



# Personal Loans

## Who offers the best deal?

There can be an end number of reasons to go for a personal loan from banks and financial institutions that offer good interest rates. However, each personal loan lending institution has different eligibility criteria, rates of interest, and repayment tenure which should be reviewed to make an informed decision. In this month's evaluation, we have studied 10 banks on parameters including rate of interest, processing charges, maximum repayment period and security/collateral conditions among others and brought you the best bank for taking a personal loan.

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**P**ersonal loans are granted for a limited period with a fixed amount and charged interest rates which are both repayable in monthly installments. They are called “clean” or “unsecured” loans, i.e., loans without obtaining any tangible security (property, deposits, bonds, etc). Only the personal sureties are required to confirm the dependability of that person in repaying a personal loan.

### Eligibility for Salaried Employees

★ The applicant should have an active 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, but banks prefer to consider such loans to be given to their clientele on priority.

- ★ One should have a permanent job. Banks would not give a loan to a person whose job is temporary or who has no means of regular income even though he may own movable assets.
- ★ The length of service or employment also plays a part in expediting the loan sanction.
- ★ Residence should either be owned or rented with a lease agreement.

- ★ Residence proof (voter ID card, Aadhaar Card, etc) and identity proof (employment ID card, PAN card, etc) copies should be produced duly self-attested along with bank application form along with 2 photographs.
- ★ Though the reason/purpose of the personal loan is not mandatory, the bank would like you to state some reason.
- ★ If you already have a loan like a car loan or home loan, those deductions will also be taken into account to calculate total deductions out of the salary and arrive at the eligible loan amount.
- ★ Your CIBIL score (see box) will also play a significant part in the bank's decision in granting a personal loan.

There is no fixed criterion for arriving at an eligible loan amount. As every individual bank has different calculation methods but the generally accepted practice is to fix a ceiling of about 50 percent 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 of the Income Tax Return. This can vary amongst nationalized banks and can be different among private banks (private banks commute on the take-home pay).

## Eligibility for Self-Employed

Self-employed professionals often run their businesses or do freelancing assignments and some work from home. They may do part-time or full-time assignments and so may work under multiple employers. For them, the following additional conditions may apply when to seek a personal loan from banks:

- a) Since s/he does not get a salary, the business income as reflected in the ITR would be the basis of ascertaining his total income.
- b) S/he may be required to submit his/her business details.



- c) The performance of the business can also be a factor to influence the loan sanction. In the case of a new business, banks can insist on collateral securities like bank deposits, bonds, etc also of one or more personal surety of adequate net worth.

## For Entrepreneurs/Doctors/Lawyers

They are those who either have their businesses or services like doctors, lawyers, etc or those who are technically qualified but are working in an organization. The following could be additional conditions for them to be fulfilled.

- a) The attested copy of their qualification would be required to be submitted along with the application form.
- b) A few banks have specialised personal loan schemes for such professionals with a lower rate of interest. However, the lending institution may ask some details of the profession including copies of receipts/payments and/or income/expenditure account.

## Product Comparison Chart

The enclosed chart shows how the evaluated 10 banks stand on personal loan attributes. It also reflects what is offered and the cost of such a loan product.

