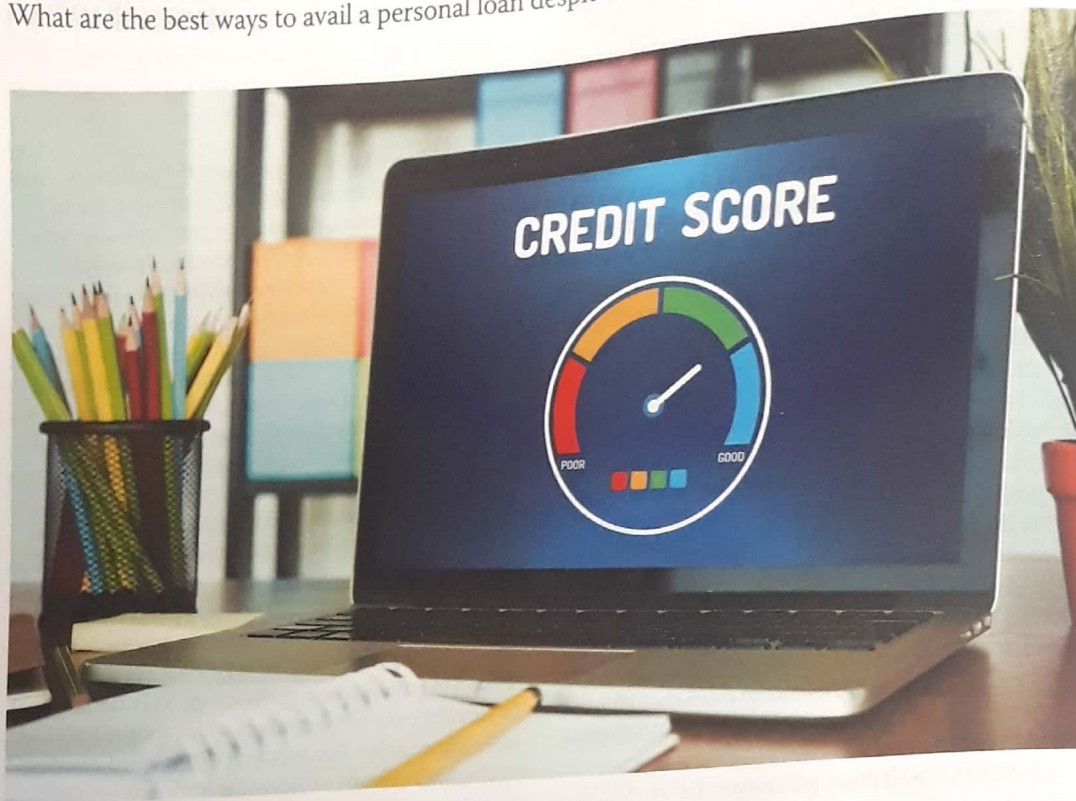


Easy Steps For Getting A Loan

What are the best ways to avail a personal loan despite having a low credit score



By **Himali Patel**

Our new year resolutions often include managing money in a better fashion. This many a time includes either keeping aside a certain percentage of our income or starting an investment plan. All these are efforts made towards accumulating wealth in order to lead a better life.

However, life is unpredictable and we must be prepared to deal with unforeseen circumstances. And in order to address such events, at times we might need to fall back upon loans including unsecured ones like personal loans. For example, at times it becomes necessary to resort to personal loans to treat a disease.

Needless to say with digitisation disrupting our lives like never before, availing loans have become simple. There is no need to stand in long queues or even wait for months to receive a loan sanction from banks. With fintechs revolutionising the domain of finance substantially, availing personal loans is almost just a click away!

However, while applying for a personal loan, a good credit score continues to hold major significance.

Depending upon the score, lenders approve the loan

Depending upon the score an individual has, lenders approve the amount of loan that can be sanctioned. This holds true especially while availing personal loans. The Credit Information Bureau (India) Limited (CIBIL) states that chances of getting a loan sanctioned or even securing a credit card get higher by 79 per cent if one has a decent credit score.

Why credit score holds so much significance while applying for a personal loan? The reason can be attributed to the nature of personal loan. A personal loan is essentially an unsecured loan for which lenders do not ask for collaterals.

Hence the eligibility criteria for such loans is stricter. Having said that your creditworthiness hinges on the

payment behaviour of your current as well as your past loan history. It depends on the type of credit you are using, which can be either existing loans or a balanced mix of loans and credit cards. Further, timely repayment of loans also acts as an evaluator of credit score.

A CIBIL score ranges between 300 and 900 points, further sub divided into four segments – excellent score ranges between 750-900; a good score is when it ranges between 700 to 749. Anything below 649 is categorised as a poor credit score, upon which lenders often reject a loan sanction. Or even if they do, the borrower needs to pay a very high rate of interest.

"Any score falling under the 650 to 699 bracket is considered average, but anything below 649 is poor CIBIL rating, which may either get rejected by the lender or he will offer loan at a very high-interest rate. In the simplest way, higher the CIBIL score, higher the chances of availing loan in the shorter processing time and at a competitive rate of interest," explains Rachit Chawla, Founder and CEO Finway. Financial institutions and banks use various parameters to gauge the creditworthiness to understand whether the person is capable of repaying the loan.

