HOW TO IMPROVE YOUR LOAN ELIGIBILITY

A credit profile helps in ascertaining the creditworthiness of the borrower. A good profile will help you getting loan with a lower rate of interest

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Vipul Shandilya and Chirag Mehta are close friends. In the mid-30s, both are sole earning members of their families and their take-home salary too is very much similar. While Vipul is employed as a relationship manager at an international bank in Noida, Chirag is a shift manager in a call centre in Gurgaon. There is another difference—while Vipul is stable in his career and has his own house, Chirag is a job-hopper and lives in a rented accommodation.

Both have one common wish—to own in a car. They together visited a bank to negotiate for a car loan. Much to their surprise, the bank quoted different interest rates to them separately for the same model of car and with the same value.

> **Banks look at the customer's age, income, existing liabilities in the form of other loans, employment/business stability, dependants in the family to judge the repayment capacity. Banks also check credit history to see whether the customer has defaulted on any loans**

The reason: their credit profiles were very different, prompting the bank to quote different interest rates for the two despite similarities in income and age.

Components of a credit profile

When a prospective borrower applies for loan (personal loan, car loan, etc.) from a bank, the bank first assesses the borrower's eligibility for loan. This eligibility is assessed on various parameters that include income, education, residential stability, age, which industry he is employed in, nature of job (whether salaried or self-employed), his credit score, past repayment history, outstanding loans and dependents in the family.

"Banks look at the customer's age, income, existing liabilities in the form of other loans, employment/business stability, dependents in the family to judge the repayment capacity. In addition to this, all banks now check credit history to see whether the customer has defaulted on any loans or how the customer has fared in his/her repayment of previous loans," Jitendra PS Solanki, Certified Financial Planner & Founder, JS Financial Advisors, Delhi, says.

From such data the bank gets a fair idea of two crucial things about the prospective borrower: his creditworthiness and capacity to repay. Based on his credit profile, the bank will also come to know how much risky it is going to be if it lends money to you. The higher the risk, the higher the higher interest rate.

For instance, if you have had a consistent career in a blue chip private company or in government service, the chances of your getting a lower interest rate on your loan are higher, subject to other parameters.

In the case of Chirag, he had to pay a higher interest rate because the bank considered his credit profile riskier than Vipul's, simply because first he was not consistent in his career and changed job frequently and secondly because he was in an industry where the job attrition rate is high.

Let's look into the parameters individually that will help you assess your loan eligibility yourself. Although banks give different types of loans, the three loan products in

PERK UP YOUR WORTH

Loan eligibility is decided by various factors including income, education, residential stability, age and nature of job

Based on this segmentation, a bank gets a fair idea of whether you are able to borrow and, if so, are you able to repay loan on time

If you have had a consistent career in a blue chip private company or in government service, banks could offer you a lower interest rate on car or personal loan

When it comes to personal loan and car loan banks give a high weight to residential and job stability

Banks also give weight to the company the loan applicant is working with

focus here are personal loan, auto loan and home loan.

Weight assigned to each component

Although banks closely scrutinize the components of a credit profile, the ones given additional weight by many of them are job stability and the age of the applicant, although it could differ from bank to bank.

HDFC Bank, for instance, gives a high weight to residential and job stability components, especially before sanctioning a personal loan and car loan.

Residential stability represents the duration of stay of the applicant at one particular address. If the person is living at the same address for more than one year it means he is residentially more stable than the person who has been changing residential address frequently.

Job stability is another crucial parameter. If the applicant is working in those sectors or industries where jobs are not for longer duration or where employees quit jobs frequently (such as BPO or insurance sectors), the bank stipulates that the minimum salary of the applicant should be Rs 25,000 per month to be eligible for personal loan or car loan. If the applicant is from another industry and wants to take a personal loan, his minimum salary should be Rs 12 thousand per month (if he has a salary account with the bank) and Rs 14,000 (if ordinary account). Further, whether the job is permanent, temporary or contractual is also a crucial factor in establishing loan eligibility.

Segmentation in loan

The bank also gives weight to the company the car loan applicant is working in. If you're working in Category A and B (the most popular blue chip companies), chances are that you could get the best interest rate of 11.5 per cent, while if you are working in Category C (not-so-well known companies) the bank would quote you a higher rate of 12.5 per cent.

Other banks too follow the same segmentation more or less with minor modification. Axis Bank, for instance, has divided car loan borrowers into four segments (A, B, C and D), each having different interest rates. For category A cars (that includes basic models like Maruti Alto, WagonR, Santro, Estilo AND Spark) the bank offers a high interest rate of around 13 per cent, while for B segment cars (like Swift, Indica, Palio, Getz and U-VA) the rate is lower at around 12.5 per cent.

For C segment cars (like Indigo, Accent, Fiesta, Aveo, Verna and SX4), the rate is further lower at around 11.5 per cent, while for D segment or high-end cars the bank offers loan at around 10 per cent. The categorization is based on the logic that the higher the segment of the car the less risky the loan is.

In personal loan, the bank has divided customers in four segments, depending on which companies the applicant is working in. For Segment A company (the top-most companies), the bank offers an interest rate of 15 per cent which goes up to 22 per cent for segment D (small-scale companies).

The eligibility criteria for car loan are a bit different if you're planning to finance your car purchase through ICICI Bank. For a salaried individual, the gross annual income should be at least Rs 2.50 lakh, while the total employment stability should be more than two years and current employment stability of minimum one year. Although most banks follow the same criteria, there are some differences between private and public sector banks.

As Solanki says, "Due to heavy competition, some private banks have been lenient on some of these components as compared to their public sector counterparts."