

Handbook for the **Financial Wellbeing Journey** 

# **Loan Decisions**





### Introduction

Thank you for your interest in the Financial Wellness program.

Hope the program was insightful with many implementable take-aways.

Here is a Handbook which gives a glance:

- Types of Loans and how to optimise loans
- Impact of loans on finances
- Points to remember before taking loans
- Borrowing rules for financial wellbeing
- Useful video/ calculator links to help you with further information
- Finsafe Tips





# Features

Features	Personal Loan	Credit Card	Credit Card EMI	Buy Now Pay Later
Type of Loan	Short – Medium Term	Very Short Term	Short Term	Very Short Micro loan
Quantum of Loan	Based on the Income can avail upto 40 lakhs	Based on the Income can avail 5 Lakh or above too	Cannot exceed Credit card limit	Very Small Amount – Upto Rs.60,000
Tenure	Min of 12 months till 5 years	45 days	Typically 12 months	15 - 45 days
Interest Rates	11 – 24% p.a	24 – 42% p.a	12 – 24% p.a	24 – 42% p.a



### **Buy Now Pay Later**

#### **Pros**

- Convenient way to pay for purchases over time
- Frequently no interest or lower interest rates than credit cards
- Good credit/ high credit score not necessary to qualify
- Fast approval

#### Cons

- Payments can be hard to track
- Missing or late payments result in late fees and may damage credit score
- No rewards or cashback earned on purchases
- Payments may continue even if item is returned



### Check List for Unsecured Loans

### Keep in mind:

- Impulse Buying Vs Buying based on Needs
- AVOID taking loan to go on vacations, instead save for the goal
- DONOT take App Based Loans
  - Incorrect Loan accounts mapped
  - Harassment
  - Privacy issues
- Check for prepayment charges for personal loans





### **Settlement of Loans**

#### Lower repayment / waive off

- If the process where lender can settle with the borrower for lower amount of loan
- Banks / NBFCs may agree looking at the financial decision. It is a discretion of the lender
- Only Unsecured loans are typically allowed
- Credit score will be affected
- No legal action will be taken if waived off and is typically available for farmers and support from government

#### Write off

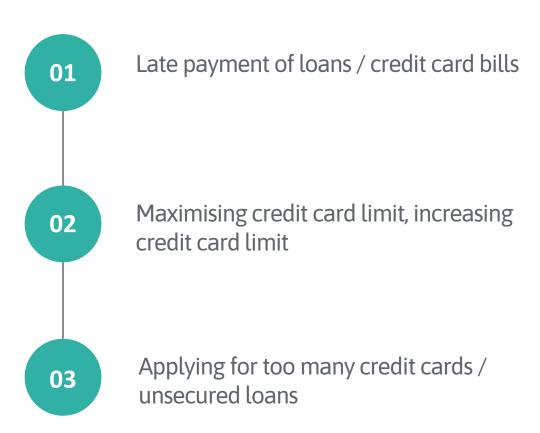
- Lenders will write off to clear balance sheet
- Lender might approach legal action
- Can be for both Secured and unsecured loans
- Lender can confiscate / auction collateral





### **Credit scores**

Factors impacting credit scores:



### How to maintain good Credit score?

- Automate Credit card payments and pay in full
- Close unused credit accounts
- Repay of loans on time
- Lower your credit utilisation ratio
- Not applying to multiple banks for the same loan
- If Loans / CC rejected. Do not keep reapplying
- Monitor being Guarantor on loans
- Check credit report for mistakes and rectify them

**Good Credit Score Over 750** 



### Fixing disputes in Credit score

### Disputes can be for any of the following reasons:

- Incorrect personal information (PAN, name, address etc)
- Incorrect Loan accounts mapped
- Incorrect credit limit
- Incorrect account status
- Outstanding payment
- Payment history
- Duplicate account

### How to raise dispute?

- **01** Submit online dispute with credit Bureau (CIBIL)
- O2 Submit 9 digit number provided on credit report in the form
- O3 Bureau will raise the complaint with respective banks /credit card companies
- **04** Resolution TAT is about 30 45days



### **Secured Loans**

### **Loans against Fixed Deposit**

- Loans up to 90-95% of deposit amount
- Not eligible on FD in name of minor or FD on 5 year tax saving term deposits
- Loan Interest rates are 0.5% to 2% above applicable FD rate

### Loans against Gold

- Secured loan against gold ornaments
- Lender sanctions loan amount based on amount of gold
- Loan to value of almost 75% of pledged loan's market value
- Rates vary between 7.5% to 13% p.a.





