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A Study on Personal Loan in India

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ABSTRACT

Personal loan can be taken for any personal requirement ranging from marriage to holidaying or maybe to buy a lifestyle product or medical emergencies. The end Personal loans are unsecured loans provided by the banks and non banking financial companies without taking any collateral security, though some banks may insist on a guarantor purpose is not important to the bank as long as it is not for speculative trading. Normally personal loan will be very helpful to the end users for their personal use and now they can easily get loan from bankers and private finance based on their eligibility like salary and business income.

KEYWORDS: Personal Loan, CIBIL, Customer, Banks, Finance

Introduction:

Personal loan is a simple hassle free process of acquiring personal finance with minimal documentation and within quick time. The bank will require the borrower's documents regarding the proof of identity, residence along with income proof / ITR of last 2 years to initiate the process for loan sanction. After verifying the documents and checking the borrower's credit score with Credit Information Bureau (India) Limited commonly known as CIBIL, the bank may decide whether to approve or reject the personal loan. Normally bankers will consider whose CIBIL score is equal or more than 700.

1.1 Process of personal loan

Once the borrower is qualified for the personal loan it takes close to about three days or so to get the loan amount disburse. The personal loan repayment is in equated monthly instalments and tenure can vary from 1- 5 years.

It is advisable for a borrower to get in touch with as many banks as possible and get them to make loan offers to him. Then he can then try to negotiate with them and select the most cost effective option for him. The borrower will also have to take into consideration the processing fee and prepayment charges while finalizing the lender

Always remember that personal loan should be taken in dire emergency as far as possible. Being classified as unsecured loans, these loans are usually more expensive in terms of interest rate compare to any other loan taken against collateral security like gold jewelry, high surrender value insurance policies, etc.

1.2 Eligibility

Personal loans are provided by various banks and non banking financial companies (NBFCs). There are various factors which affect personal loan eligibility. Below mentioned are some of the few factors which the bank or the NBFC will consider while they decide on personal loan eligibility.

1.3 Financial Background

This is the most important parameter that determines if we are eligible for a personal loan and also the quantum of personal loan we are eligible for. It will help the bank understand how well we can pay back our loan. Every bank will have a minimum level of income to be eligible for a personal loan.

1.4 Credit History

This will help the bank ascertain our track record for payment of EMI of any loan or the payment of the credit card bills. In case we have paid all your previous EMIs and credit card bills on time, chances are there getting the loan is higher.

1.5 Company in which we are employed

Personal loan eligibility may depend upon the company we are working for. In case our company is a public ltd or among the A class companies, which the banks call them as, the chances are there to get a loan becomes very easy. If we are working for a B class company, then getting a personal loan may be difficult for we or it may be costlier also compared to a person who is working in an A class company. Which means that if we are working for a company which belongs to the A class according to the bank, and then the personal loan rate would be comparatively lower to a person who belongs to a B class company

1.6 Any other loans we may be holding

In case we are having any other loan at the given point of time, then our eligibility for personal loan may go down as we are already paying towards EMI of the previous loan and the income in our hand would be lower compared to a case where we are not paying any EMI.

2.1 Personal loan providers in India

Applying for a personal loan is quite simple these days. The personal loan market is filled with competitors, such as HDFC bank, ICICI bank, AXIS bank, SBI Personal Loan and all Public and private sector banks. Among the NBFCs Bajaj Finance Limited is playing key role. Other financiers are Fullerton India Credit Company Ltd and Shriram City Union Finance Ltd.

2.2 Types of Personal Loan

The personal loan is divided into two types;

1. Personal Loan for Salaries class ,
2. Personal Loan for Self Employed class and
3. Personal loan cross sell

Salaried class Personal Loan, some of the general important criteria are:

(a) The applicant should get a healthy and stable income with a ration of 1:4 , i.e., if a salary of an individual is Rs.20000/- the EMI should not cross Rs.5000/-.
(b) The applicant should be not less than 21 years and 60 years of age.
(c) Few of the financial institution lend to their own exiting customer, who are having good track record with them.
(d) The residing stability is also an important factor. For rented class, 6 months to 1 year residence stability is sufficient.
(e) Apart from this all the KYC documents, such as ID proof, address proof, bank statement etc., should satisfy the financier.

