Executive Summary - Mutual Funds are an important investment tool to achieve our investment goals. They can also be used to raise cash. We can take loans from financial institutions by pledging the MF units that we own. We will continue to own them, earn dividend and bonus on them and at the same time fulfill our cash needs. It is important to keep in mind that the price volatility affects the loan amount and the interest rates vary greatly. Moreover the financier can sell the MF units if we default on the loan.

Mutual funds are investment instruments. You can invest in MF units to increase your assets value over a period of time and earn dividends. They can also be used for raising funds. A MF investor can pledge his/her MF units as security to banks or financial Institutions and borrow money. It is a good tool for short term financing. But MF units fluctuate in value. If the NAV falls below a set limit, borrowers get a notice to provide additional liquidity. If additional collateral is not provided/pledged, the financier will sell the MF units after sending a notice. One way to manage this volatility is to borrow against debt mutual funds. The loan is generally for a year and can be renewed easily.

Here is a comparison of two institutions offering Loan Against MFs

<table>
<thead>
<tr>
<th>Features</th>
<th>ICICI Bank</th>
<th>HDFC Bank</th>
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<tbody>
<tr>
<td>Loan Eligibility</td>
<td>Equity oriented funds - Individuals are eligible. [Hindu Undivided Families (HUFs), Companies, Partnerships, Sole Proprietors are specifically excluded. Debt Funds, Fixed Maturity Plans and ETF - Individuals, Hindu Undivided Families (HUFs), Companies, Partnerships and Sole Proprietors can get a loan against approved Mutual Fund Schemes. Members of HUF, NRIs, Sole proprietorship firms can also get loans against certain MF schemes but additional terms and conditions apply.</td>
<td>An adult Indian Resident owning approved Mutual Fund Schemes. Members of HUF, NRIs, Sole proprietorship firms can also get loans against certain MF schemes but additional terms and conditions apply.</td>
</tr>
</tbody>
</table>
MFs.

Approved Securities
The bank would determine an approved list of Mutual Fund Schemes against which loans up to 50% of NAV can be given. Approved Equity Mutual Funds, Debt Mutual Funds and FMPs can be used for loan against MFs. 50% of the NAV is given as loan.

Interest Rate
Most institutions charge between 12%-15% p.a

Loan Amount
Minimum Amount - Rs.50000.
Maximum Amount is Rs. 20,00,000.

Documents Required
The completed application document, identity proof documents and address proof documents are required.

Documents showing identity proof, signature proof and address proof are required for an individual. If the loan is for a Proprietorship or Partnership firm, an audited Balance Sheet, Profit & Loss Account for last two years is required. The application form has to be filled.

The advantages of Loan Against Mutual Funds is that you get cash readily without selling your assets. Dividends, Bonus etc. will continue to accrue to you for the pledged MF schemes. There is generally less volatility in prices of non Equity Mutual Funds and so you do not have to replenish the collateral or pay money during the loan tenure.

The disadvantages are there can be volatility in the NAV values especially Equity Oriented MFs. One cannot sell the MF schemes that are pledged for the loan. The interest rates are not fixed and different financiers charge very different rates. The financier keeps a margin amount and this can vary greatly from one institution to another. that are The financier will have the right take over or sell the MF units in case the individual does not repay the debts.

It is a good option for emergency funds but one has to take care of the interest rate and volatility.

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