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## Impact of Personal Loan Offered by Banks and Non Banking Financial Companies in Coimbatore City

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### ABSTRACT

*It is a unsecured loan as no securities are taken while availing the loan. Other form of loan like home loan, loan against shares/ securities demands collateral security while availing it. The personal loan is completely free from all the conditions and can be availed with ease. Even though a few financial institutions may ask for a guarantor based on their comfort level of the applicant's profile, it is a hassle free form loan.*

*According to the Credit Information Bureau of India (CIBIL), your credit score should be between 100 and 999. The lower your credit score, the more chances of your application being rejected. The higher the credit score, the lower will be the interest rates charged. Another factor to be considered when applying for a personal loan is if you want to opt for reduced-balance interest rate or flat interest rate. With reduced-balance interest rate, the interest on the loan keeps on reducing as it is calculated on the reduced principle amount which reduces daily, monthly, quarterly or annually.*

**Keywords : PL, CIBIL, INSURANCE, ROI, SALARIED, SELF EMPLOYED**

### 1 Introduction

According to Hindu belief Lord Venkateswara once took financial assistance from Lord Kuberan, the supreme of wealth. Today each and everyone are in the same situation of getting financial assistance, to fulfil our day to day commitments. We should thank the Banks and the Non Banking Financial Companies which render various types of loan to fulfil our needs. Personal Loan offered by such institutions plays a vital role in our life. The back bone to satisfy our personal needs and desires.

### 1.2 Meaning Personal loan

In simple terms, a personal loan is an all purpose loan which can be used for any personal use. It can be either used for meeting out marriage expenses, purchase of any property/ jewels, for meeting the medical expenses or even for meeting the family holiday tour expenses.

Personal loan is also called as a signature loan. It is a unsecured loan as no securities are taken while availing the loan. Other form of loan like home loan, loan against shares/ securities demands collateral security while availing it. The personal loan is completely free from all the conditions and can be availed with ease. Even though a few financial institutions may ask for a guarantor based on their comfort level of the applicant's profile, it is a hassle free form loan.

### 1.3 Major Competitors in The Field of Personal Loan

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. Each of these financial institution compete with each other in respect of the rate of interest, the tenor, the procedure and also compete to serve at the best minimum span of time. The more they satisfy the customer the more will be their power in the field of rendering personal loan. Few of the financial insti-

tution also give "express Personal Loan "where a customer/ applicant can get the loan sanctioned within minutes, after applying for it. Compare to M/s.Fullerton , M/s. Bajaj Finance Ltd., dominates the Personal Loan market.

### 1.4 Types of Personal Loan

The personal loan is divided into two types;

1. Personal Loan for Salaries class , and
2. Personal Loan for Self Employed class.

For 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.

**For 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. Compared to Public sector banks, the NBFC play a vital role

in the Personal Loan field. Their turnaround time is less with compared with Public sector banks and they lend with a long tenor for repayment. The major personal loan players in the market is Bajaj Finance Ltd.,. On the other hand if we take the private sector banks HDFC bank is a leading bank. The loans are sanctioned within a day or two, compared to public sector banks.

### 1.5 Type of Interest Rate

1. Reducing Balance method and
2. Flat interest rate.

The rate of interest is another important factor which is to be taken into consideration. Personal Loans are given either by reducing balance method or in flat interest rate. With reduced – balance interest rate, the interest on the loan keeps on reducing as it is calculated on the reduced principle amount which reduces daily, monthly, quarterly or annually. With flat interest rate, the rate of interest will remain the same over the entire duration.

Basic Documents Which are to be Submitted While Availing a Personal Loan from Financial Institution

The basic documents which are to be submitted while availing the personal loan are known as KYC documents. KYC stands for Know your customer. Before a financial institution sanctions a loan, it should know its customer and only after proper analysing the documents the loan proposal is approved.

#### KYC documents

The basic KYC documents are applicant's address proof, applicant's ID proof, his income source proof.

**Some of the documents which can be considered for address proof are :**

- Ration card
- Voter's ID card
- Sale deed, property purchase agreement, property tax receipt
- Valid rental agreement
- Company ID, ( card from MNC, Public sector companies etc.,)
- Unique identification card ( Aadhaar card)
- Driving licence
- Passport
- Letter from reputed companies
- Latest credit card statement
- Updated bank statement

**Some of the documents which can be considered for ID proof are :**

- Passport
- Voter's ID card
- Ration card along with photograph of the applicant
- Pass book with applicant's photograph
- PAN card
- Driving licence
- Company ID card ( of MNC of Public sector )
- Aadhaar card ( Unique identification card )