Self employed class Personal Loan, some of the general important criteria are:

(a) The applicant should not less than 21 years and should not cross 65 years of age at the time of completing the loan.
(b) The banking transaction should be healthy and indeed should have no returns.
(c) To understand the stability of the business the business RC is also mandate.
(d) Few of the financial institution also ask for the latest income tax

return copy, the Profit & Loss and Balance Sheet, to understand the cash flow of the applicant.

Personal Loan Cross Sell, some of the general important criteria are:

Bajaj Finance Limited is playing major role in this segment in all over India. Who are existing customers in bajaj could be offered for this loan as pre approved loan. Customer is required to submit only KYC documents like address proof, ID proof and photograph. They need not to submit any other papers. Credit team will check and make a decision based on their existing repayment track and CIBIL history.

2.3 Credit Information Bureau of India (CIBIL)

CIBIL stands for Credit Information Bureau of India, an organisation which gives a full picture of one's repayment track and the loan commitment. The Credit Information Bureau of India (CIBIL) gives score between 300 to 900. The lower the credit score, the more chances of loan rejection.

CIBIL Scoring Factors:

The CIBIL score value indicates the score value of an applicant. The basic factors of CIBIL scoring are: -

- The score is backed up with a maximum of 5 reasons. The reasons indicates why a customer did not receive the most optimal score.
- Some exclusion such as restructured, wilful default, write off and suit filed in the past 24 months are also seen on the credit report. For such an individual, a valid score between 300 and 900 is received with the applicable exclusion code.
- In some cases score can be 0 or -1. -1 score is returned for No hit or subject with only enquires and 0 is returned for subject where the earliest open trade is less than six months old.

Some of the important CIBIL status in which a Personal Loan will not be sanctioned.

- SUIT FILED / WILFUL DEFAULT : Suit filed, wilful default cases are not sanctioned for personal loan, where the customer may have submitted manipulated document in his previous applied loan.
- WRITE OFF/ SETTLED STATUS: The valid values for this category are, Restricted loan, Written off, Settled Post Write off, Settled Account Sold, Written off and Account sold, Account Purchased and Written off/ settled/ restructured.
- TOTAL WRITE OFF: Total written off amount in case of a written off account.
- PRINCIPAL WRITTEN OFF: Indicates the written off principal amount (total written off amount – interest and other charges) Especially relevant for credit cards.
- SETTLEMENT: The amount is populated in case of settled account.
- ACTUAL PAYMENT: Actual payment made by the borrower.

The credit report displays upto 36 months of payment history. Information on Days Past Due (DPD) or Asset classification (AC) are extracted over the history of one's payment. IN case of DPD, days are mentioned, after which the EMI is paid for any loan. It will be mentioned as 030, 120, 232 days etc. An XXX is inserted for any month for which information is not reported to CIBIL.

Valid Values of CIBIL:

Some of the valid values which are used in CIBIL are DPD, a three digit number, In case of account classification STD is Standard, SMA is Special Mentioned Account. SUB stands for Sub Standard, DBT is for Doubtful and LSS used in CIBIL means loss.

Conclusions:

- Customers can avoid high rate of interest and compare with other banks and financiers rate during loan availing time.
- Prevention is better than cure. So customers need to honour their EMI cheques on time. Otherwise they can face some difficult situation with bankers and finance. In future they can not avail any loan with bankers and finance if they do not repay the amount on time.
- End users can think about their repaying capacity. They can calculate their personal loan EMI at 1:4 calculations and this will be very useful to them for prompt repayment.
- Bankers and finance can provide prompt repayment rebate to the customers and this will be a good encouragement to the customers for their repayment.
- CIBIL is an important tool to the bankers for determining about their loan sanctioning. So customer need to maintain their credit record with all the bankers and financiers as good one.

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