

## Loan against Securities

Before looking through the features, interest rates, options, and prepayment details of the Loan against securities, let's start with the fundamental question, “**What is a Loan against Securities (LAS)?**”

### What is a Loan against Securities (LAS)?



A loan against securities is a loan where **we pledge our shares, mutual funds, or life insurance policies as collateral** to the bank against our loan amount. They typically offer loans against securities as an **overdraft facility in our account** after we have deposited our securities. We can draw money from our account, and **we will pay interest only on the loan amount we use, and for the period we use it.**

**A loan against securities is an ideal way to make our investments work harder and smarter for us.**

Let's understand this scenario with an example.

Suppose there is a portfolio whose value is Rs 50,00,000 and we are looking for a short term bridge loan for Rs 10,00,000, we can use the LAS Mechanism on the existing portfolio, whereby the portfolio grows in value and the loan is made available to the investor.

The amount of loan we are eligible for depends on the value of the securities we offer as collateral.

### Why one should avail loan against securities:

#### High-Value Loans made easy:

One can use **shares, mutual funds, FMPs, ESOPs, IOPs and bonds as collateral** to **avail of a loan against securities**. The loan is versatile as it offers restriction-free use of funds and is easy to qualify for.

#### Quick financing to attend to your urgent needs:

**Urgent monetary requirements** come unannounced. For example, an emergency hospitalization demands immediate attention and funds. Arranging sufficient funds during an emergency can be challenging. In such instances, liquidating your savings and investments could be a convenient solution. However, instead of selling your securities, you can get instant funds with a loan against securities.

#### Get better ROI on your investments:

You have built your investment portfolio using a diverse mix of varied securities keeping both short-term and long-term gains in mind. These **instruments will be untouched**, and they will have the **potential to grow and generate a high return** over time.

Suppose you liquidate them before they mature or during unsuitable market conditions will make you lose out on future benefits. Here a loan against securities can come to your rescue. You can simply pledge your investments to raise funds while your equity holdings keep earning their share of profits and dividends from the Market.

#### Borrow against a wide range of securities:

**No matter how diversified your investment portfolio** is, you may prefer putting up only specific **securities as collateral**. For example, if an FD contributes monthly returns that you need for households expenses, you will not want to pledge this investment for a loan.

Instead, you may choose to pledge shares or even your bonds. This loan lets you pledge any security as collateral, be it mutual funds, fixed maturity savings, insurance, scrips, etc.

#### Convenient repayment terms:

Pledging your high-worth securities and equity holdings ensures you can avail of a loan against them on easy repayment terms. To keep repayment burden-free, lenders allow you to foreclose or make part prepayments on a loan at no extra charge.

## Key Features of Loans Against Securities:

Some of the critical features of a loan availed against securities are as follows:

Features	Bajaj Finance	Mirae Asset Financial Services
<b>Over-Draft Limit</b>	Yes (interest charged on the days the limit is utilized)	Yes (interest charged on the days the limit is utilized)
<b>Process</b>	Physical	Digital
<b>Pre-Closure</b>	Zero	Zero
<b>Sanctioned Limit</b>	Equity – 50% Debt – 80%	Equity – 1 Cr (45% LTV) Debt – 3 Cr (80% LTV)
<b>User Interface</b>	-	User-Friendly Dashboard and can track all transactions.
<b>OD against MF</b>	Yes	Yes
<b>Min Amount</b>	-	Rs. 50000 /-
<b>Interest Rate</b>	9%	9%
<b>Processing Fee</b>	1% on loan amount	Fixed Fee Rs. 999 + Taxes

## Eligibility Criteria for Loans against Securities:

To apply for a loan against security, you need to fulfill certain eligibility criteria:

- You must be an **Indian resident**.
- You must be at least **21 years old**.
- You must either be a **salaried employee or a self-employed individual with a regular source of income**.
- The **financial institution will approve the security** against which you are availing of the loan.

The eligibility criteria would be the same for both Bajaj Finance & Mirae Asset Financial Services.

## Documents Required for Loan Against Securities:

Suppose you are a **salaried employee of a private firm or a government employee**. In that case, you need to furnish the following documents to avail a loan against securities.

1. Identity and address proof.
2. Bank statements for the last six months.
3. Canceled cheque of the bank.
4. Demat account status and records.
5. Income proof.
6. Photograph.

If you are **self-employed**, then you are required to submit the following documents to the lender:

1. Identity and address proof.
2. Bank statements for the last six months.
3. Canceled cheque of the bank.
4. Demat account status and records.
5. Income proof.
6. Balance sheet and profit & loss account.
7. Office address and Business proof.
8. Photograph.

The documents required would be the same for both Bajaj Finance & Mirae Asset Financial Services.

### **Things to Consider Before Availing a Loan against Securities:**

Before we avail of a loan against securities, there are certain things we need to take into consideration:

- We should ensure we fulfill all the eligibility criteria before applying for the loan.
- We ensure that the financial institution accepts the type of security we will pledge for the loan, such as mutual funds, shares, insurance policies, etc.
- We should select a financial institution that sanctions a high loan amount against the collateral at low interest and with less processing fee.
- We should select a financial institution with the most flexible repayment tenure. Typically, the term varies from 1 to 3 years. However, it also depends on the loan amount availed.
- We must maintain a good credit score and a solid repayment history so that the lender can offer us the loan at an affordable interest rate and favorable terms.

A loan against securities is one of the best ways to ensure financial assistance when we urgently need funds without having to lose any of our assets.

**K.Sridhara**

**Research Desk**

**Dilzer Consultants Pvt Ltd**