



# Personal Loans by NBFCs

## Know the best NBFC for taking a personal loan

Personal loans help meeting any financial shortfall one may experience. An increasing number of consumers these days are now taking personal loans and they are converting their purchases into equated monthly installments (EMIs). We have evaluated 5 NBFCs basis their interest rates, loan tenure, repayment charges among others and found the best one. Here's a complete low-down on personal loans to understand it better and know the best one.

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**P**ersonal loan is an unsecured loan taken by individuals from a non-banking financial company (NBFC) to meet their personal needs. Since a personal loan is an unsecured loan, therefore your credit history usually plays a significant role in the approval process.

Simply put, it is an unsecured loan taken by individuals

from a non-banking financial company (NBFC) to meet their personal needs. It is provided on the basis of key criteria such as income level, credit and employment history, repayment capacity, etc.

Unlike a home or a car loan, a personal loan is not secured against any asset. As it is unsecured and the borrower does not put up collateral like gold

or property to avail it, the lender, in case of a default, cannot auction anything you own. The interest rates on personal loans are higher than those on home, car or gold loans because of the greater perceived risk when sanctioning them.

However, like any other loan, defaulting on a personal loan is not good as it would reflect in your credit report and cause problems when you apply for credit cards or other loans in future.

## Product comparison chart

We have chosen 5 NBFCs who have furnished full information in their websites to analyze their product and services while undertaking this study (see chart). The important/influential variables are chosen based on consumer perceptions and after obtaining their feedback through a structured questionnaire, the product structure points and consumer feedback points are collated and we are arrived at the best buy for this product/service for consumer information/use.

CV Weightage (criteria) Points 100	Personal Loan by NBFCs	Tata Capital	Bajaj FinServ	IIFL Finance	HDB Financial Services	Aditya Birla Capital
Info Only	Minimum Age (Yrs)	22	23	25	21	23
	Maximum Age (Yrs)	58	55	60	60	60
10	Minimum Employment (Months)	6 (10)	NS (0)	6 (10)	12 (5)	NS (0)
6	Minimum Work Experience (Yrs)	1 (6)	NS (0)	2 (4)	3 (2)	NS (0)
10	Minimum Monthly Income (Rs.in 000s)	15 (10)	35 (5)	35 (5)	15 (10)	NS (0)
8	Minimum Loan (Rs. in lakhs)	0.75 (5)	0.50 (8)	NS (0)	NS (0)	1 (2)
7	Maximum Loan (Rs. in lakhs)	25 (4)	25 (4)	25 (4)	20 (2)	50 (7)
5	Processing charge (%)	2.50 (3)	3.99 (1)	2.00 (5)	2.00 (5)	1.99 (5)
10	Rate of Interest in % (min)	10.99 (10)	NS (0)	13.00 (5)	NS (0)	16.85 (2)
5	Rate of Interest in % (max)	19.00 (1)	12.99 (5)	NS (0)	36.00 (1)	17.85 (3)
10	Max. Repayment period (in months)	72 (10)	60 (5)	60 (5)	60 (5)	60 (5)
2	Penal Interest over lending rate (%)	3 (1)	2 (2)	2 (2)	3 (1)	NS (0)
2	Part/prepayment charge (%)	2.50 (1)	2.00 (2)	NS (0)	NS (0)	NS (0)
5	Foreclosure charges (%)	4.50 (3)	4.00 (5)	6.00 (2)	4.00 (5)	NS (0)
5	Cheque Bounce charges (Rs.)	600 (3)	600 (3)	500 (5)	750 (1)	NS (0)
15	Consumer Feedback	8	12	4	5	10
<b>Total</b>	<b>75</b>	<b>52</b>	<b>51</b>	<b>42</b>	<b>34</b>	

Note:

1. We have resourced the product information from the NBFCs' websites as on 14.11.2019
2. Some of the variables mentioned above have contrasting opinion when ascertained from the user-consumers as against the NBFCs' claims in their websites. Therefore, we have assigned points based on consumers' point of view only.
3. This study only covers salaried individuals



### CV RECOMMENDATION

Based on majority consumer perception and the appeal of the product in the eyes of the consumers and also taking into account the product structure as a whole, the results of this study are as under:

**BEST BUY**

**Tata Capital**

## Availing a personal loan

It can be used for any personal financial need and the financial institutions (FI) will not monitor its use. For example, you can use it to renovating your home, marriage-related expenses, a family vacation, your child's education, purchasing latest electronic gadgets or home appliances, meeting unexpected medical expenses or any other emergencies. Personal loans are also useful when it comes to investing in business, fixing your car, down payment of new house, etc.

