Gold loan portfolios of banks have gone up considerably

From P1

It has also done away with the additional penal charge of three per cent for late repayments.

"Muthoot Fincorp has lower interest rates. As for penal rates, we will do as the market demands," said George Muthoot, director.

Padmakumar admits the business is perceived as charging high interest rates. "The time has come to rationalise and bring in more transparency," he said. Another reason is intense competition from banks and RBI regulations that do not leave gold loan companies much elbowroom.

As a result, the gold loan portfolio of banks has increased considerably.

"The RBI regulations have given banks an edge. Considering that banks can meet various other needs of customers, we can expect more customers to flock to banks for gold loans," said D Sampath, additional general manager of Federal Bank.

Federal Bank has increased its gold loan portfolio from Rs 3,599 crore in March to Rs 4,256 crore in June, a growth of 18.2 per cent. In the previous quarter, the growth was 17 per cent.

On the other hand, loans given out by Muthoot Finance dropped by five per cent to Rs 23,336 crore in the June quarter from the preceding. Manappuram Finance's loans shrank by seven per cent to Rs 10,739 crore from Rs 11,630 crore.

Gold loan companies cannot match banks in terms of interest rates, as their cost of funds is higher. Private banks charge at the most 16 per cent interest; other commercial banks offer still cheaper rates because of the concession of interest subvention in agricultural lending.

"Apart from the 12 to 12.5 per cent cost of funds, there are operating costs of four to 4.5 per cent. But we expect to maintain our interest margins at 10 per cent by cutting operating costs by rationalising staff and going slow on expansion," said Padmakumar.

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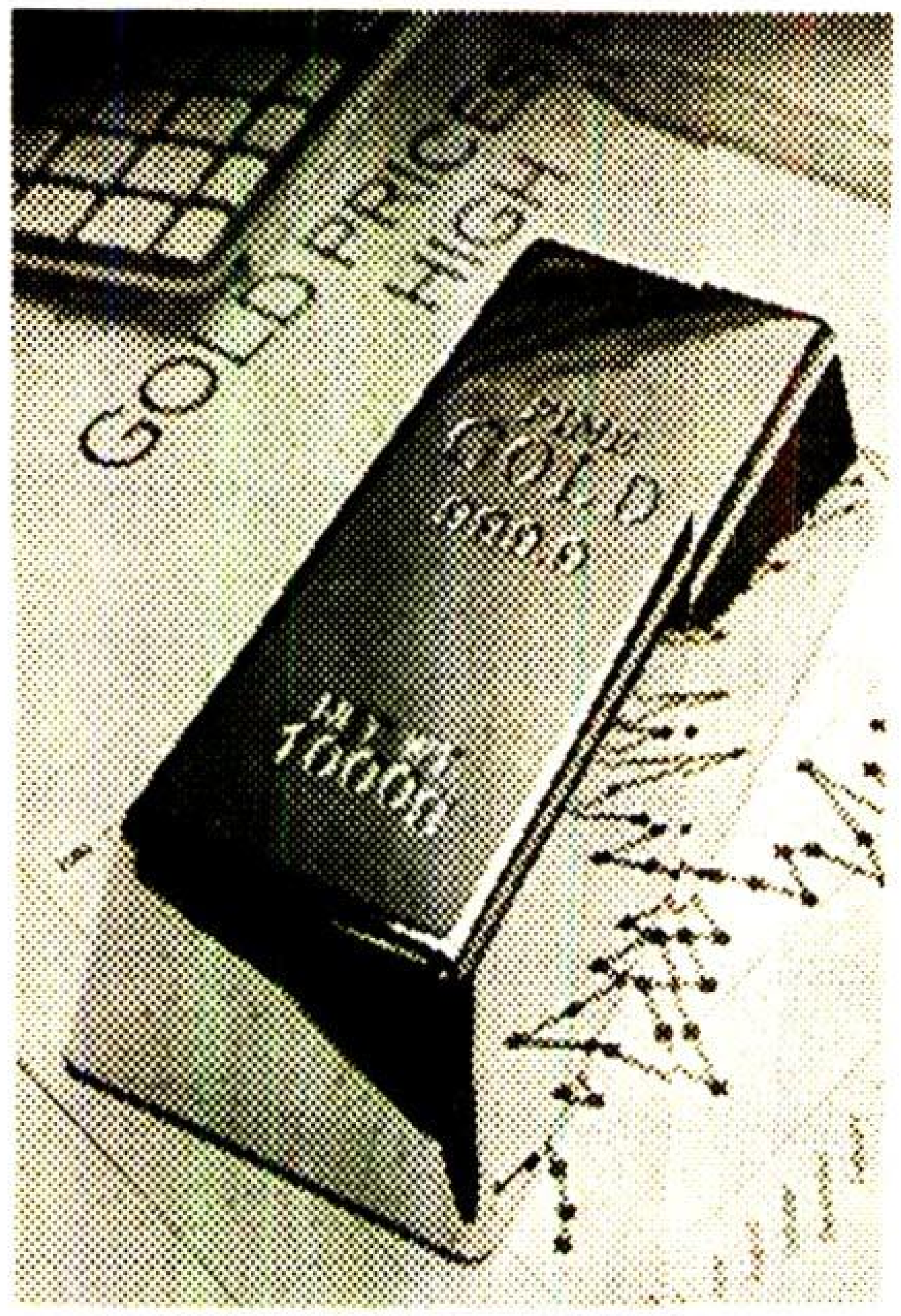

Drawbacks

- Intense competition from banks and RBI regulations do not leave gold loan firms much elbowroom
- Gold loan companies cannot match banks in terms of interest rates, as their cost of funds is higher
- Private banks charge at the most 16 per cent interest; other banks offer still cheaper rates