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A STUDY ON LENDING PROCESS OF VARIOUS LOANS WITH RESPECT TO PRIVATE AND PUBLIC SECTOR

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ABSTRACT:

The major purpose of obtaining a loan is to accompanying assistance for the costumers to fulfil their needs. The major important benefits of loan are that the interest rate is less than that of the money lenders. So the people can choose the loan based on their requirement. The other advantage of these loans is EMI option. With the help of EMI option public can pay the principal along with the interest every month. The research provides the various loans available in the market and their rate of interest with respect to different banks.

INTRODUCTION:

A loan is the act of giving money, property or other material goods to another party in exchange for future repayment of the principal amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as an open-ended line of credit up to a specified limit or ceiling amount.

The terms of a loan are agreed to by each party in the transaction before any money or property changes hands. If the lender requires collateral, that is outlined in the loan documents. Most loans also have provisions regarding the maximum amount of interest, as well as other covenants such as the length of time before repayment is required. A common loan for American consumers is a mortgage. The mortgage calculator below illustrates the various types of mortgages and their different terms.

Loans can come from individuals, corporations, financial institutions, and governments. They offer a way to grow the overall money supply in an economy as well as open up competition and expand business operations. The interest and fees from loans are a primary source of revenue for many financial institutions such as banks, as well as some retailers through the use of credit facilities.

The Difference between Secured Loans and Unsecured Loans

Loans can be secured or unsecured. Mortgages and car loans are secured loans, as they are both backed or secured by collateral. Loans such as credit cards and signature loans are unsecured or not backed by collateral. Unsecured loans typically have higher interest rates than secured loans, as they are riskier for the lender. With a secured loan, the lender can repossess the collateral in the case of default. However, interest rates vary wildly depending on multiple factors.

Revolving vs. Term Loans:

Loans can also be described as revolving or term. Revolving refers to a loan that can be spent, repaid and spent again, while term refers to a loan paid off in equal monthly instalments over a set period called a term. A credit card is an unsecured, revolving loan, while a home equity line of credit is a secured, revolving loan. In contrast, a car loan is a secured, term loan, and a signature loan is an unsecured, term loan.

How do Interest rates affect loans?
Interest rates have a huge effect on loans. In short, loans with high interest rates have higher monthly payments or take longer to pay off than loans with low interest rates. For example, if a person borrows $5,000 on an instalment or term loan with a 4.5% interest rate, he faces a monthly payment of $93.22 for the next five years. In contrast, if the interest rate is 9%, the payments climb to $103.79.

Similarly, if a person owes $10,000 on a credit card with a 6% interest rate and he pays $200 each month, it will take him 58 months or nearly five years to pay off the balance. With a 20% interest rate, the same balance and the same $200 monthly payments, it will take 108 months or nine years to pay off the card.

Unsecured Loan:
An unsecured loan is a loan that is issued and supported only by the borrower's creditworthiness, rather than by any type of collateral. An unsecured loan is one that is obtained without the use of property as collateral for the loan, and it is also called a signature loan or a personal loan. Borrowers generally must have high credit ratings to be approved for certain unsecured loans.

BREAKING DOWN 'Unsecured Loan'
Because an unsecured loan is not guaranteed by any type of property, these loans are bigger risks for lenders and, as such, typically have higher interest rates than secured loans such as mortgages or car loans.
What Are Examples of Unsecured Loans?
Unsecured loans include credit cards, student loans and personal loans, and these loans can be revolving or term loans. A revolving loan is a loan that has a credit limit that can be spent, repaid and spent again. Examples of revolving unsecured loans include credit cards and personal lines of credit.

<u>Various loans provided by private and public sector:</u>

1) Home Loan-Home loan as name suggest is the loan against buying property. Every individual currently have dreams to have their own home. To make affordable best option is home loan. Again there are sub-categories of home loans which are as below.

- Home loan for residents
- Loans for repairs and extension
- Land purchase loan
- Top-up loans
- Loan for Earnest Money Deposits (EMD)
- Reverse Mortgage Loans
- Loan against property

You may also find different variant of home loans other than above. But I listed basic type of home loans.

2) Personal Loan-It is the loan granted to fulfill your expenses which ranges from buying some expensive electronic gadgets to booking your air tickets ☐ Yes people used to use this facility for anything they can. They forget that usually rate of interest on such loans will be higher than other types of loans. But still to have something in advance end up them to borrower of such type of loans. Here we may find two types of loans

- Secured Loans-Where you provide some collateral as a safety against loans.
- Unsecured Loans-In such type of loans borrower collateral not required.

3) Car Loan or Vehicle Loan-This is usually used to meet your financial requirement when one is planning to have his dream car or bike. It is usually a secured loan where collateral is your vehicle and in case of default lender may recover it by taking back your vehicle. But some lenders offer unsecured loans where your credit score matters more.

4) Education Loan-This is actually a handy tool for parents who not planned well for their kid's higher education. For a detailed view on this visit my earlier post "Know all about Education Loan features".

