Are you a first-time borrower?

Maintaining a balance in your savings bank account and not issuing cheques without sufficient money in your current account are as important as repaying your loan on time. These are some of the things a bank will check before approving a loan application, especially if you have no borrowing history.

For a first-time borrower, banks will check the transactions in savings bank accounts if he is a salaried person, or the current account if he is self-employed or has a small business, says Mahesh Dayani, country head, retail assets, ING Vysya Bank.

“If the person maintains a bare minimum balance or no balance at all in the savings bank account, it tells how stretched his finances are. Similarly, if he issues cheques without checking the balance in the account, then we know it is a case of indiscipline and we might stay away from such customers. We will look at some function of banking history,’’ he says.

Usually, banks will offer a lower credit limit to a first-time borrower and subsequently increase it as the borrower builds a repayment track record. This is possible in cases where the borrower already has an account with the bank. If it is a new customer, credit bureaus have products for this category.

Experian Credit Information Company recently launched a new score card for first-to-credit customers, who’ve never had a loan. This score card has grades between one and six, with one representing high risk and six representing low risk.

Mohan Jayaraman, managing director and country manager, says the scorecard looks at the profile of the borrower, based on his or her loan application. It then compares the risk of people with similar profiles from the bureau’s database and based on that, makes a broad categorisation of the risk It is a view on how people of this profile have performed.

“The parameters look at the kind of loan, size of loan, demographics like age, address and so on. The employer might not have a bearing, even if the data is available in the application. But that is something the bank might look at,’’ he says.

CIBIL has a similar score card to rate new borrowers. It combines attributes of similar consumers in terms of demographics, lifestyle and other parameters, plus deviation from the norm on these attributes.

“This solution is customised for the lenders, based on their product and geography,’’ says Harshala Chandorkar, senior vice-president, consumer relations, CIBIL.

If it a young person applying for a limited mortgage loan, the risk category will be low because it is safe. But if a young borrower is applying for a very expensive house, it might be seen as high risk. Typically, entry-level loan products are credit cards, as it is a convenient product, or a two-wheeler loan for transportation. A good credit score could help borrowers get instant loan approvals from some lenders, says Chandorkar.

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