

Introduction To Overdraft Facility

Overdraft Facility is a financial instrument in which you can withdraw money from your savings or current account, even if your account balance is zero. This feature is provided by almost every financial institution, including banks and NBFCs. Overdraft facility is a type of short-term loan to be repaid in defined tenure, as required by the financial institutions. Lenders shall levy the interest rates that the borrower needs to repay, as per the bank's terms and conditions. In the case of Overdraft, the type of interest rates offered by the lenders are both fixed and not floating.

Features

- **Approved Credit Limit:** Overdraft is awarded over a predetermined limit. This limit can be different for each borrower
- **Interest Rate:** The interest rate is charged on the amount of overdraft used. It is calculated on daily basis and it is billed to the account at month-end. If you default on paying the overdraft as per the set schedule, the interest amount will be added to the principal amount at the month-end and then interest will be calculated on the new principal
- **Nil prepayment charges:** Whenever you want to prepay a loan, usually a prepayment charge is levied. However, this is not the case with the overdraft facility. When you repay the amount borrowed through overdraft you do not pay prepayment charges. Also, you need not repay the Overdraft amount in EMIs. You can repay the borrowed amount cumulatively
- **Repayment is not done through EMIs:** Repay the overdraft whenever you have the money. You do not have to repay the overdraft amount like you repay a loan. You do not have to repay in Equated Monthly Instalments (EMIs). You can repay whatever amount you like whenever you like. However, if the lender demands a repayment, then you will have to fulfil that demand
- **Minimum Monthly Payment:** Overdraft has no minimum monthly repayment however the amount you owe should be within the overdraft limit. You should not delay overdraft repayment for long, as it affects your credit score.

- Joint borrowers are allowed on Overdraft: If you take an overdraft jointly then you and your joint applicant are both, in effect, responsible for the entire debt. Irrespective of the proportion of overdraft borrowed, both the applicants are responsible for the timely repayment of the overdraft. This means that if one of the borrowers is unable to pay/defaults, then the other borrower has to pay the entire amount. In such a case, irrespective of the overdraft proportion of joint borrowers, all collaterals of each of the borrowers are at stake if a default occurs
- Workings: Please note that your account may not automatically go into overdraft when you write a cheque. There are chances that your cheque is dishonoured instead of going into overdraft and then a dishonour charge may be levied on your account

Types of Overdrafts

An overdraft facility can be granted to a borrower on a secured or unsecured basis. Secured overdraft is one where you pledge collateral (asset). If you are unable to repay your overdraft then the lender can sell off your assets to recover whatever they can. You shall be liable to pay the difference if the collateral asset doesn't cover the cost of the withdrawn amount in the overdraft. Below mentioned are various types of Overdrafts:

1. Overdraft against Property

Overdraft facility is offered against your house as collateral. Overdraft is also offered to home loan customers who are looking for funds to settle their existing home loan repayments. Before approving the house as collateral, the assessment, valuation and survey of the property are done. Overdraft funds are given against property as collateral are not disbursed immediately because of the same. The sanctioned overdraft amount is usually up to 40%-50% of the property's worth. Your credit history and repayment capacity are also considered while granting overdraft against the house as collateral.

2. Overdraft against Fixed Deposits

Getting the overdraft sanctioned against Fixed Deposits (FDs) and life insurance policies as collateral is easy in comparison to getting an overdraft sanctioned by keeping your home as collateral. One of the reasons is that property evaluation takes time. In any case, overdraft against FD is preferable for the lender too, as the customer's FD account is with the lender and the lender knows the customer much better. If you avail an overdraft against your fixed deposit, then you are eligible for a higher percentage of sanctioned amounts, approx. 75%. The interest rate charged is also less if you keep FD as collateral. Usually, banks charge 2% more interest than the interest you are earning from the said fixed deposit if you keep the FD as collateral.

