Improvising the 59-minute loan scheme

What is the issue?

The concerns on poor loan disbursements persists even after the introduction of the 59-minute loan scheme.

What is the 59-minute loan scheme?

- The government announced the ‘59 minute’ loan scheme for MSME sector in 2018.
- The scheme promises loans of up to Rs. 1 crore from public sector banks (PSBs) through an online lending marketplace called ‘psbloanin59minutes’.
- This portal approves a loan in 59 minutes and connects the borrower to the bank branch for sanction and disbursal.

What is the need?

- According to ‘MSME Pulse’, the MSME loan market (under Rs. 25 crore) is estimated to be around Rs. 25 lakh crore, of which, PSBs hold almost 50% share.
- Further, PSBs have a dominant share of over 75% for loans under Rs. 10 lakhs, highlighting their critical role in financial inclusion.
- The biggest advantage of a PSB loan is its low cost, which could be 5-7% lower than that of NBFCs.
- For a small borrower looking for a collateral-free loan under Rs. 1 crore, PSB loans are critical, as both private banks and NBFCs mostly lend against security.
- PSB loans are also an important source of funding for the manufacturing sectors such as food processing, textile, chemicals, and auto components.
- As such, this policy measure may be a sincere attempt to reduce the time and effort required to secure credit from PSBs, thus easing the life of an entrepreneur.

What are the concerns?

- The demand for such a portal is validated by both the large number of applications (around 1.31 lakh) received within two months of its launch, and their total loan value.
- However, unless these applications translate into loan disbursals, the portal

would remain just another channel for PSBs to generate qualified leads.

- The difficulties in getting a loan from PSBs stem from unwillingness of the ground-level staff to even accept the loan application.
- Even after a loan is approved, the high turnaround time for the disbursal remains a challenge.
- Therefore, the portal is a good first step to at least reduce the number of branches to be visited.
- In addition, the MIS behind the portal would make it easier for the banks to monitor loan rejections.
- Thus, the scheme's success depends on the ability of PSBs to quickly disburse the loans that are approved by the portal.
- According to official data, the portal received 1.31 lakh applications during the first 50 days of its launch, of which, around 1.12 lakh applications were approved, with a strike rate of 85%.
- However, of these 1.12 lakh applications, sanctions were accorded for just 40,669 cases, indicating that just over a third of the approved loans were sanctioned.

What should be done?

- High approval ratio by this scheme suggests that either most of the SMEs that are applying through the portal have good credit quality or the portal's credit approval norms are not strict enough.
- Also, low loan sanction ratio indicates that the turnaround time for loan sanction is more than two to three weeks and a number of applications are still undergoing due diligence and, thus, do not reflect in the sanction data.
- Addressing these issues would require deeper integration of the portal with banks' processes.
- The credit approval process should capture the existing liabilities of the borrower so that there are no disputes on quantum of credit to be sanctioned.
- Also, it should assess the availability of other resources such as land/technology with the borrower before sanctioning term loan for a new asset.
- On the policy front, the norms for takeover of loans among lenders should be relaxed.
- For example, under the current set-up, obtaining additional working capital loan from a different lender would be difficult.
- This is because banks would not be inclined to share security on equal footing with the fellow lenders for such small exposures.
- These concerns have to be addressed to make the portal serve its intended purpose.

Source: Business Line