



Loans for Used Cars

What are the checkpoints?

A used car was sold for every new car sold in India in 2014. Each year, over 3 million used cars are sold in India, as against 2.2 million new cars. In 2015–16, 3.3 million used cars were sold versus 2.8 million new ones. Alongside, used-car finance in India is expected to grow from below \$2 billion now to over \$10 billion of annual lending by 2021. The entry of organised players in what was hitherto a largely unorganised sector, coupled with behavioural changes among sellers and buyers, have driven the market to unprecedented growth levels. To all appearances, the market is going to only grow. The following report is an encapsulation of some essential things that a prospective buyer should know if they are planning to get their car financed by a bank. A comparative study of 11 banks along critical variables will also tell you a thing or two about what to expect in terms of services and charges.

– Subas Tiwari & Gopal Ravi Kumar

There are many reasons why you will buy a used (or pre-owned, or secondhand) car. For instance:

- a) You cannot afford the cost of a new car.
- b) A used car is cheaper due to pre-loaded insurance and road tax.
- c) You can fulfil your dream of owning a high-branded car or even an MUV/LUV.

With the increasing number of players in the market, organised as well as unorganised, you can hope to get a good deal too. The emergence of so many players has brought in not just competition but also credibility and consumer confidence. And all of these factors are helped by the fact that there is greater social acceptance of people buying used cars.

In fact, the younger generation with their aspiration levels has redefined the used-car market.

The Loan Option

Several banks offer loans for buying used cars. Are these loans different from loans for buying a new car? Yes, there are some differences, as you will see in the points below:

- Margin component (is higher for used cars)
- Interest rate (is higher)
- Maximum loan component (is higher)
- Age of the car (cannot be more than five years old)
- Road-worthiness certificate from a registered garage
- In some banks, the repayment period runs concurrently with age of the car

Loan amount and approval in the case of used cars are subject to the age, model and condition of the car (unlike in the case of new car loans). Interest rates tend to be three per cent to five per cent higher than new car loans. Also, the loan amount will generally be 70 per cent to 90 per cent of the car value. So, these are factors the prospective loan borrower will have to keep in mind.

Automobile Companies Are in It for Good

Today, many automobile companies have entered the used cars market and deal in buying/selling such cars. Some leading names are Mahindra First Choice Wheels and Maruti True Value. They buy used cars, refurbish them, and also conduct quality tests to determine and fix the selling cost. Further, they can facilitate the financing aspect as they have tie-ups with banks (just like tie-ups with banks for new cars of a particular brand). Most retailers also add benefits like service packages and warranties.

Insurance Cover on Life of Used-Car Owner under Bank Finance

This is seldom included in the bank's brochure on car finance, but the importance of this element cannot be ignored.

So, under normal circumstances, the used car would need insurance (motor vehicle insurance policy) to cover third-party liability (which is compulsory as per the provisions of Motor Vehicles Act). There is also the option of a comprehensive insurance cover (comprehensive car insurance package policy), which is an optional cover unless the used car is under bank finance (in which case this insurance cover is mandatory).

A life policy to cover the car owner for the amount of loan that he owes to the bank is a separate insurance policy. The premium is very nominal and it needs to be paid regularly to keep the policy 'alive'. This insurance cover is undoubtedly useful in the unfortunate event of the death of the borrower, in which case the car loan burden does not befall the legal heirs, but is met out of the claim on the policy.

Takeaways for Consumers

- Negotiate with the bank for best rate of interest.
- Get pre-owned performance tests done.
- Obtain a life policy to the extent of the bank loan to ensure that loan burden does not befall the family in case of death of the borrower.





Company Launches a Connect Device to Turn Your Used Car into a Smart Car

A leading multi-brand used-car company (Mahindra First Choice Wheels) has launched Konnect First, a device that can 'upgrade a used car into a smart car' at a cost of a few thousand rupees (less than Rs 8,000). The company claims that this device, which has been developed by Wipro, is different because it is compatible with 200+ car variants across brands and enables users to interact with the vehicle via a mobile app, available on both iOS and Android platforms. It offers car owners a comprehensive package of safety, loss prevention, utility, maintenance and driving analytics in one seamless interface. The device can be plugged into most cars' OBD ports.

Such devices have been introduced in the past in the Indian market. For example, Honda Cars India Limited had launched a similar connecting device (Dongle).

Once installed, users can share their location in real time, locate their car if someone else is driving it, monitor the health of the engine, and get reminders if car service is due. All these appear on the smartphone app one has installed.

Such devices are not provided by all carmakers but an app on a smartphone works more or less like the devices mentioned above, providing users navigation services, personalised search support, 3D maps with live traffic updates, vehicle maintenance data, and roadside assistance, among other features.

