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HOW LOAN COMPANIES ARE TARGETING STUDENTS AND YOUNG ADULTS FOR CREDIT CARDS AND PERSONAL LOANS IN INDIA

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ABSTRACT

The expansion of digital banking and financial technology in India has led to aggressive targeting To students and young adults by loan companies. Many fintech lenders offer quick loans with minimum documentation, using psychological triggers and marketing tactics to attract young college students and young adult borrowers. Some companies even incentivize timely repayments by offering double disbursement amounts, to put borrowers into a continuous debt cycle. Additionally, many students and young professionals take new loans to repay existing loans, leading to a never-ending Debt cycle. This paper explores these strategies and their consequences, and the need for stronger regulations and financial literacy initiatives to prevent exploitation.

Keywords - Credit Cards, Personal Loans, Digital Lending apps,Digital lenders, Students, Young Adults, Loan Companies, RBI Regulations, Debt Trap, Loan Cycle, India

1. INTRODUCTION

The financial situation in India has transformed with the rise of fintech lenders and digital payment platforms such as UPI etc. The availability of easy credit has provided financial independence to many young individuals and students. However, the aggressive marketing tactics used by loan companies, including double disbursement of loan amount and loan recycling, have led to financial instability among young professionals and students. This paper examines these lending strategies and the risks they pose, and the regulatory framework governing digital lending in India.

2. OBJECTIVES OF THE STUDY

- To analyze how loan companies and digital lenders target students and young adults in India.
- To investigate the double disbursement strategy and its impact on borrowing behavior of the consumer.
- To examine the trend of taking one loan to repay another loan and its consequences.
- To evaluate the risks of easy credit availability.
- To assess the regulatory framework governing digital lending in India.

2.1 Research Methodology

- This study is based on a mixed-method analysis of:
- Reports from the Reserve Bank of India (RBI) and National Payments Corporation of India (NPCI).
- Case studies of students and young professionals caught in debtcycles.
- Analysis of digital lending platforms and their loan disbursement policies.
- News articles, industry reports, and government publications on digital lending.

3. MARKETING STRATEGIES USED TO TARGET STUDENTS AND YOUNG ADULTS

3.1 Social Media and Influencer Marketing

- Loan companies use platforms like Instagram, YouTube,X and Facebook to promote credit cards and personal loans.
- Influencers endorse loans as an easy way to achieve financial freedom and acquire luxury products.
- Personalized ads and Popup ads highlights zero-interest EMIs, rewards, and cashback, making loans attractive.

3.2 Campus Partnerships and Student Credit Cards

- Banks collaborate with colleges and universities to offer student credit cards with minimum eligibility criteria.
- These credit cards provide students discounts on travel, food, and online shopping.

3.3 Instant Loan Apps and Aggressive Advertising

- Digital loan apps promise instant disbursal with minimal KYC requirements.
- Some apps misuse customer data and push aggressive loan offers through messages, notifications and Email.

4. PSYCHOLOGICAL TACTICS USED BY LOAN COMPANIES

4.1 Fear of Missing Out (FOMO)

- Advertisements encourage students and young professionals to take loans to match their peers' lifestyles.
- Limited-time loan offers create a sense of urgency, leading to impulsive borrowing.

4.2 The Illusion of Financial Independence

- Loan companies promote their products as a step toward financial Independency.
- "No parental involvement required" is highlighted to attract young applicants towards them.

4.3 Double Disbursement Strategy

- Some lenders offer a higher loan limit after timely repayment of the old loan, sometimes they double the original loan amount.
- This tactic encourages borrowers to take more debt, leading to a continuous borrowing cycle.

5. RISKS AND CONSEQUENCES OF EASY CREDIT ACCESS

5.1 High-Interest Rates and Hidden Charges

- Many digital lenders charge high-interest rates, sometimes 30-40% or more annually.
- Processing fees, late payment charges, and penalty interest rates are often not disclosed upfront.

5.2 Debt Cycle: Taking One Loan to Repay Another loan

- Young borrowers often use new loans to pay off old loans, creating a debt cycle
- This leads to long-term financial instability and increased reliance on credit.

5.3 Harassment from Loan Recovery Agents

- Some digital lenders use unethical recovery practices, including public shaming and threats.
- Loan apps may access phone contacts, photos and send messages to friends and family members.

6. CASE STUDIES

6.1 Case Study 1: The Debt Trap of a College Student

A 21-year-old student in Delhi took a ₹10,000 loan from a fintech/loan app. After timely repayment, the company offered a ₹20,000 loan as an incentive. The student accepted the new loan but struggled with repayments due to high-interest rates. Eventually, he borrowed from another lender to settle the first loan, entering a debt cycle that lasted over a year.

6.2 Case Study 2: Using One Loan to Repay Another

A young IT professional in Pune took a personal loan of ₹50,000 to buy a laptop. After missing an EMI, he took another loan of ₹25,000 from a different lender to settle the first loan's EMI. This pattern continued for six months, and his total debt rised to ₹1.2 lakh due to compounding interest.

7. REGULATORY MEASURES IN INDIA

7.1 RBI's Guidelines on Digital Lending

- To stop unethical practices, the RBI introduced strict regulations in 2022, requiring:
- Transparent loan terms with no hidden charges.
- Strict verification processes to prevent fraud.
- Banning unethical recovery practices like harassment.

7.2 Government Crackdown on Illegal Loan Apps

In 2023, several unlicensed digital lenders were shut down for charging excessive interest and engaging in unethical recovery tactics. Google and Apple were also directed to remove these lending apps from their platforms.

8. CONCLUSION

While digital lending provides financial opportunities, it has also put young borrowers to significant risks. Aggressive marketing, misleading advertisement, and unethical lending tactics are pushing students and young professionals into long-term financial distress.To prevent this stronger regulations, financial education, and responsible lending practices must be implemented. Only then can young Indians truly benefit from credit without falling into debt traps of this apps and platforms.

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