

Key Factors That Determine Personal Loan Interest Rates

Category: Business

written by News Mall | March 17, 2025



A [personal loan](#) can be a valuable financial tool when managed effectively. It helps you access funds promptly in times of urgent financial requirements or to fund large expenses. However, in order to make informed borrowing decisions, it is imperative to understand the factors that influence the interest rates of personal loans.



Personal Loan Interest Rate Factors

This is because interest rates, among other factors, often determine the overall cost of the loan. Therefore, being aware of the factors that determine [personal loan interest rates](#) can help borrowers manage their loans and secure good deals on loan terms.

Shriram Finance is one of the leading players in the NBFC (Non-Banking Financial Company) sector. The company is often one of the more sought-after financial institutions in the domain of personal loans. From offering flexible repayment tenures to affordable interest rates, applying for Shriram Personal Loan can help borrowers fulfil their financial aspirations.

Understanding A Personal Loan

A personal loan is typically an unsecured loan that allows individuals to borrow a specific amount of money and repay it in fixed monthly instalments over a predetermined period. The interest rate charged on a personal loan is a significant factor that determines the overall cost of borrowing.

Key Factors Influencing Personal Loan Interest Rates

Interest rates on personal loans are determined by several factors, some of which are discussed in this section elaborately:

1. Credit Score:

- Your credit score is a numerical representation of your creditworthiness, reflecting your history of borrowing and repayment.
- A good credit score indicates a lower risk of default, leading to more favourable interest rates.
- Regular and timely repayment of loans is essential to

maintaining a healthy credit score.

2. Income Level and Stability:

- Lenders assess your ability to repay before deciding the interest rate on the loan. A stable and consistent income source is a crucial factor in determining interest rates.
- Lenders perceive borrowers with higher incomes, and lower existing debt obligation, among other factors, as less risky, as they have a greater capacity to repay the loan.

3. Debt-to-Income Ratio (DTI):

- Your DTI ratio compares your monthly debt payments to your monthly income.
- A lower DTI indicates that you have a lower financial burden, making you a more attractive borrower eligible for lower interest rates.

4. Loan Amount and Tenure:

- Larger loan amounts and longer tenures may affect interest rates. Financial institutions may charge higher interest rates for larger loans or longer repayment terms.
- Opting for a shorter tenure can often lead to lower interest rates.
- Choosing a loan amount that aligns with your financial needs can help minimise interest costs.

5. Relationship with the Lender:

- If you have a long-standing relationship with a financial institution, you may be eligible for preferential interest rates.
- Maintaining a good relationship with your lender can be beneficial when applying for a personal loan.

6. Current Economic Conditions:

- Economic factors can impact interest rates. During periods of economic uncertainty or inflation, interest rates may rise.
- Staying informed about economic trends can help you anticipate potential changes in interest rates.

What Makes Shriram Personal Loan a Great Choice

Besides offering competitive interest rates, Shriram Personal Loan helps borrowers save up on the total cost of the loan by levying a minimal processing fee and foreclosure charges.

Here are a few more features of this personal loan offering by Shriram Finance that make it such a compelling choice in the NBFC sector:

- **Competitive Interest Rates:** Shriram Personal Loan starts at 12%* p.a., making it an affordable option for borrowers with different financial profiles.
- **Attractive Collateral-free Loan Options:** Shriram Finance offers collateral-free loan amounts of up to Rs. 10,00,000*, allowing you to fund large expenses.
- **Prompt Approvals:** You can get pre-approved for Shriram Personal Loan, further expediting the disbursal process.
- **Diverse Repayment Tenures:** Shriram Finance offers flexible options in repayment tenures, up to 60 months*,

making it easy for you to manage your EMIs.

- **Seamless Digital Process:** Applying for Shriram Personal Loan is effortless as you can upload all the required documents online from the comforts of your home.
- **Periodic EMI Alerts:** With regular reminders sent to your registered email ID and mobile number by Shriram Finance, you can pay your EMIs on time and maintain a healthy credit score.

Conclusion

The interest rate levied on a personal loan is determined by a number of factors, like your credit profile, repayment tenure, economic conditions, etc. By understanding these factors and taking proactive steps to improve your financial profile, you can increase your chances of securing a personal loan with a competitive interest rate.

Shriram Finance is one of the most reliable financial institutions in the NBFC sector to offer personal loan options. With Shriram Personal Loan at your behest, you can fulfil your financial goals and expenses seamlessly.

****Above mentioned loan amount, rates and tenure are as per the company's Digital Personal Loan Policy***

About Shriram Finance

[Shriram Finance](#) is a leading diversified financial services company in India, offering a wide range of financial products and services across consumer, wholesale, and business finance segments. The company has a strong presence pan India with a network of 3,196 branches and an employee strength of 79,405 with an AUM of Rs. 254,469 crores. With a focus on financial inclusion and customer-centricity, Shriram Finance continues to empower individuals and businesses to achieve their financial goals.

