	Yes (0)	No (10)
	Yes (0)	No (10)	No (10)	Yes (0)	Yes (0)	Yes (0)	Yes (0)	Yes (0)
	10+ (2)	10+ (2)	10+ (2)	0 to 5 (10)	6 to 10 (5)	10+ (2)	6 to 10 (5)	6 to 10 (5)
	Yes (5)	No (0)	No (0)	Yes (5)	Yes (5)	No (0)	Yes (5)	Yes (5)
	No (10)	No (10)	No (10)	Yes (0)	Yes (0)	No (10)	No (10)	Yes (0)
	62	46	47	42	67	41	59	57

◆ For professionals

For professionals – doctors, lawyers, chartered accountants, architects, etc. – the following could be additional conditions to be fulfilled.

- An attested copy of their qualification will have to be submitted along with the application form.
- Since some banks have specialized personal loan schemes for such professionals offering lower rates of interest, the bank may ask for some details on the profession as also copies of receipts/payments and/or income/expenditure account.



Advantages

- The first and the foremost benefit is the quickness with which the loan application is either sanctioned or disposed of (rejected).
- In most of the sanctioned personal loans, the banks do not insist on any collateral security or in some cases even personal guarantee/surety. So it is advantageous for the loan seeker, as he need not be under any obligation to his colleagues or friends for providing personal surety.
- Most of the banks do not ask for margin component (borrower's stake in the risk). Hence, there is absolutely no need for the consumer to run around to arrange for margin money.
- The purpose of the loan is immaterial in most cases. The consumer need not take pains to explain the genuineness of the purpose and submit proof for such purpose.
- Simple documentation is assured. There are no elaborate procedures.
- Making monthly repayments is now made consumer-friendly with banks agreeing to take

post-dated cheques (PDCs) for the amount of each installment and presenting the same on due date. The consumer need not visit the bank at all for such work. Where the loan instalment payable is to be taken out of the savings account of the customer, the banks obtain written instructions and act on them.

Disadvantages/Limitations

- The rate of interest is the highest for this type of loan. It is a costly affair as this is an 'unsecured' loan as compared to home loans that are 'secured'.
- The period of the loan is normally limited to 60 months. Banks do not favour or take exposure for a longer tenure. This may be limiting with regard to the consumer's requirements.
- According to bank sources, personal loans carry a higher risk and can end up as a non-performing asset. There is the risk of repayment getting stopped midway due to change of job/temporarily unemployed status/death of the borrower/change of address without trace, etc. Hence, many banks do not consider giving a loan to non-customers – that is, individuals





who have no previous bank dealings with the lender. This severely restricts the options available to the consumer-borrower to seek a loan from any bank in the vicinity of their residence or place of work.

- Most banks are not willing to grant personal loans of more than Rs 15 lakh even though their website/brochure claims the maximum amount to be much more. So, the consumer-borrower will not get the benefit of more loans even if they are otherwise eligible.
- Many of the banks insist on personal surety/guarantor for the loan transaction to add trustworthiness to the loan contract.

AND WHEN MAY THE LOAN BE REJECTED?

Poor Credit Score

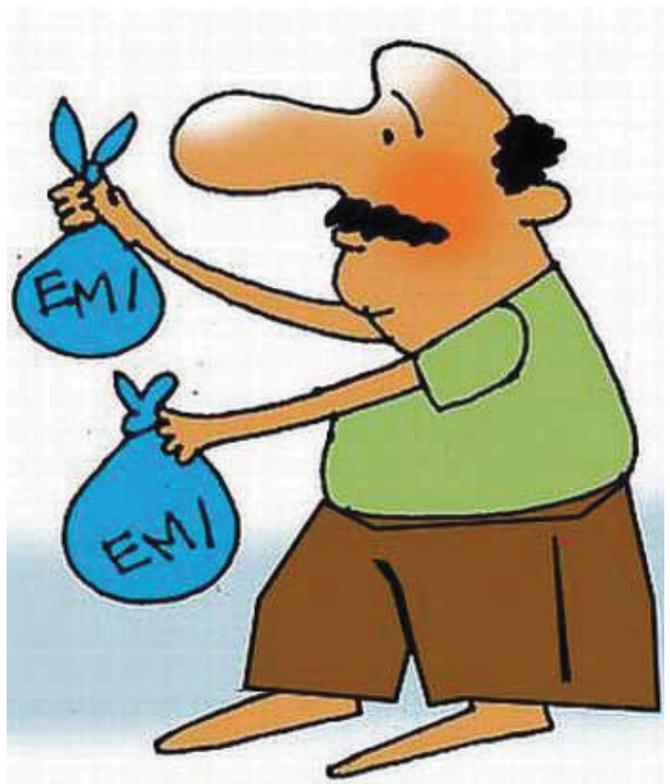
Most banks and other financial institutions have voluntarily joined the credit information agency called