# Gold loan VS Gold overdraft facility

Particulars	Gold Loan	Gold Overdraft
Collateral	Pledge gold	Pledge gold
Offered by	Bank / NBFC	Bank / NBFC
Loan Value	Upto 90% of gold value	Upto 75% of gold value
Interest	7.5 – 15% pa	7.5 – 15% pa
Sanction Value	Credited to Account	Credited to overdraft Account
EMI	Interest charged On whole disbursed amount	Interest charged only on the amount utilised
Other facilities	None	ATM card, chq book etc with 24 hours access to funds



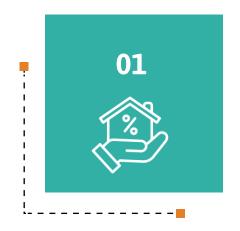
# Loan Comparison

Assets	Interest Rate (in %)	Processing fee* (in %)	Tenure	Max loan limit
Mutual funds & Shares	9-13	0.15-1	1 year; renewable thereafter	<b>50</b> % of NAV for equity MFs and market value of shares; <b>80</b> % for debt MFs
Bonds**	9.7 - 13.75	0.50	1-4 Years	<b>70</b> % of present value
FD	1-2% above FD rate	Nil	Term of the FD	<b>95</b> % of FD
Car	13.5-17.05	0.5-3	1-7 Years	90% of car's market value
Insurance	10-15	0.5-2	1 year; renewable thereafter	<ul><li>90% of surrender value of traditional policies;</li><li>40-70% of market value of corpus in Ulip</li></ul>
Gold	7.10-17	0.07-0.5	3 months to 2 Years	75% of ornament's market value
PPF	1% above PPF rate; Current PPF rate is 7.1	Nil	3 Years	<b>25</b> % of the balance at the end of the 2nd year preceding the year when the loan is applied
Property	8.5-18	0.5-2	up to 25 Years	<b>70</b> % of property's market value



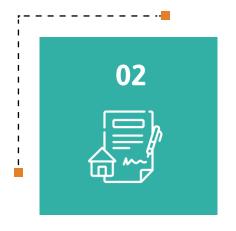
Source: Livemint

## Types of Home Loans



#### **Home Loans**

- Purchase of a new house
- Construction of a house
- Buying land



#### **Mortgage Loan**

- Mortgage the property
- Can be used for any purposes



#### **Top-Up Loan**

Loan over your existing home loan



## Home Loan: Important Features

- Co-applicant may be the co-owner or co-borrower
- Max tenure 30 years or retirement, whichever is earlier
- Term Insurance is not mandatory from the home loan lender.
- Premium for Term Insurance attached to home loan is usually funded by the lender (Bank / NBFC) & the premium is included in the loan EMI.
- Part payment is available & the loan tenure reduces once part payment is done.





# **Reducing Loans**

01

Increase repayments with increase in income

02

Use windfall gains to repay costlier loans

03

Consolidate loan or refinance loans with higher interest rate





### **Summing Up**

- Loans limited to 30% of Net salary
- Make a plan to pay off costly debt
- Follow borrowing rules to maintain financial wellbeing
  - Compare offers of lenders across different parameters like prepayment charges, processing fees, rates etc
  - Choosing loan tenure
    - To be based on repayment / income capacity
    - Lower the tenure higher the emi, but lower the interest payment and vice versa
  - Enquiring multiple lenders for same loan, reduces credit score
  - Ensure timely repayment, to avoid
    - Penalty
    - Higher interest charge
    - Lower credit score
  - Monitor Co-signing / guarantor in a loan
  - Check Credit report periodically





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