

Credit Assessment Process for Unsecured Loan at HDFC Bank:

A Comprehensive Overview

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ABSTRACT

This research discusses the criteria used by HDFC Bank to decide whether a person qualifies for an unsecured loan. Unsecured loans are those that do not require security or collateral like a personal loan. This understanding will help to understand how the bank can reduce the risk when offering free loans. The aim of this project is to find out how HDFC Bank decides whether a person gets a bad loan or not. The study gives key benefits of HDFC Bank loans, including a quick application process, low interest rates and flexible payment options. During the internship, the researcher was responsible for managing customer data and calling customer based on the offers they had, with help of using HDFC Bank's FinnOne ERP system to verify customer status based on payment history and credit. Ultimately, exposure to the unsecured loans segment provided valuable insights into the banking sector, its challenges, and its opportunities. And also, this study provides insight into how credit ratings shape credit approval decisions for unsecured personal loans.

I. INTRODUCTION

An unsecured loan is a loan that doesn't need any security or collateral. Lenders give these loans based on how trustworthy the borrower is, rather than requiring any assets as a guarantee. Since there is no collateral, the loan relies only on the borrower's creditworthiness. Because unsecured loans are riskier for lenders compared to secured loans, borrowers need to have a good credit rating to get approved.

Benefits of Personal Loan of HDFC Bank

Quick application process – The application process for personal loans does not require a lot of paperwork. When applying for this loan, we must have proper financial documents and a good credit score.

No Fees: There are no loan obligations to apply.

Option to repay smaller amounts: HDFC Bank offers unsecured loans for smaller amounts. In addition, the bank simplifies the payment by offering a flexible option of Installment Monthly (EMI).

Low interest rate : The interest rate on this loan is very low compared to credit card or personal loan payments. This applies to larger quantities.

Instant payment: Individual can get a personal loan in 10 seconds. If they are HDFC Bank customers. Others can receive it once in 4 hours.

Repayment: The personal loan can be repaid in simple installments or EMI. The payment methods are simple and help us choose the time that allows us to optimize monthly output according to customer needs. HDFC Bank offers 12 to 60 months with EMIs as low as Rs 2,162 per lakh.

What is credit score

A credit score shows a person's credit worthiness, which indicates their ability to repay debts. It is usually shown as a credit that is taken from a person's payment history and credit performance in various banks and financial institutions.

CIBIL credit score is a three-digit number ranging from 300 to 900, with 900 being the highest score. A score of 750 or above is considered good, but above 720 for HDFC Bank. Banks and financial institutions use credit scores to evaluate loan applications, and higher scores increase the likelihood of loan approval.

Eligibility criteria for personal loan in HDFC Bank :

HDFC Bank's personal loan eligibility criteria include: applicants must be at least 21 years old and not older than 60 at the time of application, with a minimum of 2 years of work experience and 1 year with their current employer. Individuals from small companies, public entities, or government sectors are eligible. Applicants with an HDFC Bank account must have a minimum monthly income of Rs 25,000, while those without an account must earn at least Rs 50,000 per month.

HDFC Bank requires the following documents during the loan application process.

- ID Proof (Aadhaar card/driving license/voter ID/passport)
- Address Proof (Aadhaar card/driving license/voter ID/passport)
- Bank statement for previous 3 months (updated passbook for last 6 months)
- Latest salary slips/latest salary certificate with Form 16

II. OBJECTIVES

- To understand about the benefits of personal loan from HDFC Bank.
- To identifying the key criteria used by HDFC Bank for credit assessment.
- To study and analyse the steps involved in the assessment process.
- To analyse the profile of customers typically approved for unsecured loans and those who are denied and understand the reasons behind these decisions.

III. LITERATURE REVIEW

Ravesia, Sneh, Muskan Tiwari, and Jignesh Vidani. "A Study on Credit Facilities by Private Sector Banks In India." (2024). This study explores credit facilities in private sector banks in India, focusing on lending practices, regulatory impacts, and technological advancements affecting credit access. It provides an analysis of credit products, risk management strategies, and credit evaluation processes. Additionally, the study examines factors influencing borrowers' decisions and satisfaction. Using both qualitative and quantitative methods like surveys, interviews, and financial data, the research aims to offer insights for policymakers and financial institutions regarding financial inclusion and banking stability (Vidani, 2015)

Subramoniam, K., and Harishma Hari. "Measuring the Performance Efficiency of State Bank of India and HDFC Bank using Balanced Score Card." *SDMIMD Journal of Management* 12.2 (2021). The research analyzes SBI and HDFC Bank's performance using the Balanced Scorecard framework. From 2009 to 2019, HDFC Bank showed stronger financial performance with lower Gross NPA, better ROA, and higher net profits compared to SBI. The study concludes that HDFC Bank outperformed SBI and recommends both banks enhance all aspects of their operations for future growth and risk management.

