



Do you need that festive deal on loans?

Even with so many loan offers, you can still bargain with the bank. Also, regardless of discounts, avoid impulse shopping and don't buy what you don't need

✉ Shaikh Zoaib Saleem



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With the festival season around, when consumers tend to make big-ticket purchases, banks have started enticing loan seekers with discounts in the form of processing fee waivers. As reported earlier (bit.ly/2gkWeYm), several banks have waived the processing fee on car loans till end of September, which will coincide with Dussehra, and these deals are expected to go beyond that this time around. More recently, State Bank of India has also waived the processing fee for car loans till the end of 2017.

Why these discounts now

Dinesh Rohira, founder and chief executive officer of 5nance.com said that banks are looking at avenues to productively deploy funds accumulated during the demonetisation period. "This is getting coupled with the festival season, where a lot of impulse buying happens around consumer durables and cars. By abolishing the processing fee or a slight reduction in the interest rate, they are able to get a larger market share during this season," he said.

Banks also do this to boost their credit business. They too have to give interest on deposits, though the interest rate on these has reduced recently. Amit Mittal, founder and chief consultant officer of eSilverbucks Consultants Pvt. Ltd said, "Banks are giving up to 7% to their customers for deposits in savings accounts, and in the retail segment they are lending at 9-12%. And the delinquency in this segment is very low. Hence they tend to go aggressive in this segment."

Banks are facing another problem in terms of credit offtake. "Corporate side of the demand for credit has moved to the bond market. So banks are going after retail borrowers to get their lending going. So these benefits are going to continue for a while, even after a few months, and you will be able to negotiate deals," said Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors Pvt Ltd.

Discount on loan and deals

What do banks gain by waiving the processing fee of Rs6,000 on a car loan? "These are teasers and work well to attract people. Sure people should take benefit from these but the decision should be considered," said Arun Ramamurthy, founder, Credit Sudhaar, a credit advisory.

A loan is essentially a way of preponing a spend or an investment. "When you are upfronting your spend, you should be absolutely sure of your ability to service the debt, irrespective of external environment.... Multiple industries at present are not seeing any growth, and therefore there is a risk of job loss," Dhawan said.

Using a bank's festive offers to prepone spending decisions may not always be a good idea. "The risks prevalent in the market cannot be compensated by the minimal benefits that these schemes might offer. Though it will be fine if you had already planned the expenditure," he said.

If the processing fee on a car loan is waived, it is a one-time discount. But the customer may feel a significant benefit would accrue from a reduction of interest rate from 12% to 11%, on a Rs5 lakh loan.

"But your EMI in this case will get reduced only by Rs250. So, practically, apart from the processing fee waiver there isn't much benefit for making an impulsive purchase, vis-à-vis a planned purchase," Rohira said. So, take advantage of the festive offers only if it is for a purchase you have already planned. Evaluate the deals and discounts for their total benefit. Ramamurthy said that you should look at offers on loans only after you "get a phone that usually sells at Rs40,000 for Rs30,000."

Bargain but beware the details

When looking for a deal, for a planned purchase, do not limit yourselves to one bank only. "Also, if you can close the negotiations towards the end of the month, that could be beneficial as banks and branches look at achieving their targets for that period," Dhawan said.

Bank branches have some discretion in certain charges and processing fees, Rohira said. So you should not hesitate to bargain. However, "While you may feel good that you have bargained a small percentage, it won't have a major impact on your finances. It just gives you an emotional feel-good factor, unless we are talking here about large loans like a home loan," he said.

For a home loan, processing fee waiver can have a sizeable impact. But even here, the processing fee as a percentage of the liability being created will be minuscule. "It is unlikely that you will go for impulsive buying when it comes to home loans. It just sweetens the deal," he said.

At the same time, it is important for consumers to carefully look at terms and conditions in all these loans. For example, there could be some pre-payment penalty in personal loans or car loans.

Before taking a loan, consider how it will be repaid. The long-lasting consequences of not paying a loan cannot be compensated by the transient pleasure that loan-funded asset or experience may bring you.

And when bargaining for a loan, look at the total benefit you would get from it. A 100% waiver of processing fee may not be the same as a 2% discount in the interest rate on a phone you may be planning to purchase.

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