CARE Ratings report on uptick in retail loans: What you must do to avoid a debt trap

People are back to borrowing from banks. A recent CARE Ratings banking review report of January 2021 shows that bank credit growth has been mainly led by the increase in retail loans. In November 2020, the retail segment contributed 28.8 percent share of the total credit during the period, as compared to 27.7 percent a year ago.

According to the report, home loans had a 52.3 percent share of the total credit outstanding in the retail loan segment. Home loan interest rates are already at 15-year lows. For instance, State Bank of India (SBI) announced a lower concessional rate of up to 30 basis points on home loans. The slump in property prices and lower registration costs in some states have also contributed to the increase in the demand for housing loans.

Auto and personal loans (includes credit card outstanding) have also grown. The report also says that as per CIBIL (a credit bureau) the retail credit demand (measured in inquiry volumes) in November 2020 was back at 93 percent of the levels observed in November 2019 and it was significantly up from the low levels observed during the early months of the pandemic.

HOW BANKS LENT TO THE RETAIL SEGMENT

Retail loans	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Home Loans	13,35,902	13,47,565	13,49,501	13,59,824	13,73,277	13,83,427
YoY Growth (%) for home loans	12.5%	12.3%	11.1%	8.5%	8.2%	8.5%
Auto Loans	2,14,602	2,17,697	2,19,769	2,21,388	2,24,022	2,28,758
YoY Growth (%) for auto loans	7.1%	8.1%	8.4%	8.8%	8.4%	10.0%
Personal Loans	7,98,753	8,23,036	8,36,044	8,49,201	8,74,124	8,91,130
YoY Growth (%) for personal loans	10.9%	12.6%	12.2%	12.3%	13.0%	14.0%

Source: CARE Ratings

“There has been steady growth in retail loans despite the pandemic, with unlocking of economy and attractive schemes offered by banks/other lenders with significant reduction in interest rates etc.,” says Sanjay Kumar Agarwal, Senior Director at CARE Ratings.

To push retail credit, banks had announced various festive offers leading to retail demand, along with various online shopping portals offering Diwali sale offers. HDFC Bank, Axis Bank and ICICI Bank along with others had announced various offers.

Just because personal loans are available easily and home loan rates are at 15-year lows, you shouldn’t go overboard. Here are some key factors you need to remember before you apply for any loan.

Is all debt bad?

Yes, but some are necessary at times. A loan availed to buy a house to live or an education loan helps you either build an asset or a good future for yourself.

But if you take a loan to go on a holiday, it can come back to haunt you later. “Lifestyle debt could not only jeopardise your financial goals, but also put you in a tight spot in case of a black swan event such as the COVID-19 pandemic. So, avoid getting into lifestyle debt with easy finance options,” says Rahul Jain, EVP at Edelweiss Wealth Management. Equally essential is to keep discretionary expenses at the backburner and follow a strict budget.

Borrow only what you can repay

Experts say that your equated monthly instalments (EMIs) of all your loans out together, should not exceed 40 percent of your take-home pay. And this includes all types of borrowings: home, vehicle, education and personal loans. Your personal EMIs would anyway be higher proportionately because personal loans come with high interest costs – around 16-18 percent. “Keep your personal loan EMIs limited to under 10 percent of your net monthly income,” says Raj Khosla, founder and MD of MyMoneyMantra.com.

Authenticate the fintech app

It’s always safer to borrow from banks with which you have a relationship – via having a savings account, locker or fixed deposit. As far as possible, avoid borrowing money from fintech apps that can be easily downloaded these days on your mobile phones. There have been cases of fake lending apps that lend money with multiple hidden charges.

Not all fintech firms are unregistered though. Make sure your fintech app is partnered with a bank or a registered non-banking firm. The loan agreement must mention these details. Do not share copies of know your customer (KYC) documents with unidentified persons, or unauthorized mobile apps. You should check the names and addresses of the NBFCs registered with the RBI, which can be accessed here.

Avoid no-credit-check personal loans

Some payday loan apps and digital fintech lenders offer loans without wanting to check your background. This is a trap; avoid all such loans. In exchange for what looks like a convenient arrangement, interest rates are pretty high; between 0.5 percent and 1.5 percent a day. In most cases, it is around 1 percent a day. And this translates to 365 percent a year!

It’s okay for your bank or non-banking firm to ask for usual details to judge your credit worthiness, such as your income statement or salary slips, bank statement and so on. Some lenders even require you to pledge a collateral (personal or financial assets) as security. That is still okay.

“Most borrowers don’t realize the exorbitant rates they pay on such no-credit-check personal loans, because most loan tenures are limited to a month or so,” says Dev Ashish founder of StableInvestor.com. Dev warns that going on such paths can easily push you into a debt trap.

Also read: How app-based loan sharks lay death-traps for borrowers

Don’t overspend with your credit card

Among the worst type of debts that you should avoid is over-spending on your credit card. Keep a close check on your credit card spends. Once in six months, take a look at your credit report and keep tabs on your credit score.