

ICICI BANK CUSTOMER FIRST SERIES

A consumer education initiative

Demat Series I: Article 4 of 5

TIMES BUSINESS ASSOCIATE COMMUNICATION

Unlock the value of your Demat Account

Sometimes we are asset-rich and cash-poor. Our wealth is locked in our investments when we need cash. The ease of getting loans against such investments can help us unlock the value in our demat account quickly, when we need it the most. Perhaps we can have the cake and eat it too, when we take a loan against our demat holdings.



DID YOU KNOW ?

An overdraft facility like loan against shares is like a convenient pre-approved loan that you can draw when you need. Interest is charged on amount drawn, not on the limit given.

FAQs

I hold only mutual funds and RBI bonds. Can these be used to take loans?

Yes, loan can be taken against securities according to the lending policies of your bank. The amount of loan, and the speed at which it will be processed, will vary depending on the nature of the security that you offer. Check with your bank for the list of financial securities against which they offer loans. Most consider shares, mutual fund units, insurance policies, NSC and KVP certificates and RBI bonds as securities, against which loan can be offered.

When the markets crash, the value of shares in my demat account also fall. Would I be compelled to sell at a loss to repay my loan? How should I avoid this?

In event of a market crash, most banks would usually notify you, giving you the option of either paying back the loan or pledging more shares. It is important to remember the risks in taking loans against all the shares you hold and selling in distress in a falling market. Keeping a cushion is always prudent.

What if I cannot repay the loan?

If you default on the loan, the bank holds the right, under the agreement for the loan, to sell the shares that you have pledged, in order to recover the loan due from you.



Question

The maximum amount of loan that can be taken against shares is _____.

Answer

- A. Rs. 5 lac
- B. Rs. 20 lac
- C. Rs. 10 lac

To answer SMS DISHA A, B, or C to 53030 and win a 2N 3D Holiday*. * Terms and conditions apply. Visit www.dishafc.org for details and winners.

choosing other high cost loans, we could consider unlocking the value in our demat account.

Center for Investment Education and Learning

We welcome your questions, suggestions and feedback on this column. Please use the 'Email Us' link at www.icicibank.com or send an SMS to 53030. Please include your full name, address and phone number. Your comments may be edited for clarity and space.

NOT READY TO SELL

Shares in our demat account have been chosen for their long term potential. We may not like to sell them when we need money. If the stock markets have fallen we may dislike selling at a loss. We may want to apply to IPOs, we may spot opportunities in both falling and rising markets. But being fully invested, we may have no cash to buy. Taking a loan against shares is a better alternative when we are not ready to sell, but still need the cash.

LINK TO MARKET VALUE

Loan against the shares is made just like an overdraft facility. The bank will set a limit up to which we can draw, as we require funds. The amount of loan

will depend on the value of shares pledged. The maximum limit on the loan however is Rs.20 lac and the margin is 50% of the value of the shares pledged.

MARK TO MARKET MARGIN

The value of our shares will fluctuate with the market. In the event the market value of the shares falls, we can either pledge more shares or pay up the shortfall amount to keep the margin at the minimum of 50%.

PLEDGE THOSE SHARES

To take a loan against shares, we need to give a pledge request to our depository participant (DP), quoting our demat account number and indicating the shares to be pledged.

Shares that can be pledged must figure in the eligible list of our lending bank. Our DP sends the request through the depository to our lending bank. Once we have repaid the total loan with interest, we can request our DP to de-pledge the shares.

DP THERE AND LOAN HERE

If our demat account is with one DP and our loan application is with another bank, we have to go through the KYC process again, with the lending bank. They will need our PAN, proof of identity and proof of address.

RIGHTS ON PLEDGED SHARES

Even after pledging the shares, any rights such as dividends and bonus, will continue to come to us as

investors. The only restriction is that the shares will be locked-in for sale, until the loan and interest amount is repaid.

COSTS AND RATES

Interest is charged only for the amount of loan actually drawn from the overdraft account. We can have a limit sanctioned against the shares pledged and can draw from the overdraft account according to our needs. Lenders charge a processing fee for loans against shares.

Our demat account enables ease and flexibility to meet our unexpected needs for cash. Most lenders sanction limits against pledged shares within 24-48 hours. Before

SMART BANKING

Be informed.



Always read the Most Important Terms and Conditions before signing any agreement.

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