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Personal Banking

Type of Products and Features

Assets – Loan against Securities

Introduction

- For personal requirements against Shares, Mutual Fund Units, Insurance Policies, Savings Bonds, NSC/KVP, Non-Convertible Debentures etc.
- Loan against shares/equity mutual fund units/ULIP insurance is extended to individuals only.
- Loan to other legal entities like HUF, proprietorship/partnership firms, companies etc., is considered against debt securities/LIC policies.
- Not considered for speculative purposes, inter-corporate investments or acquiring controlling interest in company/companies
- Given by way of “Overdraft, an operating facility with cheque book
- Interest rates, though higher than home loan, are lower than personal loan. Interest is calculated on day end debit balance, recovered monthly.
- Popular scheme – a secured lending for banks. Sufficient margin on pledged securities to take care of fluctuations in the value.
- The delinquency rate is generally very low in this segment. .
- These loans constitute significant part of the total retail loan portfolio of the banks.

Key Features

- Banks provide this facility normally against the following securities:

  - Equity Shares – in de-mat form
  - Mutual Funds Units including Fixed Maturity Plans (FMP), Exchange Traded Funds (ETF)
  - Insurance Policies
  - Savings Bonds – Reserve Bank of India, Nabard etc.
  - National Savings Certificates/Kisan Vikas Patra (De-mat form)
  - Gold Deposit Certificates (GDC)
  - Non-Convertible Debentures

- The Loan amount against shares and mutual fund units ranges between 50,000 to 20,00,000. Some banks have higher minimum amount.

- The loan against LIC Policy, NSC/KVP/Savings Bonds etc., is considered for much higher amount – even up to Rs.5 crore.

Key Features

Margin - 50% of prevailing market value of the shares/NAV of the mutual fund units. Higher margin in case of single scrip.

In case of Life Insurance Policies, the current surrender value and in case of bonds etc., the issue price is taken to consider margin.

Margin reviewed weekly or more frequently if required due to frequent changes in market value of shares. If available margin reduces, customer has to bring down outstanding balance or pledge more shares.

Facility is extended for one year, renewable annually.

Securities are pledged in favour of the bank and the charge is registered with the issuer.

Facility against shares, equity mutual fund units and ULIP policies of Insurance are considered only for individuals.

Key Features

- Against debt mutual fund units/FMP/ETF, Insurance Policies (other than ULIP), bonds etc., loan is given to HUF, Companies, Partnerships and Sole Proprietors are also
- Facility granted against “approved” securities as per list of each bank. The list is revised by the banks periodically
- Age of the borrower - between 18 to 75 years
- Processing fee - between 1 to 3 per cent
- No guarantor required
- No other collateral security is required
- No prepayment charges
- Facility granted by way of Overdraft with a cheque book.
- Interest charged on day end balance and debited at the month end.
- Not necessary to have de-mat account in the bank from where the loan is availed.
- Dividend and Bonus on pledged shares continues to accrue to the borrower.
- In case of shares in physical form, they are required to be converted into de-mat form before considering the facility there-against.

Key Features

- Facilities not considered against securities in the name of minors, trusts, partly paid up and shares in the name of individuals in companies of which they are Directors/ Promoters.
- Overdraft against security of equity shares, equity mutual fund units and ULIP Insurance Policies are considered only for individuals
- Overdraft against other specified securities are considered for individuals, HUF, proprietorship/partnership firms, companies etc.

