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Personal Loan



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Personal Loan Eligibility: What Is It, How It Is Calculated and How to Improve It

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A personal loan is an unsecured loan. Banks do not ask for collateral or security when you apply for it. That’s the reason why there is a risk involved as the lender’s money is at stake. Therefore, the lenders take many factors into consideration while deciding your creditworthiness.

In this article, we’ll talk about what is [personal loan eligibility](#), how loan eligibility is calculated and ways to improve it.

1. What is personal loan eligibility?

For you to get a personal loan, you need to meet certain eligibility criteria. These criteria can vary from bank to bank. The general requirements and limits are outlined below:

Criteria
Requirement
Age
21 to 68 years
Employment Status
Employed/In-business for at least 2 – 5 years
Work Experience
1 to 3 years & Above
Minimum Net Monthly Income
Rs.15,000 and above
Credit Score
CIBIL score of 750 or more
Type of Employment
Salaried, Business owner, Self-employed professionals
Maximum EMI
Up to 65% of Income

You can use a [personal loan EMI calculator](#) to check your loan eligibility before you apply for a personal loan.

2. How personal loan eligibility is calculated?

Different lenders use different methods for calculating the eligibility criteria. Listed below are 2 common methods lenders use:

Method 1: Multiplier Method

This method uses a simple formula.

Loan Eligibility = (Your Salary) x (a number from 9 to 18)

Banks give a basic multiplier that ranges from 9 to 18 depending upon your credit profile and the company at which you are employed.

Method 2: FOIR (Fixed Obligations to Income Ratio)

Using this method, banks assess your capacity to repay. They take into account all your fixed obligations that you pay monthly or daily, which may include EMIs of existing debt, and then deduct it from your monthly income.

The formula for calculating FOIR is:

$$\text{FOIR} = (\text{Sum of Existing Obligations/Net Take Home Monthly Salary}) * 100$$

An example to help you understand better.

If your income ₹ 70,000 per month, and you have ongoing loans, such as:

- A personal loan EMI of ₹ 6,000
- A car loan EMI of ₹ 9,000

To determine the repayment capacity, the banks consider the fact that 50% of the income can be paid towards the debts. So, in this example, 50% of ₹ 70,000 is ₹ 35,000.

Total of all the debts= Car Loan EMI + Personal Loan EMI= ₹ 9,000 + ₹ 6,000

..... = ₹ 15,000

So, your disposable income for this fresh loan = 50% of your income – Total Debts

.....= ₹ 35,000 – ₹ 15,000 = ₹ 20,000

As per the FOIR formula mentioned above, ₹ 15,000/₹ 70,000 * 100

..... FOIR = 21%

In this case, if the fresh personal loan EMI crosses ₹ 20,000 even at the longest tenure, the bank/lender won't provide the loan. But, if the EMI of the new loan is below ₹ 20,000, you may get the loan.

Hence, the [FOIR method](#) helps to decide how much EMI you can afford to pay on a fresh personal loan while paying your other debts.

3. What are the factors lenders consider while calculating personal loan eligibility?

The factors used to calculate the personal loan eligibility may differ from bank to bank. The following factors are most common in determining loan eligibility.

1. **Credit score:** A credit score of less than 750 may get your loan application rejected. It is advisable to improve your credit score before applying.
2. **Employment:** Banks look for employment stability. Salaried individuals working in private, MNCs, government companies are preferred. Self-employed individuals and professionals like businessmen, CA, CS, doctors, architects, etc. are preferred.
3. **Age:** Usually individuals in the age group of 21 years to 68 years are considered.
4. **Minimum income:** The minimum monthly income criteria is usually ₹ 15,000. An income of ₹ 25,000 per month is usually preferred.
5. **Total experience:** For a salaried professional, a minimum work experience of 2 years with a minimum of 6 months in the current organisation. For a self-employed, a minimum of 2 years in current business is preferred.
6. **Debt-to-income ratio:** The lower the debt-to-income ratio, the higher are your chances of getting a personal loan.

4. How to improve your personal loan eligibility?

1. Check your credit score before you apply

You need to have a credit score of 750 and above to be eligible for a personal loan at the best loan terms. If you have a lower score, it is [better to improve your credit score](#) and then approach a bank/NBFC for a personal loan. Some of the ways to improve your credit score are – paying off your existing debt, not maxing out your credit cards, paying all your bills on time, etc.

2. Do not apply for too many loans frequently

Applying for multiple loans in the hope that one will work is a mistake that can harm your credit score and eventually your chances to get a personal loan. Your loan applications go as a hard inquiry into the [credit report](#) and if the lenders see too many of such inquiries, they assume that you are desperate for credit and it doesn't give a good impression about your financial behaviour. Rather, it is wise to have a gap of at least 6 months between the personal loan applications.

3. Choose your lender carefully

Before you finalise your lender, it's very important that you do your homework. [Compare various personal loan offers and their interest rates](#) to find the lender that meets your requirement.

4. Be cautious of debt-to-income ratio

Your monthly debt divided by monthly income is your debt-to-income ratio. More than 40% of your income should not be spent on paying EMIs. That means if your income is ₹ 25,000 you should not be spending more than ₹ 10,000 on EMIs. So, keep your debt-to-income ratio as low as possible. Because lenders won't approve your personal loan if they don't find you capable of repaying the loan.

Are you meeting the personal loan eligibility criteria? That means you are [ready to get a personal loan](#). Get it from MoneyTap. Attractive interest rate, affordable EMIs, flexible repayment options and more – get the best loan terms with MoneyTap. Apply now!

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Shiv Nanda is a financial analyst at MoneyTap who loves to write on various financial topics online. He also advises people on financial planning, investment choices and budgeting skills, and helps them make their financial lives better.

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