



## Home Loans by Small Finance Banks No small deal

The focus of these banks is on mid- and lower-income categories and unserved and underserved sections including small business units and small, marginal farmers. These banks offer basic banking services including accepting deposits and lending. Talking of loans, small finance banks (SFBs) are a real blessing if you need finance for purchase of land (remember that no other scheduled commercial bank offers this unique finance). This article assesses the home-loan component of five SFBs along standard parameters and while at it, also describes the basic banking services that they provide vis-à-vis cooperative banks and regional rural banks.

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**W**e chose the five small finance banks for this study based on consumer feedback and product structure. The parameters on which we have compared them include availability of loan for land purchase, maximum and minimum repayment period, foreclosure/prepayment charge, maximum and minimum loan, maximum and minimum rate of interest, maximum and minimum eligibility age, margin percentage, processing charge,

late-payment charge on EMI, cheque-dishonour charge, and applicability of Pradhan Mantri Awas Yojana (PMAY) subsidy. We gave the highest weightage (25 points) to consumer feedback, which helped in determining product quality as well as the most important and beneficial variables. These variables have a direct bearing on the product structure. Our questionnaire covering various features of the loans received responses from a cross-section of product users.

## HOME LOANS BY SMALL FINANCE BANKS: A COMPARATIVE CHART

CV Weightage Points (100)		Utkarsh (Home Loan)	Equitas (Home Finance)	ESAF (New House Construction)	AU (Land Purchase & Home Construction)	Ujjivan (Composite Home Loan)
For Information Only	Bank head office	Varanasi	Chennai	Thrissur (Kerala)	Jaipur	Bengaluru
	Total branch network in India	400	392	340	306	464
	Branches in Delhi/NCR	6	13	4	21	10
	Date of operation	January '17	September '16	March '17	April '17	February '17
2	Minimum eligibility age (years)	0	0	2	2	0
3	Maximum eligibility age (years)*	1	0	2	3	0
2	Minimum loan (Rs, in lakh)	2	0	2	1	1
7	Maximum loan (Rs, in lakh)	3	5	1	7	2
2	Processing charge in % (maximum)	2	1	0	0	1
4	Minimum rate of interest in %	2	4	0	3	1
5	Maximum rate of interest in %	1	3	4	5	2
2	Minimum repayment period (in months)	2	0	1	2	2
7	Maximum repayment period (in months)*	4	4	4	7	4
3	Late-payment charge on EMI (% PA)	2	1	0	0	3
3	Cheque-dishonour charge (Rs)	3	1	0	0	0
3	Loan options	2	2	0	3	1
10	Margin (%)	10	10	5	0	0
2	Foreclosure/Prepayment charge (%)	2	1	0	0	0
3	PMAY subsidy (Rs, in lakh)	1	0	3	0	0
2	Work experience required (years)	2	0	0	1	0
15	Loan for land purchase also available	15	0	0	15	15
25	Customer feedback	8	2	3	21	10
	<b>Grand total</b>	<b>62</b>	<b>34</b>	<b>27</b>	<b>70</b>	<b>42</b>

Notes:

a) The rate of interest is on floating basis.

b) Information given here has been sourced from websites and brochures.

c) \* The maximum age should be the age that is likely to be completed as on the date of maturity of the loan.



At present, there are 10 players in the domain:

1. AU Small Finance Bank
2. Capital Small Finance Bank
3. ESAF Small Finance Bank
4. Equitas Small Finance Bank
5. Fincare Small Finance Bank
6. Jana Small Finance Bank
7. North East Small Finance Bank
8. Suryoday Small Finance Bank
9. Ujjivan Small Finance Bank
10. Utkarsh Small Finance Bank

### CV RECOMMENDATIONS

#### Best Buy

**AU Small Finance Bank**

#### Good Buy

**Utkarsh Small Finance Bank**

#### Fair Buy

**Ujjivan Small Finance Bank**

In July 2014, Reserve Bank of India (RBI) announced a new category of banks called small finance banks with a view to disburse small-ticket loans. The objective was to further financial inclusion by (a) provision of savings vehicles, and (ii) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganised sector entities, through high-technology, low-cost operations. There was to be no restriction on the area of operations of small finance banks.

Why so few, one may wonder. Well, while there were 72 applicants seeking to obtain license for opening small finance banks, Reserve Bank of India (RBI) short-listed 10 promoters in the first round. If all goes well, there will likely be another list of licenses to be issued in the near future.

Small finance banks offer basic banking services, accepting deposits and lending to unserved and underserved sections.