Major parameters include applicants' age, occupation, annual income, repaying capacity and proof of residence. Other criterion include individual's business or employer's details and of course the applicant's credit history, which includes credit score. A credit score is an indicator of measuring a person's ability to repay loan, based on her past track record. All these are used as a benchmark to determine whether or not a person is eligible for a loan. Further elaborating on the importance of CIBIL score, Suresh Surana, Founder, RSM Astute Consulting says, "Apart from basic eligibility, a CIBIL score also plays an

important factor in negotiating the rate of interest, tenure of the loan, discounts on the processing fees and other relevant terms of the loan. In determining CIBIL score, the past and present transactions of a person are taken into account in order to deduce his potential of meeting his future liabilities."

Therefore, if you have a low credit score, there are high chances of your application getting rejected by banks.

However, over time as the financial landscape has undergone a sea change and continues to do so, certain financial institutions, cooperative banks and non-banking financial companies (NBFC) have started providing loans, especially the unsecured ones despite a low CIBIL score. This has been made possible owing to the technological disruption within the sector.

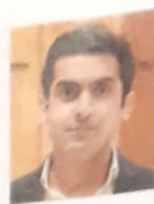


Best Ways To Boost Credit Score

- Maintain clarity in financial goals
- Ensure that credit reports are accurate
- Clear credit dues on time
- Avoid cases of cheque bounce
- Abstain availing multiple loans
- Limit queries regarding credit and loans
- Maintain a healthy credit mix
- Monitor joint accounts regularly
- Review your credit history occasionally

RACHIT CHAWLA

Founder and CEO,
Finway



Higher the credit score, higher are the chances of getting a personal loan sanctioned

"With the onset of NBFCs, availing a personal loan despite having low CIBIL score is not a big issue. Several leading and competent NBFCs are not solely dependent on CIBIL score because they conduct a thorough background check of a person using cutting-edge technologies like Artificial Intelligence (AI), Big Data, Machine learning (ML), and Programmatic and then arrive at a conclusion," points out Chawla. Experts are of the opinion that, individuals with low credit score looking to avail personal loans can do so through NBFCs, as the process is much simpler. However, its pitfalls often include repaying the amount at a higher interest rate than usual.

On the other hand, the borrower can enjoy certain benefits of the same. For example, if the loan amount is smaller, the lender gains more confidence in the borrower.

Further, your chances of getting a loan sanctioned with low credit score increases if you have a co-borrower or guarantor. Having a guarantor helps you reap the benefit of the joint finance application. And if your guarantor has a steady income as well as a good credit score, the loan will be granted easily. On the significance of having a guarantor, Shweta Jain, a certified financial analyst and Founder, Investography shares, "You can get a financial consultant's help to work on your credit score. If your spouse has a good credit score, use that to improve your score or take loan on that."

Personal Loan

Having said that, monitoring credit score regularly is essential. This is because, at times a low credit score on CIBIL can be a reflection of errors. Failing to update latest transactions or certain misrepresentation of your information counts as an error, which may negatively impact your credit score. Rectifying those will not only boost your credit score but also make you a deserving candidate for any other loans. Sometimes, in order to avail a personal loan, you may consider applying with your employer, provided the organisation has a policy of sanctioning personal loans to employees.

Similarly, a raise in your current salary or existence of additional sources of income should be communicated to the lender with additional income proof. In such scenarios a lender may consider granting the loan despite a low credit score, believe many experts. Also pledging your physical assets such as property or jewellery as a guarantee can also increase your chances of getting a personal loan with a low credit score. Needless to say, offering collateral comes as your last resort after failing all the above methods. However, in any case, pledging your assets also ensures that you have sufficient funds for repayment.

Financial experts suggest one needs to take gradual measures over a period of time to improve credit score. Some of these include repaying all existing dues, which acts as one of the major indicators of credit risk and also your credit score. Other steps include avoiding incidents of check bounces, multiple loans and credit facilities and avoiding several queries for loans.

"If you are using a credit card, pay the total amount due rather than the minimum amount due. It is notable, that if you do not have any credit history, your credit score would by default be on the lower side. As such,

you can consider borrowing smaller loan and make payment thereof as per repayment schedule, only to ensure that you have a sound credit history," says Surana.

While these days one can avail a personal loan, despite a low credit score, doing so on a regular basis is never a good idea. However, even if you need to avail a personal loan on a low credit score, maintain absolute transparency with the lender about your financial capabilities. Furnish every detail related to your source of income such as monthly compensation, rent and any extra income from freelance assignments. This will shed a positive light on the lender about your competency in terms of timely loan repayment. Surana advises,

SURESH SURANA

Founder, RSM Astute Consulting



CIBIL score plays an important factor in negotiating rate of interest for loans



"You should decide the monthly installment depending upon your monthly income. One of the important factors, which one should take into consideration is that one does not over-leverage his or her finances or your income sources.

Having said that, availing personal loans with a low CIBIL score also comes with its set of pitfalls. Sometimes applicants need to wait for months for loan sanction while simultaneously working towards boosting CIBIL scores. Nonetheless, CIBIL scores can be improved.

Sharing his views on ways to improve one's credit score, Chawla says, "There are a plenty of smart decisions, which can help improve credit score. First of all, one should be confirmed that his all credit reports are accurate; there should be clarity in financial goals; late payments should be fixed. There should also be a well-written plan regarding credit score improvement, and credit utilisation ratio should be fixed for a secured credit card."

On a final note, it can be said that, while digital disruption within the financial sector has made it easier to avail personal loans even with a low credit score, it is best avoided, unless it is an absolute necessity. ■

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