

Got gold but no cash? Try the gold loan

The interest rate is usually lower than that on a personal loan but use it only for emergencies

By VIVINA VISHWANATHAN
vivina.v@livemint.com

Sudden needs of cash are the most difficult to predict and sometimes even emergency funds built up prove to be insufficient. It was such a need that pushed Cochin-based businessman Krishnakumar N.K. to use his family gold to get a loan. Says Krishnakumar, "In the construction business, we constantly need cash and the easiest way for it is to take a loan against gold." He has been taking gold loans from Muthoot Finance Ltd for the past 10 years to tide over this short-term cash flow mismatch. He says, "In the construction business, the cost of raw material can go up within a day. And if I don't have enough cash at the right time, my operational cost will take a hit. In such situations gold loan has come to my rescue as I can get cash within minutes."

Not just businessmen, but an average middle-class household can too face a sudden need for cash and gold loans can be a solution, especially in smaller towns that are otherwise underserved by banks and other financial products. The growing price of gold, the huge pool of household gold and a tough economic environment have all contributed to a growing interest in gold loans. This has pushed banks as well as non-banking finance companies to bring new products in the market to push their gold loan portfolio. Says D. Sampath, head-retail banking, Federal Bank Ltd, "In case of gold loans, delinquency is almost nil. As it is backed by securities, the risk is less. Hence we plan to increase our gold loan exposure to 15% of our overall portfolio. Currently it is at 11-12% of our overall loan portfolio."

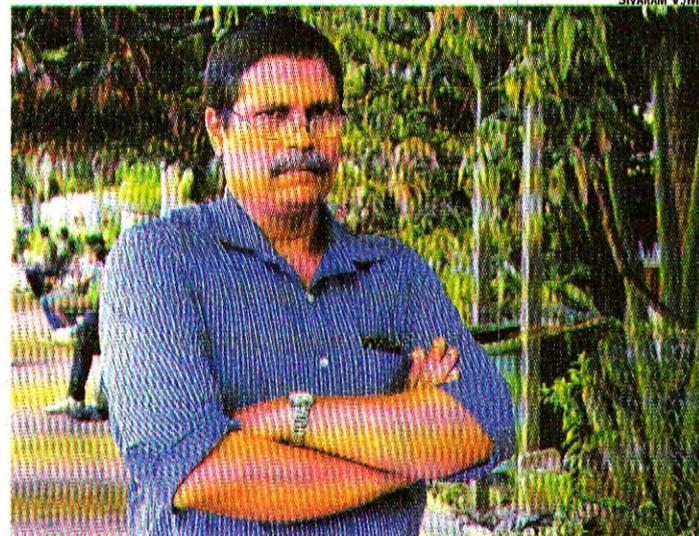
lio." We know why it works for the banks, but what works best for you? We find out.

What's on offer

Term loan: This is a walk-in facility where all you have to do is pledge your gold and based on the regulations the financial institution will lend you money. Both non-banking finance companies (NBFCs) and banks offer this facility. Here if you go to a bank, you will get at least 80% of the value of gold as loan, whereas, if you go to an NBFC, you will get 60% of the value of gold as loan. There is an upper limit for the amount that the financial institutions can sanction. Most of the banks give a loan of a maximum amount of ₹75 lakh to ₹1 crore.

Charges: Interest rate ranges from 10.45% to 24%. Along with this you will have to pay additional costs such as processing fees which will cost you 0.025% to 1.5% of the loan amount. In case of late payment, you will be charged around 2% per annum of the loan amount as penal interest.

Overdraft loan: Here the loan amount acts like an overdraft facility. An overdraft account will be opened by the bank



Quick fix: Krishnakumar N.K. takes gold loans quite often to manage his construction business as the money is disbursed quickly.

where the loan amount for the value of gold pledged will be deposited. Big banks such as HDFC Bank Ltd, Federal Bank Ltd and Bank of Baroda offer this facility. In some banks you can withdraw the gold loan amount using your debit card from an automated teller machine (ATM) of any bank at any branch. Some banks link it to the savings account or create an overdraft account while some open a new account with features similar to a current

account. You can even swipe your card and use the loan amount to make purchases. You can also withdraw the loan amount using a cheque which will be issued separately for the overdraft account.