Fee/Service Charges

Description of Charges	Loans Against Shares
Loan Processing charge / Renewal charge	1-2 percent of the amount of Overdraft subject to minimum Rs. 1000/- or more. Mid year review and annual review to attract charges, lower than original .
Pre-payment charge	Nil
Additional interest on Overdrawn amount Cheque return charge Charges for interim Valuation Report (IVR)	2% per annum subject to total rate minimum 18% p.a. or so Rs. 250 per instance Rs 50/- per IVR
Annual Maintenance Charges	Some banks charge minimum 500/- subject to maximum 10000/- or so
Charges for collection of proceeds on maturity	Banks levy handling charges per transaction
Sale of security in the event of default	Banks levy handling charges per transaction
Legal & incidental charges Cheque Book Charges TRF Processing Charges	Banks levy handling charges per transaction Banks levy handling charges per transaction
Pledge creation fees	Banks levy handling charges per transaction
De-pledge fees	Banks levy handling charges per transaction
Charges in case limit Drops to Zero	500/- p.m.

ACCELERATE NEXT

Process Flow

Sourcing of business:

- Through branch network
- Through Direct Sales Channel/Sales Channel Offices in prime business centres

Processing of application:

- At separate Retail Loan Branches/Offices set up at prime locations, segregated into –
    - Screening of Application Form, proof of addresses, income, bank statement, processing fee cheque etc.
    - Credit Appraisal and sanction as per laid down policy and norms of the bank, considering eligibility, amount of overdraft and details of security to be pledged
- Issue of Sanction Letter
- Documentation, creation of security and setting up of the Overdraft limit

Process Flow

Documentation and Disbursement of Loan:

- Proof of Identity
- Signature Proof
- Address Proof
- Execution of the loan agreement
- Pledging of the securities
- Opening the Overdraft account and issuance of cheque book
- Audited Balance Sheet , Profit & Loss Account for last two years and previous 2 years' tax returns in case of Companies/ Proprietorships/Partnership firms
- Setting up the Overdraft limit in the account based on value of the securities as per stipulated margin, drawing power.

Periodic review of account operations/ maintenance of margin

Periodic Review

- The value of securities reviewed normally weekly; and more frequently in case the market value falls significantly suddenly.
- Banks have installed software-based system to get list of such accounts where the value of security had fallen below stipulated minimum. Banks inform customers through phone/e-mail for making up the shortfall.
- Banks sell off securities to regularise the account

Adhoc Review/Revision of limit

- Adhoc review is done to increase or decrease the limit as per customer’s request from time to time.
- Revision of sanctioned limit involves pledging/de-pledging of securities and execution of supplemental/fresh documents.
- Banks charge processing fee for such adhoc reviews.
- In addition, banks undertake adhoc review in case of sharp fall in value of securities, to decide safeguard banks’ interest.

Prepayment of the loan

- Pre-payment of overdraft by the customer is allowed without any pre-payment penalty.
- Customer repays overdraft account and surrenders the cheque book
- Bank cancels the limit and takes up with the issuers of the securities – NSDL/CDSL, Mutual Funds, Insurance Companies, issuers of bonds etc., for release of banks’ charge on the securities.

Foreclosure/Recovery/Legal Action

- Bank may resort to foreclosure if:
  - there is erosion in value of the security below acceptable margin
  - the bonafide of the customer is found doubtful
  - the customer’s death
  - There is any violation of the terms of sanction