**For salaried class loan following income proof can be taken:**

- Latest Salary slip
- Bank statement depicting the salary
- Form 16
- Letter of appointment

**For self employed class loan following income proof can be taken :**

- Shop Acts licence for sole proprietorship
- VAT return and Sales tax return
- Letter of authority by partnership firm to borrow, signed by all the partners ( Firm)
- Partnership Deed
- MOA, AOA, and board resolution ( Authorising to borrow for Company )

### 1.6 Personal Loan In India

Simply it is an all purpose loan for your own personal use. Let your need be anything right from meeting medical expenses to wedding expenses to funding holidays to buying jewelry to down- payment for a home loan to transfer of credit card to a sudden business requirement to anything! You can take a personal loan for any purpose. Applying for a personal loan is quite simple these days. Now even you can apply for your personal loan online.

### 1.7 Meaning Personal loan

A personal loan, also called a signature loan, is an unsecured loan granted for personal use. This is usually used for meeting expenses like home improvement, medical emergencies or major domestic purchases. You can get a personal loan in the range of Rs.20,000 to Rs.15,00,000. The repayment period usually varies from 1 to 5years.

#### Personal Loan Banks Details

Loan Providers	Specifications
SBI Personal Loan	<b>Interest Rate:</b> 16.75%(SBI Saral) 12.25%(SBI Loan to Pensioners) 14.00%(Employee to Subscribe to ESOPs) <b>Minimum Income:</b> Rs.24,000/- in metro and urban centers Rs.10,000/- in rural/semi-urban centers
HDFC Loan	<b>Interest Rate:</b> Salaried – 15.75% to 22.25% Self-employed businessman – 17.50% to 22.00% Self-employed profession – 14.50 to 15.00%
PNB Personal Loan	<b>Interest Rate:</b> BR+3.50%(Pensioners), BR+5.00%(For Public), BR+6.00%(For others) <b>Documentation charges:</b> Rs. 2 lac: Rs.270+ service tax
ICICI Bank Loan	<b>Interest Rate:</b> 14% to 21% floating <b>Processing Fees:</b> 2% to 3% of loan amount <b>Personal Loan Amount:</b> Rs. 1 lakh to Rs. 10 lakhs
Canara Bank Loan	<b>Documents / Formalities:</b> 1) Stipulated Loan Application with 2 copies of passport size photographs 2) Latest Salary Certificate and Form No.16 / ITR/ITAO for last 3 years. 3) Co-obligation (unless waived).
Axis Bank Loan	<b>Interest Rate:</b> 15.00% to 24.00% <b>Default Interest Rate:</b> @24.00% per annum i.e 2% per month on the overdue installment <b>Loan Processing Charges:</b> 1.50% to 2.00% + Service Tax as applicable.
BAJAJ FINANCE	<b>Interest Rate:</b> 11.00% to 24.00% <b>Loan Processing Charges:</b> 1.99% to 2.99% + Service Tax as applicable.

### 1.8 Eligibility criteria to get a personal loan

Some of the general criteria to be met to get a personal loan are listed below:

- The applicant should have an income of not less than Rs,15,000 per month.
  - For salaried applicants, the age should be not less than 21years and not more than 60 years.
  - For the self-employed applicants, the age should not be less than 23years and not more than 65 years.
  - Some banks also require that the applicant has been residing in the same place for at least a year.
  - To get the loan approved, the applicant has to show proof of income, identity proof, address proof and bank statements.
- Before you start with the process of applying for a personal loan, you should do an assessment of your situation. You should be clear in your mind on the amount you want borrow and your repayment capabilities.

Before applying for a personal loan, you should ensure that your credit score is good. According to the Credit Information

Bureau of India (CIBIL), your credit score should be between 100 and 999. The lower your credit score, the more chances of your application being rejected. The higher the credit score, the lower will be the interest rates charged.

Another factor to be considered when applying for a personal loan is if you want to opt for reduced-balance interest rate or flat interest rate. With reduced-balance interest rate, the interest on the loan keeps on reducing as it is calculated on the reduced principle amount which reduces daily, monthly, quarterly or annually. With flat interest rate, the rate of interest will remain the same over the entire loan duration.

### 1.9 Get The Best-Possible Personal Loan

You should compare the deals offered by the various lenders before choosing a personal loan. A few of the parameters to be checked are:

- **Interest rates** – These vary from lender to lender based on your occupation, income and your credit history. The personal loan interest rates range from 12% to 25%. You should opt for lender that offers the best interest rates.
- **Repayment duration** – The EMI will be higher for a short duration loan and vice versa. Ensure that you have enough funds to pay back the loan if you have a high EMI.
- **Fees charged** – The interest rates are not the only charges you have to pay. You will also have to pay some other charges such as processing fee (between 1% and 2% of the loan amount), pre-payment fee (between 4% and 5% of the outstanding loan amount) and in some cases, a late payment penalty fee (between 2% and 3%). Try to choose a bank which offers the lowest rates on these items.

