



Are covid-19 loans for you?

- Covid-19 personal loans are cheaper than regular personal loans but their eligibility criteria are different
- Only existing customers who have a salary or loan account with certain PSBs can get these, subject to conditions

If you have a salary account or an ongoing loan for which you have not missed a single equated monthly instalment (EMI) in a public sector bank (PSB), you may be able to avail a new personal loan product called the covid-19 loan. Priced much lower than regular personal loans, this product aims to help existing bank customers to tide over a temporary cash crunch due to the effects of the covid-19 pandemic.

Some of the banks offering covid-19 personal loans are Bank of Baroda (BoB), Punjab National Bank (PNB), Union Bank of India (UBI), Bank of Maharashtra (BoM) and Bank of India (BoI).

“Many of our customers are facing temporary cash flow problems as their employers are paying them lower salaries during the lockdown. For such individuals, we have launched covid personal loans with lower interest rates and relaxed assessment norms,” said Muchal Venkatesh, general manager, retail banking, UBI.

Since these personal loans are for a specific purpose, the interest rates are as low as 7.2% per annum (for the UBI product). Typically, personal loans from PSBs charge 14-18% per annum. But should you go for them?

The conditions

The eligibility criteria for these loans are different from that of regular personal loans.

BoI, for example, is giving loans to customers who have been drawing salaries through the bank for at least a year, or to those who have an existing home or

personal loan. PNB, which has named its product Sahyog covid-19, is also offering it to existing customers who are drawing their salaries through the bank.

UBI is offering it to customers who have a salary account or have availed of a housing, mortgage, vehicle, personal or pension loan from the bank. It is giving a loan amount equal to six times the last credited salary or pension of the applicant. "Ours is a floating rate personal loan. We are also giving moratorium for the initial months (till June-end). The interest accrued during the moratorium would be added to the principal. The customer has to make the payment in 57 EMIs," said Venkatesh. Since it's a floating rate loan, the interest rate will change whenever the Reserve Bank of India (RBI) revises the repo rate.

BoB is giving covid-19 loans to those who have availed of home, mortgage or car loans from it. The loan amount will depend on the EMI of the existing loan. The maximum amount that can be taken is 10% of the sanctioned limit of an existing housing or mortgage loan and 20% of an existing car loan. So, if a person is paying an EMI of ₹30,000 for an ongoing home loan, the bank will sanction the loan in such a manner that the EMI of the covid-19 loan is ₹3,000 (10%) or less. "It does not matter whether the borrowers are salaried or self-employed. They should be our loan customer for six months or more and should have paid their EMIs on time for the past three months," said Virendra Kumar Sethi, head, mortgages and other retail assets, BoB.

The maximum loan limit for most banks is in the range of ₹3 lakh-5 lakh, and there is no processing fee. The minimum ticket size varies with the bank. BoB, for example, is sanctioning a minimum amount of ₹25,000.

These loans are also available to those who have sought a moratorium on their ongoing loans.

Many takers

The initial response to BoB's product was encouraging. Within six to seven days of the launch about a month back, the bank had sanctioned at least 3,500 loans. UBI had disbursed around ₹26 crore in the initial few days of the launch in early April.

The average ticket size of the loan also varies with the bank. BoB is expecting it to be ₹1.5 lakh, while UBI has got applications for an average ticket size of ₹3 lakh.

“In tier-II and tier-III cities, many employers have not been able to distribute salaries to workers due to the lockdown,” said Rishi Mehra, chief executive officer, Wishfin.com, a marketplace for loans and credit cards.

Mehra also pointed out that PSBs are flush with cash. “They are parking money with RBI at a much lower rate. Even if they are able to lend at their benchmark rate, they would still be happy as there’s no lending in any other product category,” he added.

Should you take them?

These loans make sense for those looking at consolidation of their debts. Say, you have a credit card outstanding. You can use these loans, which are available at a much lower interest rate, and repay the credit card issuer. “Covid-19 personal loans can work for lowering the debt burden if used smartly. A borrower can replace high-cost loans with them,” said Vishal Dhawan, founder, Plan Ahead Wealth Advisors, a financial planning firm.

However, you should avoid taking these loans to meet your cash flow requirement. “To avail this loan to meet cash flow problems, a person needs to be confident that the issue he is facing is temporary. But we have a lockdown in place and no one knows yet how and when it would be lifted. Most people will not be confident about whether the cash flow problem is temporary or if it can stretch further,” Malhar Majumder, a Kolkata-based financial planner and partner, Positive Vibes Consulting and Advisory, a Sebi-register investment adviser.

If the situation does not improve, companies can further reduce salaries or opt for cutting down the workforce. When the future is uncertain, it doesn’t make sense to take on more liabilities. Don’t be swayed by the product only because the cost is lower. It’s best to avoid fresh leverage in the current environment.

Usually, planners advise against liquidating investments if they are giving higher returns than the cost of the loan. But this doesn’t hold true when there is no predictability about future income. So if you don’t have an emergency fund, the best option is to liquidate your investments. Do take the penalty and tax into account before deciding which one to liquidate first.