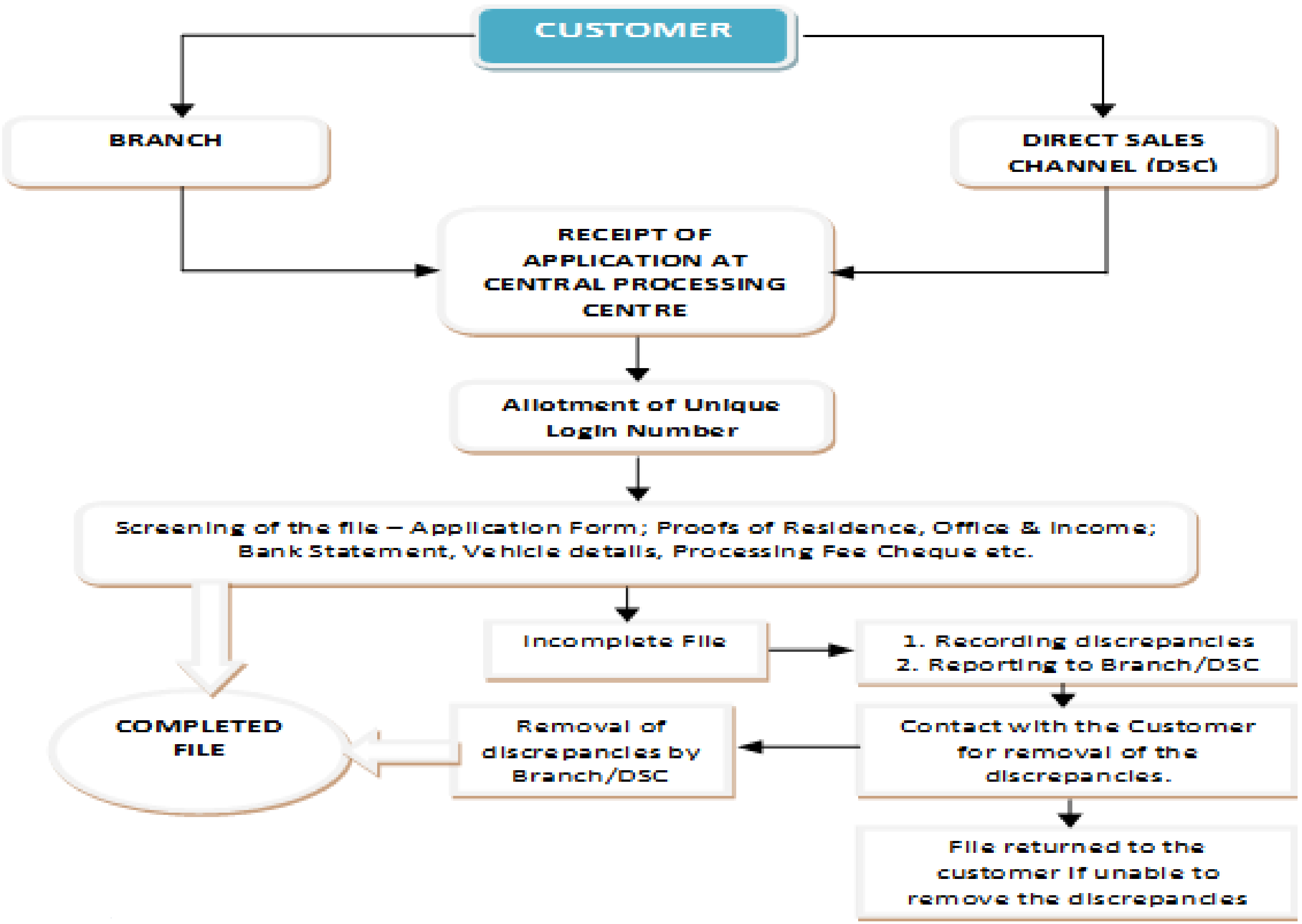
- If the sale proceeds of securities are insufficient to liquidate the bank’s dues, further recovery process is initiated for recovery from personal resources of the borrower, for which it generally engages professionals/agencies.

- RBI has issued guidelines in this regard to ensure that there is no unwarranted harassment of the customer and are required to engage recovery staff/agents trained as per course formulated by Indian Institute of Banking and Finance.

