

HOW DO I GET AN AUTO LOAN?

Tap various dealers for the various finance schemes floating in the market. You can choose from margin money schemes, advance EMI's schemes and deposit payment schemes. Normally margin money schemes offer the best terms, but ultimately effective interest rate of the loan is what actually matters. This method provides a common platform for comparison of different schemes by discounting on the basis of cash flows.

HOW MUCH LOAN CAN I GET?

The size of the loan will depend upon the cost of the vehicle, the type (standard or premium) and the percentage financing you are offered. If you are buying a new car, you can get financing up to 90% financing. Some finance agencies have a limit beyond which they do not offer loans. Keep this in mind. Also most of the financiers have different terms for different models. Generally, the percentage of finance given on car models is decided on the basis of second hand market. Models like Maruti 800 have a huge second hand market. In case the buyer defaults, the finance company can get a higher resale value for the car. This makes the financier comfortable enough to give higher percentage finance.

WHAT ROLE DOES CREDIT PROFILE PLAY IN TAKING A CAR LOAN?

Credit Profile is one of the most important factors that will be considered before you get the loan. Your credit profile normally reveals if you intend to pay back the loan. Age, occupation, income, financials, previous credit history play a vital role in determining your credit profile.

IS IT NECESSARY TO HAVE AN ACCOUNT WITH THE BANK FROM WHICH YOU TAKE A LOAN?

There's no compulsion for you to have a prior relationship with the financier. Banks normally have no problem in giving auto financing to people who do not have an account with them because they are protected by the lien that they hold on your car. However, look out for certain privileges that you may enjoy because of being an account holder/customer of the said bank.

DO I NEED TO PLEDGE ANY THING OR GIVE COLLATERAL TO GET A CAR LOAN?

No, there's no necessity for any collateral. The bank will only need you to hypothecate the car in its name. Most financiers will insist on an endorsement being made in the Registration Certificate (RC) book of the vehicle. This will be cancelled after you repay the loan.

HOW LONG WILL IT TAKE TO PROCESS THE LOAN?

The loans are generally approved within 24 hours of submission of complete documentation. This time frame may vary banks to bank. You need to submit requisite documents like salary slip, tax returns, proof of residence, bank statements etc. If you decide to take a loan from the nationalised bank, it will take at least one week for the loan to get processed because there is heavy paperwork involved.

IS VERBAL COMMITMENT FINAL?

No, absolutely not. Unless and until you sign on the dotted line you have an option to back out of the negotiation process any time you want. You are under no obligation to go through with the deal if you are uncomfortable with any of the terms or if you are getting a better deal elsewhere.

WHO CAN BE A GUARANTOR?

A guarantor can be any relative, or a director in case of private limited company. The relative is defined as Father, Mother (including Step mother), son (including step son), son's wife, daughter (including step daughter), son's son, son's wife, son's daughter, daughter's daughter, daughter's husband, brother (including step brother), brother's wife, sister (including step sister), wife/husband and sister's husband. Boy what that confusing! Well in short, almost all the near and dear ones you know could be the guarantors. However for consideration of these relatives as guarantors for the loan they should comply with the age and other norms of the company.

WHAT IS THE EXTENT OF LIABILITY OF THE CO-APPLICANT AND THE GUARANTOR?

A co-applicant has as much responsibility as the primary applicant and is equally liable to the finance company from which the loan is taken. The guarantor on the other hand promises to pay the bank in case the applicant(s) default on the payment. Both the co-applicant and the guarantor are liable for re-payment and the financing agency has the right to collect from either or them.

IS THE ELIGIBILITY AND DOCUMENTATION SIMILAR FOR ALL THE FINANCIERS?

This is something all financiers keep common norms on — almost 90% of the financiers have similar eligibility criteria. For e.g. age should be between 21-58, the candidate applying for the loan must have a minimum annual income of Rs 60,000 (this may vary slightly with different loan providers). Usually the documentation asked for is latest salary slip if you are working, latest audited balance sheet and profit and loss account if you are self employed, proof of residence, signature verification, Form 16, bank statement, credit card statement if any etc.

CAN I GET FINANCE FOR INSURANCE AND REGISTRATION?

Most financiers do not cover Insurance and registration. The ex-showroom price is considered which does not cover insurance and registration charges.

HOW DO I REPAY MY LOAN?

Normally, the loan is repaid through Equal Monthly Installment or EMI's. The EMI consists of the contribution you make to partly pay off the principle and partly the interest that is due. There is a facility for back loading of the EMI whereby EMIs payments are lower initially and increase as and when the loaner's income increases.

HOW DO I PAY THE EQUATED MONTHLY INSTALLMENT (EMI)?

