




RETAIL LOANS








CCP CHAPTER 17 MODULE D

17.2 Characteristics of Retail Banking

Retail banking has the following key characteristics:

Characteristic	Description	Example/Channel
 Banking Facilities & Services	Offered primarily to retail customers (individuals).	Savings accounts, personal loans
 Mass Market Focus	Targets a large segment of individual customers.	Salary account holders
 Multiple Delivery Channels	Both physical and virtual channels.	ATMs, online banking, mobile banking apps





17.3 Advantages of Retail Banking

Advantage	Explanation	Example
 Large Customer Base	Enables mass selling, helping recover marketing costs quickly.	Millions of savings account holders
 Increased Net Interest Margin (NIM)	Lower deposit rates and higher lending rates enhance profitability.	Lower deposit rates vs. higher loan rates
 Lower Volatility	More stable demand compared to corporate banking, even during economic cycles.	Stability in home loan market
 Diversified Credit Risk	Risks spread across numerous customers, reducing impact of defaults.	Small loan defaults have minimal impact
 Lower Regulatory Capital	Retail loans attract lower risk weights, reducing capital needs.	Housing loans with low risk weights
 Customer Retention	Customers rarely switch banks due to complexity and low incentive.	Long-term savings account holders
 Enhanced Marketing Potential	Easier segmentation, targeting, and mass marketing due to large client base.	Credit card offers through data mining

Risk Weights for Housing Loans (Sanctioned from Oct 16, 2020, to Mar 31, 2023):

LTV Ratio (%)	Risk Weight (%)
≤ 80	35
>80 and ≤90	50

✗ 17.3.1 Disadvantages of Retail Banking

Disadvantage	Explanation	Example
 IT Dependence	Heavily reliant on efficient IT systems; failure causes disruptions.	Downtime in internet banking
 Higher Default Rates	Higher default risk in unsecured loans and credit cards.	Unsecured personal loans default
 High Operational Costs	Increased costs due to numerous small transactions and branches.	Staffing multiple small branches
 Bank Run Risk	Vulnerable to panic-driven withdrawals causing instability.	Recent U.S. bank failures due to bank runs

 **17.3.2 Harmonization of Banking Statistics**

Retail loans are divided into two categories:

1. Consumer Credit:

Included ✓	Excluded ✗
Loans for consumer durables	Education loans
Credit card receivables	Loans for immovable assets (e.g., housing)
Auto loans (non-commercial)	Loans for financial asset investments
Personal loans secured by gold, property, FDs	Consumption loans under KCC (for farmers)
Personal loans to professionals	
Loans for consumption purposes (e.g., weddings)	





2. Personal Loans:

- Consumer credit (as above)
- Education loans






- Loans for immovable assets (housing)
- Loans for financial assets (shares, bonds)

 **17.3.3 Regulatory Retail Portfolios (Capital Adequacy Framework)**

Claims considered as regulatory retail portfolios for capital purposes must meet all criteria below and attract a **75% risk weight** (except NPAs):

Criterion	Description	Example
 Orientation	Exposure to individuals or small businesses with annual turnover below Rs. 50 crore.	Personal loan to salaried individual
 Product	Revolving credit, term loans, leases, educational loans, small business facilities.	Overdraft, car loan, small business loan
 Granularity	No exposure exceeds 0.2% of total retail portfolio.	Diversified small-value loans
 Low Individual Exposure	Maximum exposure per client \leq Rs. 7.5 crore.	Small personal loans

 **Summary Table**

Aspect	Key Points
Characteristics 	Mass market, multiple channels, individual-focused
Advantages 	Large base, higher NIM, low volatility, diversified risk, lower capital, retention
Disadvantages 	IT dependence, default risks, high costs, bank run vulnerability
Harmonized Loans 	Consumer credit and personal loans clearly categorized
Regulatory Criteria 	Orientation, product, granularity, low individual exposure (risk weight 75%)

 **17.4 Retail Banking Products**







Retail Banking Products can be categorized into:

- **Liability Products:** Savings Accounts, Current Accounts, Term Deposits.
- **Asset Products:** Personal Loans, Auto Loans, Home Loans, Education Loans, Credit Card Receivables.

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- **Other Products/Services:** Credit Cards, Debit Cards, ATM Cards, Telephone Banking, Internet Banking, Mobile Banking, Wallets, Payment Apps, Depository Services, Third-party Products (insurance, mutual funds, gold coins/bonds).