Charges: Interest rates for overdraft gold loan are normally higher by 100 basis points to 200 basis points than gold term loan ones. Here the processing charge can vary from bank to bank and ranges anywhere between 0.25% and



ILLUSTRATION BY ANIRBAN BOHA

RATE CARD

Companies	Interest rate	Loan-to-value	Loan tenor	Type of gold you can pledge	Carat
NBFC					
Manappuram Finance	15.00-24.00%	60%	12 months	Jewellery	Above 18K
Muthoot Finance	12.00-27.00%	60%	12 months	Jewellery	22K
Muthoot FinCorp	24.00%*	60%	6 month to 3 years	Jewellery	22K, 24K
Banks					
Andhra Bank	12.90-14.75%	80%	12 months	Coins, jewellery	22K
Federal Bank	10.45-14.75%	75-80%	2 months-3 year	Coins, jewellery	22K
HDFC Bank	13.25-16.00%	NA	6 months-24 months	Coins, jewellery	Above 18K
Indlan Bank	12.00-14.75%	75%	12 months	Coins, jewellery	22K
Indian Overseas Bank	12.00-12.75%	NA	12 months	Coins, jewellery	20K, 22K
South Indian Bank	13.50-17.00%	75%	12 months	Jewellery	22K
Syndicate Bank	11.75%	75%	12 months	Coins, jewellery	22K

NA: not available; only institutions with large marketshare in gold loan have been picked; *calculated on deminishing balance method

Source: Mint research, Apnapaisa.com

1.50%. Lenders also charge a minimal fee of about ₹500 per annum for the service.

Customized products: Small innovations are beginning in gold loans now. Take for example, Muthoot Finance Ltd that has a product where different interest rates are charged for different periods. A loan for ₹1 lakh for three months will carry a rate of interest of 15%, for three months to six month duration, the interest is 18% and then for a year, it is 21%. This loan would work for people who are not sure when they can pay the loan back but want the flexibility of having the money for a year.

Compare before pledging

LTV: Loan-to-value ratio (LTV) is that amount financial institutions can lend against gold at a certain percentage of the value. In March 2012, the Reserve Bank of India (RBI) capped LTVs for NBFCs at 60% of the value of ornaments whereas there is no such cap for banks. Say, if you have 1g of 24 carat gold and the value of this gold is ₹3,000, an NBFC will be able to lend a maximum of ₹1,800. However, banks will lend you somewhere around ₹2,400 per 1g of

gold. This clearly indicated that chances of getting a better loan amount out of your gold pledged are more in a bank.

Interest rate: Interest rates vary across financial institutions. Generally interest rates for gold loans offered by NBFCs are in the range between 15% and 24%. Meanwhile, interest rate on gold loans offered by banks is cheaper—11-18%.

Assets: You can pledge gold ornaments and gold coins. Banks take both whereas NBFCs will take only jewellery. In case of quality of gold, most banks and NBFCs take only 22 carat gold. However, Manappuram Finance Ltd takes gold above 18 carat and so does HDFC Bank. You can also pledge semi-precious stone-studded gold ornament, but here only the value of gold will be taken into consideration. Gold bars are a strict no.

Documentation: The documentation process is quiet simple. All you have to do is fill a form along with your identity proof, know-your-customer document, if required, and a note stating that the jewellery belongs to you. Some banks may ask for your Permanent Account Number also. Once the bank or NBFC official does the due diligence and checks the quality of the gold that you have brought to pledge, he will give you the cash either over the counter or as an overdraft facility. The entire process doesn't take more than an hour.

What it means for you

You should go for gold loans only if you need emergency funds. Says Veer Sardesai, a Pune-based financial planner, "Loan against gold is essentially securities-backed loan and hence the interest rate on these loans will be lower than that on unsecured loans. So it is better to go for a gold loan than a personal loan for an emergency funding. Also go for it only if you are confident that you will repay it in the short-term." If your time horizon is 12-18 months, you can opt for a gold loan.