

Gold loans: Banks retain edge over NBFCs

For [gold loan](#) borrowers, it's a trade-off between convenience and rates. While non-banking financial institutions ([NBFCs](#)) such as Muthoot and Manappuram offer loans within minutes, lenders such as HDFC Bank take 24-48 hours to sanction these. And, in the case of the latter segment, disbursement could take a few more days.

However, while [banks](#) charge 15-16 per cent, NBFCs tend to charge 17-18 per cent or more. Though the lowest rate for NBFCs is 12 per cent, these companies seldom offer loans on that interest rate. Sanjay Agarwal, senior vice-president & group head (retail business group and technology solutions group), Arcil, says: "Usually, NBFCs levy a rate higher than that levied by banks for gold loans because NBFCs source the funds from banks. Even if NBFCs say they offer a lower rate, they may not be able to offer rates less than banks."

Banks have an edge in the loan-to-value (LTV) aspect as well; they provide LTV of 80-85 per cent. Last week, the Reserve Bank of India allowed NBFCs to give up to 75 per cent.

So, borrowers in a rush to raise money and for the short term may opt for NBFCs, albeit at a marginally higher cost and lower LTV. This is because a two-three per cent difference between the interest charged by banks and NBFCs will mean little for loans with tenures of up to a year. If you take a gold loan of Rs 1 lakh gold loan for a year from a bank, equated monthly instalments (EMIs) would stand at Rs 9,026. From an NBFC, the same loan would result in EMIs of Rs 9,168, a difference of Rs 142 a month.

If planning to take a gold loan for a few years, say, for funding a child's education or any other important financial goal, you could approach a bank. Hiren Dhakan of Bonanza Portfolio says, "If one is looking to borrow for a year, it's suggested to borrow from NBFCs, as they can charge 12 per cent. But if one is looking to borrow for two-three years, one may borrow from banks as long-term rate outlook indicates [RBI](#) may lower interest rates soon. The longer-term loan rates from NBFCs are way higher than bank rates — up to 25 per cent for three years."

Besides the rate difference, you will get a larger amount for the same amount of gold. For instance, gold jewellery of Rs 1,00,000 will fetch Rs 60,000-62,000 from a bank, while an NBFC will offer Rs 55,000-57,000 for the gold. This is because banks and NBFCs will deduct making charges, usually 10-25 per cent, before giving an LTV of 75 and 80-85 per cent, respectively.

According to Manappuram Finance's website, the rate of interest depends on the LTV — if the LTV is high, a gold loan company may charge additional interest, which is seen as the risk premium for offering a higher loan against gold. In other words, to secure comparatively lower interest, one should seek a low LTV.

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