Credit Information Bureau of India Limited (CIBIL), wherein they share their credit details that include information on all borrowers' present/previous loan transactions (even though they are closed and there is no outstanding with the bank).

Banks forward their own internal credit report on a customer's credit performance and CIBIL then awards marks based on that assessment (anything between 300 and 900 marks). CIBIL uploads the same on their website. The information is required to be updated (additions/deletions) at regular intervals by the banks who are admitted as members of CIBIL.

Banks invariably call for CIBIL report as soon as you apply for a loan. If your past transactions with a particular bank/FI either in loan repayment or credit card repayment were not up to the mark (termed as poor CIBIL scores, less than 700), then there is every chance of your present request for personal loan getting rejected.

Anyone can seek their CIBIL score by visiting the CIBIL website (www.cibil.com), filling in the form and paying Rs 470 online for one report. The CIBIL score is delivered at the given email ID. It is to the credit of this institution that 80 per cent of approved loans (and sanctioned by banks) are of individuals with a CIBIL score of more than 750.



Past Default

Banks draw up a list of their own defaulters and upload in their computer systems for any branch to look into and verify the past record of a loan seeker. This is in addition to the CIBIL report that contains credit information on the loan seeker with other banks.

Loan Guarantor

You may have stood as personal surety by guaranteeing repayment to the bank in case of default by your friend, who was the borrower for a bank loan. You may have forgotten it, but the CIBIL report will show you as a defaulter for the loan, even though you were only a guarantor. You could be in for a shock, but that is how the system works. So, think twice before offering to stand as personal surety to anyone.

Many Loans

While calculating your eligibility for a loan, banks will normally add all the existing outstanding loans from banks, private borrowings, etc., before arriving at the eligible amount. The loan-to-income ratio is calculated (banks generally say that the total deductions –including the repayment of the present loan – should not exceed 50 per cent to 70 per cent of your take-home/gross salary) by the bank before extending a loan.

Job Stability

If you shift jobs frequently or shift your location a number of times, it becomes public knowledge and might go against you, as the bank could be

asking searching questions on this score. A stable employment track record plays a favourable role in bank's decision to give you a loan. Since this loan is not secured by any collateral security and is given based on a good track record of employment (loyalty factor) and credit profile (good or acceptable CIBIL score), stability in one's life is of prime importance in the eyes of the bank.

Tax Record

Banks could make a thorough assessment of your tax profile by asking for the ITR copies of previous assessment years or could ask for details of tax deducted at source/professional tax paid against your salary in the past. Failure to give them or submit satisfactory answers could come in the way. So, the advice is to obtain income certificate/TDS certificate/Form 16-16 (A) from your employer and produce the same when necessary.

Past Loan Rejections

If you have applied for a loan or credit card in the past and got rejected (for whatever reason), applying again could get you a rejection.

RBI Defaulters'/Wilful Defaulters' Lists

If your name is here, then you must worry. The Reserve Bank of India maintains the 'wilful defaulters' list, which is updated and uploaded on its website. The RBI Wilful Defaulters' List is culled from the banks on the basis of wilful default (deliberate attempt to hoodwink the lenders in spite of adequate net worth).