Source: The Financial Express

For the comparative assessment, we chose 11 banks based on consumer feedback and product structure obtained from website/online/customer care information. The parameters on which we have compared them include rate of interest, eligible annual income, maximum loan, age of car, prepayment charge, processing charge, margin, maximum repayment period, and maximum and minimum eligibility age. We gave the highest weightage (15 points) to consumer feedback, which helped in determining product and service quality as well as the most important and beneficial variables. These variables have a direct bearing on the product structure.

CV RECOMMENDATIONS
Best Buy
Axis Bank
Good Buy
State Bank of India
Fair Buy
Punjab National Bank
USED/PRE-OWNED CAR LOANS BY BANKS:

| CV Weightage (Criteria) Points – 100 | Variables ↓ | Axis Bank | State Bank of India | Punjab National Bank | |
|--|---------------------------------------|-----------|------------------------|-------------------------|--|
| For General Information | Third-Party Surety | NS | NS | NS | |
| 10 | Eligible Annual Income (Rs, in lakhs) | 2.40 (10) | 3.00 (5) | 2.40 (10) | |
| 2 | Minimum Eligibility Age (in years) | 21 (1) | 21 (1) | NS (0) | |
| 5 | Maximum Eligibility Age (in years) | 70 (5) | 65 (3) | NS (0) | |
| 10 | Age of Car (years) | NS (0) | 5 (10) | 3 (5) | |
| 10 | Maximum Loan (%) | 90 (10) | 85 (10) | 70 (4) | |
| 5 | Margin (%) | 10 (5) | 15 (5) | 30 (2) | |
| 10 | Processing Charge (Rs) | Nil (10) | 5,100 (8) | 6,000 (8) | |
| 15 | Rate of Interest (%) | 15.00 (7) | 12.60 (11) | 9.20 (15) | |
| 8 | Maximum Repayment Period (in months) | 60 (4) | 84 (8) | 60 (4) | |
| 10 | Pre-payment Charge (%) | 5 (2) | 2 (6) | Nil (10) | |
| 15 | Consumer Feedback | 15 | 0 | 3 | |
| | Total | 69 | 67 | 61 | |

Notes:

The following are the assumptions for the purpose of this study:

a) The maximum loan availed is Rs 10 lakh.



The bank that scored the maximum points also had very positive feedback from the product users. It was a rare combination of best product and best feedback.

On the other was this public sector bank – ranked here among the top three – that had negative consumer feedback. This just goes to show that the product alone does not determine its popularity. As much as positive feedback can push the product's ranking, negative feedback can pull it down.

A COMPARATIVE CHART

| | Federal Bank | Canara Bank | Central Bank | Karur Vysya Bank | Vijaya Bank | Union Bank of India | HDFC Bank | ICICI Bank |
|--|--------------|-------------|--------------|------------------|-------------|---------------------|-----------|------------|
| | Yes | NS | NS | NS | Yes | Yes | NS | NS |
| | 2.40 (10) | 3.00 (5) | 2.40 (10) | NS (0) | NS (0) | NS (0) | NS (0) | NS (0) |
| | NS (0) | NS (0) | 18 (2) | NS (0) | 21 (1) | 18 (2) | NS (0) | NS (0) |
| | NS (0) | NS (0) | 65 (3) | NS (0) | 60 (1) | 70 (5) | NS (0) | NS (0) |
| | 3 (5) | 5 (10) | 3 (5) | 5 (10) | 5 (10) | 3 (5) | 5 (10) | NS (0) |
| | 75 (7) | 75 (7) | 75 (7) | 75 (7) | 70 (4) | 60 (2) | 60 (2) | 80 (7) |
| | 25 (3) | 25 (3) | 25 (3) | 25 (3) | 30 (2) | 40 (1) | 40 (1) | 20 (3) |
| | NS (0) | 5,000 (8) | NS (0) | 2,000 (8) | 10,000 (4) | 15,000 (2) | 5,000 (8) | 6,000 (8) |
| | 9.45 (15) | 9.25 (15) | 9.80 (11) | 12.60 (11) | 9.30 (15) | 11.70 (11) | 17.50 (4) | 18.49 (4) |
| | 60 (4) | NS (0) | 60 (4) | 60 (4) | 60 (4) | 60 (4) | 60 (4) | 60 (4) |
| | Nil (10) | NS (0) | NS (0) | NS (0) | NS (0) | Nil (10) | 3 (4) | 5 (2) |
| | 3 | 6 | 5 | 4 | 4 | 2 | 11 | 4 |
| | 57 | 54 | 50 | 47 | 45 | 44 | 44 | 32 |

b) The loan is for sanction to salaried persons for use of the car for personal purposes

c) The rate of interest is on floating basis and maximum RoI is taken for comparison.

d) Information given here has been sourced from websites and brochures.