**What to Expect in Home Loans**

◆ **Loan options**

- ✓ Home purchase, home construction, or land purchase + home construction
- ✓ Home-loan balance transfer (takeover loan)
- ✓ Home-loan refinance
- ✓ Under Pradhan Mantri Awas Yojana (PMAY) (the government had launched this scheme with the mission ‘Housing for All’)

◆ **Foreclosure/Prepayment**

In our comparative study, it can be seen that while one bank does not charge anything towards pre-closure of home loan by the borrower, another bank charges two per cent for the same. Some banks do not specify

anything in this regard. In any case, if you have liquid surpluses it is better to pre-close the home loan before its due date, provided you don’t have much balance due and that too if the tax benefits do not outweigh the tax payable.

◆ **Maximum eligibility age**

This is the age that you will be when your home loan is nearing its life—do not confuse this with your present age. To find the actual period of the loan repayment, deduct your present age from the available period of loan tenure. The balance will be the actual period available for repayment.

**Why May You Avail Home Loans from SFBs?**

- They are willing to finance for purposes of purchase of plot (with the intention of constructing a dwelling) as also for home construction.
- They are accessible to hitherto unbanked and under-banked areas for finance options. In fact, it is for the time in banking history that the unorganized workers and migrant workforce are able to avail bank finance for their petty businesses.
- They finance small and marginal farmers with less than five acres of agricultural land.
- They can issue debit cards and provide internet banking services to their customers.
- Their offer higher rates of interest on fixed deposits compared to nationalized and private banks.

**Similarities between small finance banks, cooperative banks and regional rural banks (RRBs)**

Small finance banks	Cooperative banks	Regional rural banks
SFBs have a ceiling on lending.	They also cannot extend large loans.	They cannot extend large loans.
Borrower has to be an accountholder of the bank.	Borrower has to be a member of the cooperative society.	Borrower has to be an accountholder of the bank.
The regulator is RBI.	The regulator is RBI as well as Registrar of Cooperative Societies.	The regulator is NABARD as well as RBI.
The range of banking services offered is limited.	The range of services is limited.	The range of banking services offered is limited.
They cannot issue credit cards.	Cooperatives cannot issue credit cards.	They cannot issue credit cards.
Bank itself decides the lending and deposit rates based on base rate fixed by RBI.	Cooperatives decide the lending and deposit rates.	Bank decides lending and deposit rates based on MCLR/deposit base rate fixed by the sponsor bank/RBI.

### Where they differ

Small finance banks	Cooperative banks	Regional rural banks
Profit will be from earnings through lending.	Profit is not the main motive; if profits are made, then they are distributed to members as dividend.	Profit will be from earnings through lending.
Anyone becoming a customer can apply for a loan.	One has to be holding a share to become a member and then a loanee.	Anyone becoming a customer can apply for a loan.
Interest rates are marginally higher.	Interest rate on lending is low.	Interest rate on lending is low.
Deposit rates are higher.	Deposit rates are lower.	Deposit rates are lower.
Processing fee is payable.	Processing charge on loans is nil.	Processing fee is payable, though very marginal.
The focus of lending is under-banked centres in semi-urban and rural areas as well as the unorganized/migrant workforce.	The focus of lending is confined to members of the society consisting of farmers and unorganized workers in semi-urban and rural areas.	The focus is on lending to priority-sector areas in semi-urban and rural areas that fall within their area of operation.
Area of operation will be smaller, with priority given to opening offices in unbanked and under-banked areas irrespective of the area of operation.	Area of operation will be confined to district where they operate, though they can also open at urban centres within the state.	Area of operation will be confined to district where they operate.
The promoter is the owner.	Members own the bank.	Ownership is divided between central government, state government and sponsor bank.
They are governed by RBI Act and Banking Regulations Act.	They are governed by The Registrar of Cooperative Societies Act and Banking Regulation Act.	They are governed by Regional Rural Banks Act, 1976, and Banking Regulations Act.
Cash reserve ratio (CRR) and statutory liquidity ratio (SLR) are mandatory.	CRR and SLR are mandatory.	They are not to maintain these ratios, thereby getting more funds for credit deployment.

### Takeaways

- Small finance banks can be your go-to option if you need finance for purchase of land.
- There is no restriction regarding the project (home-project location) for financing home loans, unlike private banks that mostly finance tie-up/approved housing projects.
- These banks lend without any geographical restriction (nationalized banks do not lend outside their command area, which generally is 16 km).
- If you are looking to start a small venture (like a grocery shop or a tea stall), apply for a loan from these banks.
- Park your liquid cash/savings as their deposit rates are better.