CV Weightage (criteria) Points 100	Personal Loan by Banks	SBI	HDFC Bank	Axis Bank	ICICI Bank	Union Bank	Kotak Mahindra	BOB	Karur Vysya	Bank of India	PNB
15	Maximum Loan (Rs. in lakhs)	20 (10)	40 (15)	15 (7)	20 (10)	10 (3)	15 (7)	10 (3)	10 (3)	10 (3)	10 (3)
10	Processing charge (%)	1.00 (10)	2.50 (2)	2.00 (5)	2.25 (2)	0.50 (10)	2.25 (2)	2.00 (5)	1.00 (10)	2.00 (5)	1.80 (5)
15	Rate of Interest in % (min)	13.11 (10)	10.75 (15)	12.00 (15)	11.25 (15)	12.55 (10)	11.50 (15)	14.35 (5)	12.00 (15)	13.50 (10)	14.50 (2)
10	Rate of Interest in % (max)	13.11 (10)	21.30 (2)	24.00 (1)	17.99 (4)	12.55 (10)	24.00 (1)	14.35 (10)	18.00 (2)	13.50 (10)	14.50 (10)
10	Max. Repayment period (in months)	72 (10)	60 (5)	60 (5)	60 (5)	60 (5)	60 (5)	60 (5)	60 (5)	60 (5)	60 (5)
5	Security/Collateral condition	No (5)	No (5)	No (5)	No (5)	No (5)	No (5)	No (5)	Yes (0)	Yes (0)	Yes (0)
5	Guarantor Required	No (5)	No (5)	No (5)	No (5)	Yes (0)	No (5)	Yes (0)	Yes (0)	Yes (0)	Yes (0)
5	Loan Insurance Protection cover	Yes (5)	Yes (5)	Yes (5)	Yes (5)	No (0)	Yes (5)	No (0)	Yes (5)	No (0)	No (0)
5	Online application available	Yes (5)	Yes (5)	Yes (5)	Yes (5)	Yes (5)	Yes (5)	Yes (5)	No (0)	No (0)	Yes (5)
5	Pre-payment charge	Yes (0)	Yes (0)	No (5)	Yes (0)	No (5)	Yes (0)	No (5)	No (5)	No (5)	No (5)
15	Consumer Feedback	14	12	12	10	10	10	8	6	4	6
	Total	84	71	70	66	63	60	51	51	42	41

**Note:**

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

## CV RECOMMENDATION

Based on the 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, we recommend:

**BEST BUY STATE BANK OF INDIA**

## Justification for giving weightage to identified variables

All the variables affecting the consumers while he contemplates taking a personal loan have been identified from a consumer point of view and weightages have been assigned based on majority consumer perception.

## Benefits of a Personal Loan

- ★ The speed in accepting or rejecting a personal loan application is much faster than other loans.
- ★ In most of the sanctioned personal loans, the banks do not insist on any collateral security or in some cases, even personal guarantee/surety unless you have less than the minimum prescribed years of service or your take-home pay is lesser. So it is advantageous for the loan-seeker, as he need not be under any obligation to his office colleague/friend to provide a 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 to provide for depositing margin money.
- ★ The purpose of the loan is immaterial in most cases. Hence, the consumer need not take pains to explain the genuineness of the purpose and submit proof for such purpose.
- ★ Simple documentation is assured with 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 dates of loan. The consumer need not visit the bank at all for such work. Where the loan installment

payable is to be taken out of the savings account of the customer, the banks obtain written instructions (ECS) and act on them.

## On the Flipside

- ★ The rate of interest is the highest for this type of loan which sometimes proves a burden to the consumer, as this is an "unsecured" loan. In comparison, secured loans are comparatively cheaper.
- ★ Secondly, the period of the loan is normally limited to 60 months. Banks do not favour or take an exposure for a longer tenure. This limits the consumers' requirements, where, by getting a longer period of repayment, he could bring his work to completion.
- ★ According to bank sources, this type of loan carries a higher risk and can end up as a Non-Performing Asset when repayment stops midway either due to change of job/temporarily-unemployed status/death of the borrower/change of address without a trace, etc. Hence, many banks do not consider giving a loan for non-customers, i.e., those who have no previous bank dealings with the lender. So, this severely restricts the options available to the consumer-borrower to seek a loan from any bank in the vicinity of his residence or place of work.
- ★ Most of the banks are not willing to grant personal loans of more than Rs.15.00 lakhs even though their website/brochure talks of the maximum amount being much more than what they say they will give. So, the applicant will not get the benefit of more loans even if he is otherwise eligible.
- ★ Even though a couple of banks claim that they don't need a personal surety/guarantor for such loans, many of the banks insist on providing the same for the loan transaction to add trustworthiness to the loan contract.

## Conclusion

In the end, it could be summarised by saying like a coin has two sides, taking personal loans too has its pros and cons which needs to reviewed and compared carefully. One should go ahead in pursuing the loan when it meets your requirements.