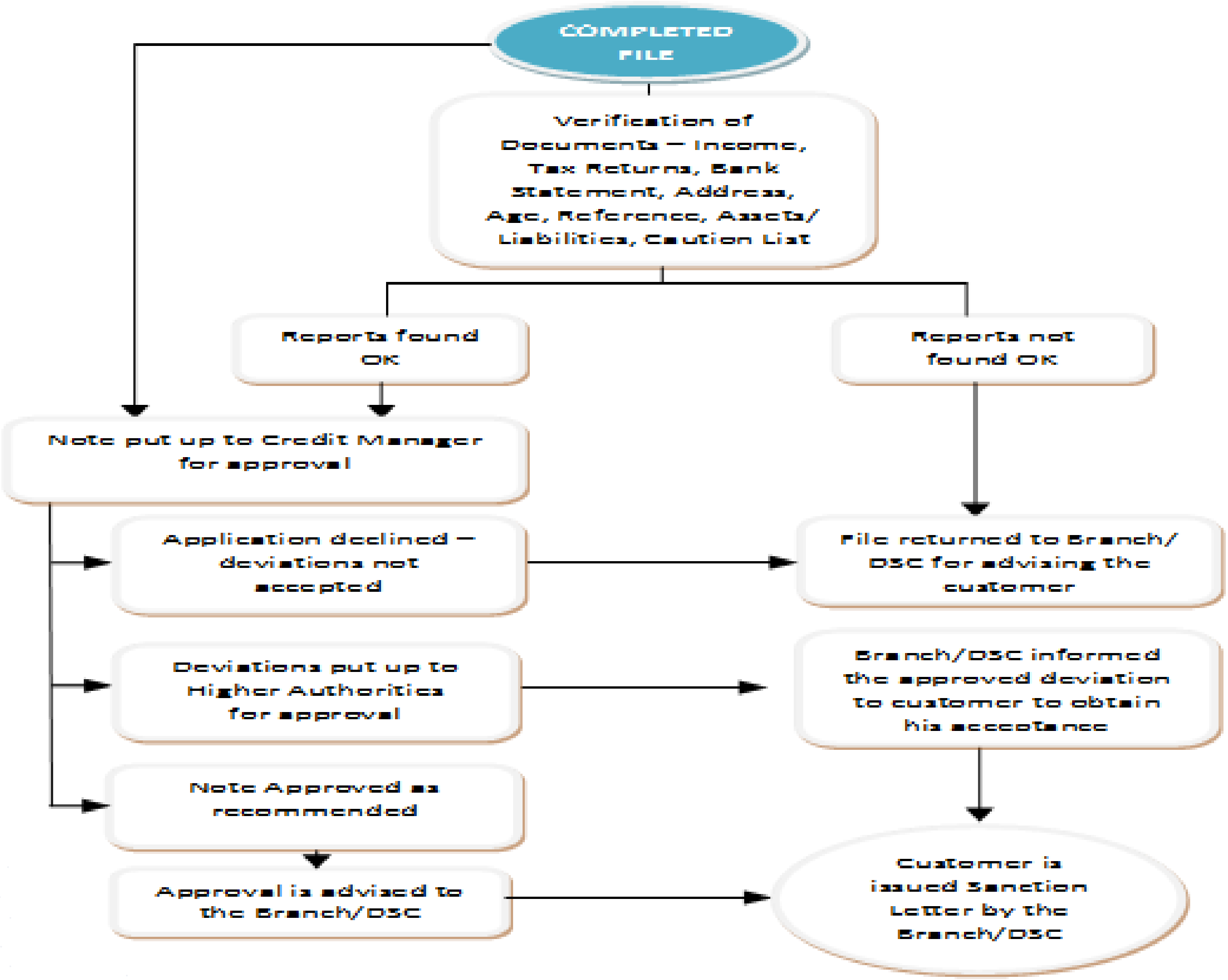
NPA Provisioning

- RBI guidelines for income recognition, assets classification and provisioning – if due for more than 90 days, the loan is deemed as NPA and categorised as "sub-standard" category.
- If the default period increases to one year, the loan is shifted to "doubtful" category.
- If any Loan is considered unrecoverable for any reason, the same is categorised under "loss".
- Banks have to make provisions based on the category of NPA, period of default and availability of security.
- If categorised as "NPA", the entire amount of unrecovered interest to be reversed and application of interest to cease