## Eligibility criteria

Although it varies from one NBFC to another NBFC, the general criteria include your credit score, age, place of residence, occupation, income, existing liabilities and capacity to repay the loan.

To avail of a personal loan, you must have a regular income source, whether you are a salaried individual,

self-employed business person or a professional. An individual's eligibility is also affected by the company he is employed with, his credit history, etc. NBFCs normally target highly-paid professionals, businessmen, credit card users for their personal loan requirements and are aggressive in assuring sanction/disbursement especially in pre-approved cases which meet the following parameters.

- Existing customer.
- Credit card holder.
- Working in blue-chip companies.
- During credit camp/credit campaign.

## Maximum loan duration

Personal loan can be availed for 1 to 5 years or 12 to 60 months. Shorter or longer tenures may be allowed on a case by case basis, but it is rare.

## Disbursal of loan amount

Typically, it gets disbursed within 7 working days of the loan application to the lender. Once approved, you may either receive an account payee cheque/draft equal to the loan amount or get the money deposited automatically into your savings account online.

## How much can one borrow?

It usually depends on your income and varies based on whether you are salaried or self-employed. Usually, the banks restrict the loan amount such that your EMI isn't more than 40-50 percent of your monthly income.

Any existing loans that are being serviced by the applicant are also considered when calculating the personal loan amount. For the self-employed, the loan value is determined on the basis of the profit earned as per the most recent acknowledged profit/loss statement, while taking into account any additional liabilities (such as current loans for business, etc.) that he might have.

## Is there a minimum loan amount?

Yes, though the exact amount varies from one



institution to another. Most lenders have set their minimum personal loan principal amount.

### From which financial institution should one borrow?

It is good to compare the offers of various NBFCs before you settle on one. Some key factors to consider when deciding on a loan provider include interest rates, loan tenure, processing fees, etc.

Deciding the maximum loan amount for an NBFC may differ from one to another, some key factors determining the maximum loan amount that can be sanctioned to you include your credit score, current income level as well as liabilities. A high credit score (closer to 750-800) means you have serviced your previous loans and/or credit card dues properly, leading the lenders to feel that you are a safe borrower, leading to a higher loan amount being sanctioned.

Your current income level and liabilities (outstanding credit card dues, unpaid loans, current EMIs, etc.) have a direct bearing on your repayment capacity. Therefore, if you are in a lower income bracket or

have a large amount of unpaid credit card bills or outstanding loan EMI, you will be sanctioned a lower personal loan amount than those with a higher income or fewer financial liabilities.

### Should I always go for the lowest possible EMI when choosing a loan provider?

Low EMI offers can typically result from a long repayment term, a low interest rate, or a combination of the two factors. Thus, sometimes, you may end up paying more interest to your lender if you choose low EMIs. So use online tools like the personal loan EMI calculator to find out your interest payout over the loan tenure and your repayment capacity before taking a call.

### Interest rates

Being unsecured loans, personal loans have a higher interest rate than those on secured 'home and car' loans. At present, many NBFCs offer such loans at interest rates of as low as 10.99 percent. However, the rate applicable to a borrower is contingent on key factors, including credit score, income level, loan



amount and tenure, previous relationship (savings account, loans or credit cards) with the lender, etc.

## Payable extra charge

In addition to the interest payable on the principal amount, there is a non-refundable charge on applying for a personal loan. The lender charges processing fees, usually 2 percent of the loan principal, to take care of any paperwork that needs to be processed as part of the application process. The lender may waive this charge if you have a long-term association with him.

## Fixed or floating interest rates

For a fixed rate of personal loan, the EMIs remain fixed. Floating rate means the EMIs keep decreasing as it follows the reducing balance method of calculating interest payout on a personal loan. As per the new marginal cost of funds based lending rate (MCLR) rules, floating rates may be changed either on a half-yearly or annual basis.

## Difference between reducing and flat interest rate

As the name implies, in the former, the borrower pays interest only on the outstanding loan balance, i.e., the balance that remains outstanding after getting reduced by the principal repayment. In flat interest rate scenario, the borrower pays interest on the entire loan balance throughout the loan term. Thus, the interest payable does not decrease even as the borrower makes periodic EMI payments.