Onuma, Michelle Ruth. *Analysing the role of finance and credit management in the banking sector of Nigeria: a comparative study of first bank of Nigeria and three other banks.* Diss. Accounting Banking and Finance Program, School of Economic Sciences and Business, Neapolis University Pafos, 2021. This study compares the credit and financial management practices of First Bank of Nigeria with Access Bank, Fidelity Bank, and Zenith Bank. Through interviews with bank managers and thematic analysis, it focuses on credit appraisal, risk management, collection policies, and corporate governance. The findings highlight that while First Bank's credit management is strong, its collection practices require improvement for better debt recovery and governance.

Chaitra, K., and Suhas Patel. "A Study on Credit Evaluation of Loans and Advances at Bangalore City Co-operative Bank, Bengaluru." (2019). This summer project focused on studying credit rating techniques for loans at the Cooperative Bank of Bangalore City (BCCB). The study aimed to understand recent data on the bank's progress in both priority and non-priority sectors and the proportional increase in loan durations. The report includes an overview of BCCB's history, management, objectives, financial situation, and the types of loans and credit facilities provided by the bank. It also covers loan recovery procedures and offers recommendations for improvement. Financial statements and annual reports from the last four years were used as the primary data sources for this research.

Tejaswini, C., and B. Prakash Yaragol. "A Study on Credit Risk Management at HDFC Bank, Tumkur." (2018). This study focused on the risk faced by the bank while lending to customers and the bank to develop strategies and measures to reduce the risk due to credit. Get financial information from accounts such as balance sheet and cash and loss of HDFC Bank. Data analysis is done for four years, taken from the bank's annual report from 2013 to 2016. It can be seen that the bank is managing its credit risks in a proper way that characterized by high NPA losses. These are fixed assets, but in the last four years the bank has not suffered a loss due to these loans. The bank manages its credit risk well because there is no significant loss for the bank due to lending. The bank has good practices and strategies for credit risk management.

IV. PROJECT DESCRIPTION

In this internship project, the intern was responsible for managing and organizing customer data related to personal loan offerings at HDFC Bank. They were first tasked with receiving customer information, which included agreement IDs for customers who had previously taken loans or customer IDs for new prospects. This data, along with customer phone numbers, was used to prepare for cold calling efforts. To ensure the quality of potential leads, the intern utilized HDFC Bank's FinnOne ERP system to verify customer details, such as existing loan amounts, outstanding balances, and payment histories. Customers with more than three payment bounces were excluded from the outreach list to maintain qualified leads.

In addition to verifying data, the intern reviewed available loan offers, which were tailored to customers based on their credit history and existing loans. These offers were communicated to customers during the calls, with particular attention given to those expressing interest in personal loans. The intern assessed the eligibility of these interested customers by collecting necessary documents and ensuring that they met the bank's criteria. Qualified leads were passed on to senior staff members for further processing and potential loan disbursement. The intern also maintained detailed records of customer responses, including follow-ups for those who were interested in loans but planned to apply at a later time. This structured approach helped streamline the customer interaction process and facilitated efficient loan management during the internship.

V. CHALLENGES & LIMITATIONS

Challenges :-

Cold calling presented challenges with unresponsive or uninterested customers. Convincing customers to consider higher-interest unsecured loans was difficult, requiring clear communication of complex terms and meeting aggressive sales targets. Frequent rejections and skepticism about unsecured loans were common hurdles, necessitating careful preparation and guidance from senior colleagues to build trust and assist customers effectively.

Limitations :-

Due to time constraints and internship limitations, the credit appraisal analysis was restricted to certain desk job areas, excluding field surveys and customer approach. The researcher did not have access to actual balance sheets or financial statements, which affected the depth of the study. Limited access to customer data and internal processes further restricted understanding of the full loan lifecycle, including credit risk assessment and underwriting.

CONCLUSION

During the course of this study, it became clear about the various loan products offered by HDFC Bank, including personal loans, top-up loans and pre-approved loans. This gave in-depth knowledge of features, eligibility criteria, interest rates and repayment period, along with learning how to calculate EMIs, will enable potential buyers to market these products. In addition, developed an understanding of credit accounting, analyzing factors such as credit scores, income levels and current liabilities. In addition, had understood the importance of maintaining strong relationships in the service industry, especially in bridging the gap between customers and the bank. This experience taught the researcher how to navigate difficult situations such as rejected loan applications, and maintain customer loyalty and trust. Ultimately, exposure to the unsecured loan sector gave me a better understanding of the banking sector, its challenges and opportunities. These courses not only broadened the knowledge but also gave the practical skills necessary for a future career in finance.

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