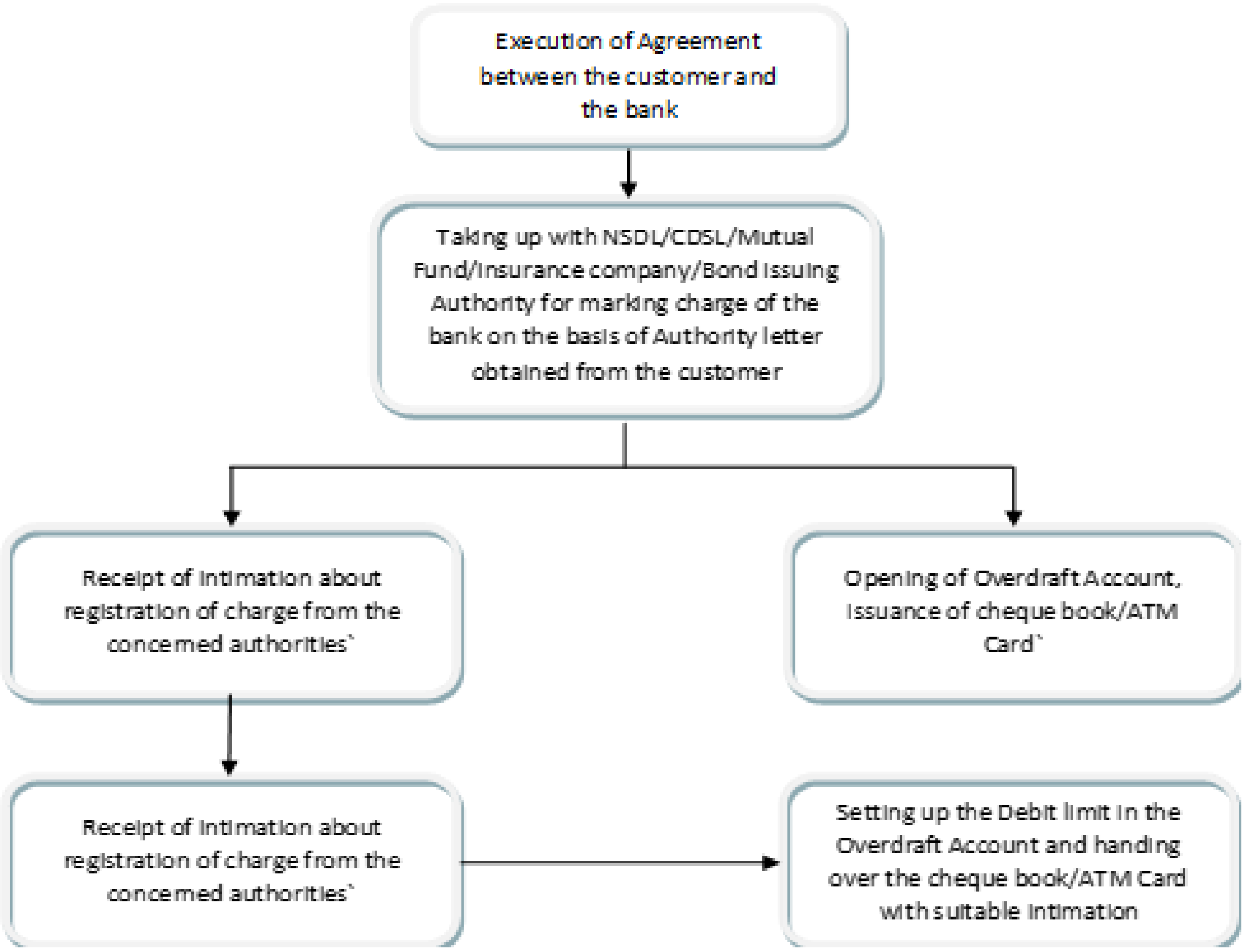
I. Process Flow Chart - Loan Origination, Processing, Approval & Disbursement



PROCESSING OF COMPLETED FILE



DOCUMENTATION AND DISBURSEMENT



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