5) Gold Loan-This **was** one of the easiest and fastest way of loan when gold rate was at it's peak. But currently lot of lenders may not feel it better collateral due to falling in gold price, especially gold loan companies. Recently RBI banned any gold loans against gold ETFs and gold mutual funds. Even though it forms easiest and fastest way of getting loan but better to look for risks involved in it, especially when you are dealing with NBFCs.

6) Loan against Insurance Policies-You can use your insurance investment as either collateral or take loan from insurer itself if that policy is eligible for loan. Usually loans will be available after 3 years of policy period. You will get loan easily on your policy from insurer. But other method to take loan is to pledge your policy document with banks and take loan on that. LIC will offer you loan on your policy with the interest rate of 10%, which I think competitive pricing compare to other type of loans.

7) Loan against Bank FDs-This is one form of loan where your collateral is your bank FD itself. Suppose you have bank FD of around Rs.10,00,000 then you are usually eligible to get loan upto Rs.8,00,000. But interest rates will 1-2% higher than your FD rate. But still this form of loan is also fastest and best way.

8) Loan from PPF or EPF-You can avail loan from PPF when one satisfies certain conditions. For detailed view on the same visit my old post "PPF-Loan and Withdrawal". You can avail loan from EPF too. But you can avail loan from EPF only for special purposes like purchase of plot, medical treatment, education or marriage of children, construction or purchase of house, re-payment of home loan, and renovation of home or pre-retirement. But all are not eligible to take loans. There are certain conditions like minimum years of completion, age or proof you need to produce. So it seems bit lengthy procedure.

9) Loan against Shares or Mutual Funds-Few lenders offer loan against your investment value of shares or mutual funds. But you will not get more value from this. Reason is, both the investments (if mutual fund is of equity oriented) then fluctuation in values will be high. Hence to protect their loan amount usually lenders offer less loan.

10) Loan from unrecognized sector-This is one of the easiest but costliest way of fulfilling your financial dream. Usually interest rate will be in the range of 20%-30% but you can get it immediately. Such types of loans are useful who are running out of time and not have any source also to fund their financial requirements. But looking at this option is costly affair. Hence it is highly advisable to avoid such funding.

Personal Loan Interest Rates (Dec 2017):

Banks	Interest Rate
SBI Personal Loan	12.55%-17.65%
Andhra Bank	10.99%
Axis Bank Personal Loan	15.50%-24%
ICICI Personal Loan	11.49%-22.00%
Tata Capital Personal Loan	12.50% to 19%
Bajaj Finserv Personal Loan	16%
Fullerton India Personal Loan	17.25%-35%
IndusInd Bank Personal Loan	Upto 23% per annum
Standard Chartered Personal Loan	Upto 27%
Citibank Personal Loan	Values based on customer profile; starting at 11.75%
HDFC Personal Loan	11.49%-20%
Kotak Mahindra Personal Loan	11.50-24%
HSBC Personal Loan	12.25%-17.50% p.a.

Major Home Loan providers in India and interest rates. **(Last updated on 26 December 2017)**

Banks	Loan to Property Value	Interest Rates
State Bank of India (SBI)	75% -90%	8.30% - 8.60%
HDFC Ltd	75% -80%	8.35% - 8.55%
LIC Housing Finance	75% -80%	8.35% - 8.80%
Axis Bank Home Loan	75% - 85%	8.35% - 8.75%
ICICI Bank Home Loan	Upto 85%	8.35% - 8.80%
Fedbank Home Loan	Upto 85%	9.57% - 9.82%
PNB Home Loan	75% - 80%	8.35% - 8.45%
PNB Housing Finance	75% - 80%	8.35% - 9.25%
IDBI Home Loan	75% - 90%	8.35% - 8.40%
DHFL Home Loan	80% - 85%	8.35%

Documents required in Home Loan

Generally, the documents required to process your loan application are almost similar across all the banks; however they may differ with various banks depending upon specific requirement etc. Following documents are required by financial institutions to process the loan application:

- Income
- Age Proof
- Address Proof
- Income Proof of the applicant & co-applicant
- Last 6 months bank A/C statement
- Passport size photograph of the applicant & co-applicant

In case of Salaried	In case of Self-employed
Employment certificate from the employer,	Copy of audited financial statements for the last 2 years
Copies of pay slips for last few months and TDS certificate	Copy of partnership deed if it is a partnership firm or copy of memorandum of association and articles of association if it is a company
Latest Form 16 issued by employer Bank statements	Profit and loss account for the last few years
	Income tax assessment order

The above mentioned two tables provide the different rates of percentages used by different banks.

CONCLUSION:

Loans are to be processed faster by extending faster and efficient customer oriented service. They should educate customers about credit facilities in the bank. This will create greater confidence among the interested parties which will help them to choose the most suitable scheme. This research will be useful to the public to understand rate of interest charged by different banks for obtaining a loan. The customers can also choose the bank depending upon their requirement.

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