## Can I apply jointly with my spouse?

Yes, you can apply for a personal loan either yourself (singly) or together with a co-applicant (jointly), who needs to be a family member like your spouse or parents. Having a co-borrower means your loan application will be processed in a higher income bracket, making you eligible for a larger loan amount. However, keep in mind that if you or the co-applicant has a poor credit history, the chances of success of your loan application may be low.

## Prepaying loan

Yes, however, some NBFCs allow borrowers to prepay the loan only after certain number of repayments has been made. Some lenders do not allow partial prepayment. Prepayment charges may be levied on the outstanding loan amount.

## Key documents required when applying for a loan

Though the documentation requirements vary from one financial institution to another, some key documents you will have to provide with your personal loan application include:

- Income proof (salary slip for salaried/Form 16/16A/recently filed ITR).
- Address proof documents.
- Identity proof documents.
- Status of existing loans, if any.

## Repaying the loan

It can be repaid in the form of EMIs via post-dated cheques (PDC) drawn in favour of the lender or by releasing a mandate allowing payment through the electronic clearing services (ECS) system.

## Prepayment/Foreclosure Charges

If you decide to pay off your loan before its tenure has completed, you get charged an additional fee called prepayment/foreclosure charge/penalty. This penalty is usually 4 percent and upwards of the principal outstanding. Some NBFCs, however, charge a higher amount to foreclose a loan.

## Difference between part payment and prepayment/pre-closure

**Part payment:** This amount is less than the full loan principal amount and is made before the loan amount becomes due.

**Prepayment/pre-closure:** It refers to completely paying off a personal loan before the loan tenure has

ended. Just like prepayment charge, pre-closure charges range from 2- 5 percent of the loan amount.

## Loan approval process

The approval is at the sole discretion of the loan sanctioning/ disbursing authority whose decision is based on the criteria specified by the financial institution. The entire process can take between 48 hours and about two weeks. Once all the necessary documents are submitted and the verification process is completed, the loan, if sanctioned, is disbursed within seven working days by the NBFC. Do keep all necessary documents ready along with PDC and/or signed ECS form to avoid delays in loan processing and disbursement.

## Defaulting on scheduled EMIS

If you miss your scheduled EMIs and are unable to make future payments, the lender first will try to recover the due amount through settlements and recovery agents. If such attempts fail and your loan account is marked as a default, the loan will show up on your credit report as a default, adversely affecting your credit score and making it difficult for you to get loan and credit card approvals in future.

## Tax benefits

Although personal loans usually have no tax benefits, but if you take one for home renovations/down payment, you may be eligible for I-T deduction under Section 24. However, this tax benefit is limited to only the interest, not the principal amount. Also, to claim deduction, you will have to furnish proper receipts.

## Balance transfer/ takeover offer

A lender, in some cases, will allow you to transfer the balance (amount still to be repaid) on your loan from the present lender to a new one. The new lender will pay off the balance amount to the present lender. At the end of the balance transfer process, you will owe the new lender payments plus applicable interest that is left on your loan.

A balance transfer helps you benefit from the lower interest rate offered by the new lender, however, there are a few charges such as balance transfer fee, prepayment charges, etc., that may be applicable.

## Why do my initial EMIs have little impact on the principal amount due?

A major portion of your initial EMIs is actually used to pay off the interest due on your loan. This process is called “front loading”, hence only a small portion of the principal is paid off initially. As you progress further with your EMIs, these small decreases in the principal amount add up, leading to a decrease in the interest charged on the outstanding amount. A larger portion of the EMI is, thus, used to pay off the loan principal in later years.

## Credit report and score

Since a personal loan is an unsecured loan, therefore your credit history usually plays a significant role in the approval process. Equifax, Experian, CRIF High Mark Credit Information Services and CIBIL TransUnion are the 4 credit reporting agencies that operate in India.

All the 4 have tie-ups with lenders and provide their credit rating services to help lenders evaluate prospective borrowers. The credit agencies maintain detailed records of your credit history, including repayment track record of all your credit card bills and any current or previous loans. Before approving your loan, the prospective lender cross checks your repayment track record.

## How is having a higher credit score beneficial?

A higher credit score indicates that you have a good track record with respect to loans. Therefore, if your credit score is high (more than 750), your chances of being granted a loan are much higher. Additionally, you may be able to negotiate benefits such as a lower interest rate, higher loan amount, waiver of processing charges, etc., by leveraging your high credit score.