Normally, all financiers ask for Post Dated Cheques (PDC) for the entire repayment period or at least for the first two years. But nationalised banks may require that you have an account with them for at least 6 months or so and your installment will be directly debited to your account. If you don't have an account, open one. Sometimes, the installment is directly taken from your salary if there is an agreement between the financier and your employer.

HOW IS THE INTEREST CALCULATED?

The interest is usually charged on a flat rate or on a reducing balance which can be either daily, monthly, quarterly or annually.

WHAT IS A RACK RATE AND A FLOOR RATE?

The Rack Rate is the rate that the financier tells you about, at the start of the negotiation or the one that is normally mentioned in their brochures.

This rate is arrived at after taking into account the deductions from the rack rate. Normally, you may be entitled to the deductions because of your negotiating skills itself or because you satisfy some of their conditions. These deductions vary from scheme to scheme and financier to financier. They may be in the form of reduction in the interest rate because you hold the credit card of that financier, your good track record of paying back loans, or a host of other reasons.

OVER WHAT PERIOD CAN I PAY OFF MY LOAN?

The tenure of the loan could range from one to seven years for new cars and from one to five years for used cars. Higher the tenure, lower is the EMI. but the total interest outflow is higher.

WHAT DOCUMENTS DO I NEED TO SUBMIT AFTER THE LOAN AMOUNT IS DISBURSED?

You can keep the original car documents, registration certificate, insurance policy, tax papers with you. But you need to submit a photocopy of the same to the bank.

WHAT HAPPENS AFTER I HAVE PAID THE LAST EQUATED MONTHLY INSTALLMENT?

After the last payment is made get the lien of the bank on your car cancelled. The bank will issue a NOC certificate and Form 35 to cancel the hypothecation on the car. The RTO requires an NOC and Form 35 for up-dating the RTC book. Also the insurance company requires an NOC to make the necessary changes on the policy taken out.

IS EMI A PROPER MEASURE FOR COMPARING THE DEALS OF VARIOUS PLAYERS?

Not really. There are other charges like processing fees, advance EMI's if applicable, other up-front payments (stamp charges), registration charges, insurance which need to be factored in before comparing the various deals.

CAN I REDUCE OR CHANGE MY EMI?

No the EMI cannot be altered once you have signed the agreement with the loan provider. However you can pre-pay the loan amount in which case there will be some penalty.

HOW IS ANNUAL REDUCING BALANCE DIFFERENT FROM MONTHLY REDUCING BALANCE?

In case of an annual reducing basis, the outstanding principal gets adjusted once a year while in the monthly reducing balance basis, the principal gets adjusted on a monthly basis. Hence, more of your principal gets repaid in monthly reducing basis than in annual basis. However, there are banks, which calculate EMI's on a daily or a quarterly basis.

IS FLOATING RATE OF INTEREST A BETTER OPTION THAN FIXED RATE OF INTEREST?

In case of falling interest rates, a loan taken on floating rate of interest is a better option but when the interest rates are rising, opt for a fixed rate loan. If you go for a fixed rate loan, you will know in advance what your EMI's will be. This will help you in your financial budgeting. If you opt for a floating rate, you may not be able to budget properly.

HOW CAN I INCREASE THE AMOUNT OF LOAN THAT I CAN TAKE?

You can increase the amount of loan sanctioned by clubbing your spouse's income. The spouse then becomes the co-applicant.

CAN I PAY OFF MY CAR LOAN BEFORE THE TENURE IS UP?

Yes you can pre-pay your loan amount. But there may be certain rules regarding the pre-payment that your financier may have. You may have to pay a small penalty, which is normally, a percentage of the loan amount that remains outstanding. In some cases, you may not be allowed to partly pre-pay the loan amount, i.e. you can pre-pay only in full. Some financiers do not penalise you if you pre-pay. Take this factor into consideration when you choose a financier because if you can get a loan later on at a lower rate of interest this penalty could offset whatever you could save through the interest rate differential.

CAN I CHANGE THE TENURE AND AMOUNT OF LOAN TAKEN AFTER THE LOAN AMOUNT HAS BEEN DISBURSED?

Yes you can change the tenure and amount of the loan. But this would imply that the interest rate and the amount of installment will change accordingly.

WHAT HAPPENS IF MY CHECK BOUNCES?

Besides affecting your credit profile adversely, legal proceedings could be initiated against you since it is a criminal offence.

CAN I DELAY MY INSTALLMENTS?

It is better not to delay your installments since it will adversely affect your credit profile and make further borrowing costly.

WHAT HAPPENS IF THE CAR MEETS WITH AN ACCIDENT?

The first step is to inform the insurance company who sends a surveyor to assess the extent of damage. Your claim is then processed and paid directly to the financier unless you have taken an NOC from the financier. You are normally given a NOC if you are regular in your payments.