Retail Loan Types & Purposes

Loan Type	Purpose	Example 
 Housing Loan	Purchase, construction, renovation of houses	Home loan for apartment purchase
 Auto Loan	Purchase of personal vehicles	Two-wheeler or four-wheeler loan
 Personal Loan for White Goods	Purchase home appliances	Loans for refrigerators, TVs
 Personal Expenses	Marriage, medical expenses, travel	Loan for wedding expenses
 Education Loan	Financing higher education	Loan for MBA course abroad

Target Customer Segment

Retail loans are primarily targeted at:

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- Individuals
- Joint borrowers
- Employees of firms/companies
- NRIs
- HUFs
- Trusts & Associations

Assessment involves predefined criteria using a **Scorecard Method** rather than traditional corporate credit appraisal.

Quantum of Loan

Loan quantum varies as per product and income:

Loan Type	Quantum Limit (Approx.)
Personal expenses	Up to 12 times monthly income
Auto Loans	Up to 4 times annual income
Housing Loans	48-60 times monthly income

 **Margin and Interest Rates**

Factor	Details
Margin	Varies by loan type/asset
Interest Rate	Typically fixed; teaser rates (initial low rates) common
Penal Interest	Clearly defined for defaults

Example of Teaser Rate: Initial home loan interest at 7% for first two years, later increased to 9%.

 **Repayment Terms**

Loan Type	Typical Repayment Duration
Personal Loans	Up to 3 years
Auto Loans	5-7 years
Housing Loans	5-25/30 years

Banks ensure borrower's net income after EMI remains sufficient to maintain lifestyle.

Processing and Other Charges

Charges transparently detailed include:

- Processing
- Documentation
- Mortgage
- Inspection
- Renewal

Due Diligence Process

Due diligence is critical in loan approval:

Verification Step	Example/Method
KYC Verification	c-KYC, e-KYC, Aadhaar
PAN Verification	Verified via IT Dept website
Credit Report	CIBIL and other credit bureaus
House Visit	Verification of residential address
Telephonic Verification	Calls at work/business number
Security Property Inspection & Valuation	Legal verification & property valuation

 **Loan Sanctioning Process**

Step	Activity
Initial Contact/Application	Bank/client initiation
Scorecard Evaluation	Customer data evaluated; minimum score required
Due Diligence	Detailed verification process
Risk Management Clearance	Analysis based on policy & data analytics
Back Office Verification	Documentation and security finalization
Loan Disbursement	Branch/Relationship manager delivers loan

Technology expedites process; EMI collection via employer or direct payment.

 **17.5 Digital Lending**

Banks collaborate with FinTechs for digital lending:

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Aspect	Description/Example
Digital Lending	Fully digital loan approval, disbursement via apps
Regulatory Guidelines	RBI Guidelines (Sep 02, 2022) compliance
Regulated Entities (REs)	Commercial banks, NBFCs, Cooperative banks
Digital Lending Apps	Mobile/web platforms for loan application
Digital Document Execution (DDE)	Paperless contract execution (NeSL integration)
Lending Service Provider (LSP)	Agents managing customer onboarding, servicing








General Risks:

- Fraudulent use due to simplified processing
- Strict adherence to KYC
- Risks of mis-selling due to staff incentives

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 **Model Schemes and Product Examples**

Banks typically offer these key retail products, customizable per bank policy:

-  **Home Loans**
-  **Personal Loans**
-  **Auto Loans**
-  **Education Loans**
-  **Loan against Property**
-  **Pensioner Loans**
-  **Reverse Mortgage Loans**

Retail Assets Processing Centres centralize approval, documentation, and monitoring:

Benefit	Description
Centralization	Cluster-based loan processing
Compliance	Higher compliance, reduced branch load
Quality & Monitoring	Better quality assets, effective follow-up
Digital Tracking	Nationwide uniformity & faster turnaround

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Summary Table

Aspect	Highlights
Product Categories	Liability, Asset, and Other Services
Loan Quantum & Repayment	Income-based quantum; 3-30 years repayment
Due Diligence	KYC, credit reports, property verification
Digital Lending	Digital loan processes, RBI compliance
Processing & Monitoring	Centralized processing centres
Risks	Fraud, mis-selling, IT dependency

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