Considerable thought and thorough research is required before you obtain a personal loan. You should also ensure that you have adequately planned for the repayment of the personal loan within the prescribed time.

### 1.10 Financial Institution Procedure for Sanctioning a Personal Loan

After getting all the necessary documents, each of the documents are closely examined by a highly delegated team. This is done in order to spot out any fraudulent activity or mal practice. After processing the KYC documents, the applicant's repayment history is checked. This is done with the help of an organisation known as CIBIL. The assessment of the applicant is made at this stage.

### 1.11 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.

### 1.12 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 indicate 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.

### Repayment mode:

After a loan is approved the next point which comes to mind is the repayment mode and its tenor. Usually a tenor of 12 to 60 months is given by the financial institutions. As far as the payment mode is concerned some financial institution opt for Post Dated Cheques (PDC) and others opt for Electronic Clearing System (ECS).

### Benefits of Good Repayment

One should repay all the instalments with any cheque bounce. This not only gives a good CIBIL score but also helps to avail any type of loan in future. It may be a housing loan, business loan etc., The repayment shows one's perfection and shows his honest he is. Some of the reputed organisations even run a CIBIL before recruiting a candidate. Thus the repayment is a matter of career. If the repayment of a person is bad, concerns even don't recruit him, no matter how qualified he is.

### Insurance Coverage

It is always recommended to take an insurance plan along with the Personal Loan. The insurance policy can be a term insurance or a medical insurance. This will give the Personal loan applicant's family the heartening reassurance of care and peace of mind at a very low cost in the event of an unfortunate uncertainty of the applicant. This is also an economical way to protect the applicant's family from the burden of repayment of the loan in case of death or critical illness of the applicant.

### An important point which is to be taken into account while availing insurance along with a Personal Loan.

1. The plan should provide financial protection i.e., from the burden of loan on untimely death of the applicant. Critical illness of the insured members covering major critical illness like;
  - First Heart Attack
  - Coronary Artery Disease Requiring Bypass Grafting Surgery
  - Stroke
  - Cancer
  - Kidney Failure
  - Major Organ Transplantation

- Multiple Sclerosis
  - Aorta Graft Surgery
  - Primary Pulmonary Arterial Hypertension
  - Alzheimer's Disease
  - Paralysis
2. A single Premium Payment is also recommended.
  3. Option to add accelerated Critical illness benefit should be taken.
  4. The insurance should be eligible for tax benefits as per applicable in tax laws.

### 1.13 Conclusion

Thus before choosing a lender for Personal Loan various things are to be taken into account, like,

- Amount offering - Personal Loan generally starts from Rs.20,000 to 15,00,000. Before availing the loan we should work out our cash inflow and out flow.
- Interest rate – These vary from one financial institution to other based on one's occupation, income and the credit history. The personal loan interest rate ranges from 11% to 25%. So best offer is to be selected.
- Repayment tenor - The tenor to repay ranges from 12 to 60 months. The EMI will be higher, if short duration is selected. The income cash flow of the applicant is to be

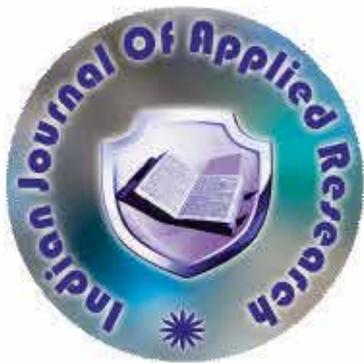
taken into account before selecting the loan tenor. For example, a person can have 30% as EMI and altogether within 40%, his total loan obligation should be covered with regard to his income. The entire repayment of the loan should be smooth and no cheque should return. This will give a good image with regard to the customer and he will also have a healthy CIBIL score.

- Fees charged – Care should be taken with regard to document charges / fees processing fee and any other charges if any. Normally 1 % to 2 % is charged as processing fees. Few of the lenders charge pre payment fee from 4 % to 5 %. Bajaj Finance is not charging any amount for foreclosure of the personal loan. One should never bounce the instalment as for that penalty will also be charged and moreover the credit history will also be affected.

The Personal Loan market is filled with various financial institutions and for salaried class HDFC is the topper, with regard to NBFC Bajaj Finance Ltd., is a major player both for salary as well as for self employed group. The Public Banks offer mostly to its own customers who are having salary account with them. We should be careful while opting for the lenders for Personal Loan as money matters.

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