3. Overdraft against Insurance Policy

If you keep your insurance policy as your overdraft collateral then the sanctioned amount depends upon the surrender value of your insurance policy. The Loan to Value of the insurance policy is greater than the LTV of Fixed Deposits, i.e. you get more money sanctioned from the bank if you keep your insurance policy as collateral rather than when you keep your FD of the same amount as collateral.

4. Overdraft against Equity

Equity is not preferred as an option for collateral however it is possible to attain an overdraft facility through it. The reason being that equity is dependent on the market and thus its value fluctuates. This is why the percentage sanctioned for overdraft against equity as collateral is less.

5. Overdraft against Salary

Banks offer overdrafts for the salaried individuals against their salary too. You can get an overdraft limit of up to 2-3 times your salary but that may vary from bank to bank. To avail such an overdraft you need to have a salary account with the said bank. Such a facility is also called a short-term loan facility. Bank overdraft balance sheet is the primary source for banks to sanction borrowing limits.

Documents Needed

These are documents that are required for overdraft facilities.

KYC	Income Proof	Loan Documents	Business Documents
- Pan Card - Aadhaar Card - Voter ID Card - Passport - Rent Agreement - Registered Lease Deed - Electricity Bill	- ITR with Computation of Income - Profit & Loss Account - Balance Sheet	- Sanction Letter - Up to Date Loan Account Statement - Loan Repayment Track - 12 Month up to Date Bank Statement Showing Repayment of the Loan - Loan Closure Proof if Loan is Closed	- VAT - Sale Tax - GST - Latest office Address Proof - Company Profile on the Letter Head of the firm - Latest Bank Account Statement - Memorandum & Article of Association

Overdraft Facility against Property is available for salaried individuals as well as self-employed individuals and professionals. Find out more about the eligibility and documents required for Overdraft Facility against Property, below. Individuals who are eligible for an overdraft facility against property:

Salaried individuals

- Any individual who is in permanent service in the government or a reputed company
- The applicant should be above 24 years of age at the time of loan commencement and upto the age of superannuation

Self-employed individuals

- Any individual filing Income Tax returns can apply
- The applicant should be above 24 years of age at the time of loan commencement and upto 65 years at the time of maturity

Self-employed Professionals

- Professionals such as doctors, engineers, dentists, architects, chartered accountants, cost accountants, company secretary and management consultants can apply
- The applicant should be above 24 years of age at the time of loan commencement and up to 65 years or less at the time of loan maturity

Lease Rental Discounting (LRD)

- All resident individuals can apply. The lessee must however be a company as defined under the Companies Act, 1956. • Funding will be done only against ready commercial property. The same will be restricted to 85% of the net present value of the future rentals or 50% of the value of property, whichever is lower

Documents Required

- Application Form
- KYC documents of the applicant entity/ Proprietors/ partners/ directors/ sister concern/ guarantors/ security providers - ID proof & Address proof as per applicable KYC guidelines.
- Last 24 month bank statements
- Proof of Business Vintage e.g. Shop Establishment Certificate, Certificate of Incorporation, Partnership – Certificate of Registration, etc.
- Sanction Letter & Repayment Track Record of Existing Loans
- ITR Returns along with computation of Income & acknowledgement for last 2 years of the Applicant
- Self-certified net worth statement of the promoters/guarantors
- Documents of Property being offered as security.

**** Important Points To For All Applicants****

- 1. Please Note, If There Are Existing Loans, Submit Payment Track Record And Sanction Letter To Respective Loan Provider For Finalizing Loan Amount Eligibility.**
- 2. Credit Score Plays An Important Role In Finalizing Loan Amount & ROI****
- 3. Timely Payment Of EMI Helps In Maintaining A Good & Healthy Credit Score.**
- 4. Please Keep Sufficient Amount In Account Before ECS Hitting Date.**
- 5. Wisely Usage Of Money Is Highly Required For Financial Planning.**
- 6. Don't Miss To Pay Any EMI Amount, Neither Get Delayed On Due Dates.**
- 7. There Can We Change In Loan Documentation Requirements From Time To Time and My Vary In Banks, NBFC & Private Lenders. Will Update, If There Will Be Some Changes In Documentations.**