



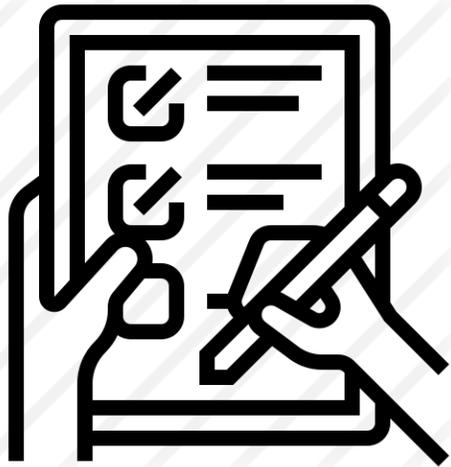
**Corporate
Professionals**

Decodifying New Requirements for Micro-Loans

Disclaimer: The presentation covers all the significant changes in MFI framework. All other requirements as per NBFC Directions shall be applicable on NBFC MFIs likewise.



Key Takeaways



- ✓ Increasing Household Income to Rupees 3 Lakhs;
- ✓ Removal of interest rate ceiling on loans offered by NBFC-MFIs;
- ✓ All Micro Finance Lenders including Banks, SFBs, NBFCs , NPOs ('Regulated Entities/RE') would be treated at par;
- ✓ Capping of monthly loan repayment of borrowers upto maximum of 50% of monthly household income;
- ✓ More than 2 MFIs can lend to the same borrower;
- ✓ No linkage with lien on deposit account of the borrower;
- ✓ Reduction of minimum requirement of Qualifying Assets to 75% of Total Assets;
- ✓ Removal of exemptions to NPO's with Rs. 100 crores with a direction of registration as MFI within a time period of 3 months

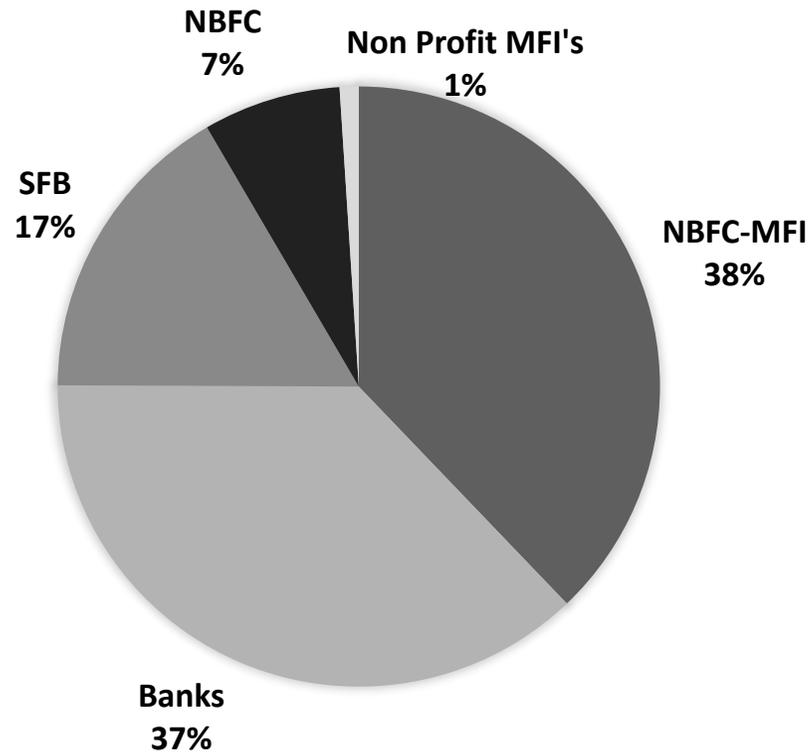


WHY MFIS?



Facts Analysis

MARKET SHARE IN ACTIVE LOANS (%)



As on September 30, 2021

Micro Credit Portfolio

No. of Lenders

Combined Micro Credit

219

₹2,25,331 crores

IN A SNAPSHOT

- ✓ Operations spread across 642 districts nation wide.
- ✓ Out of 129 MFIs, 14 MFIs have portfolio >₹1,000 Cr
- ✓ Aggregate NPA portfolio of 117 MFIs is ₹4,124 Cr. (i.e. 5.41%).
- ✓ The client outreach in rural areas constitutes 76% whereas the share of urban areas is 24%.

PERFORMANCE



PERFORMANCE HIGHLIGHTS

S.No	Indicators	As on Sep. 2021
1.	No. of Branches	14,675
2.	No. of Staff (in Lakhs)	1,19,957
3.	No. of Loan Officers (in Lakhs)	75,281
4.	No. of Borrowers (in Lakhs)	288.94
5.	Total Assets (IN Crores)	63,317

TOP 5 MFIS IN TERMS OF BRANCH NETWORK

S.No	Indicators	As on Sep. 2021
1.	Asirvad	1,334
2.	Satin Creditcare	1,028
3.	Annapurna Finance	945
4.	Muthoot Microfin	802
5.	IIFL Samasta	736



COMPARISON OF EXTANT REGULATIONS VIS-À-VIS NEW REGULATIONS

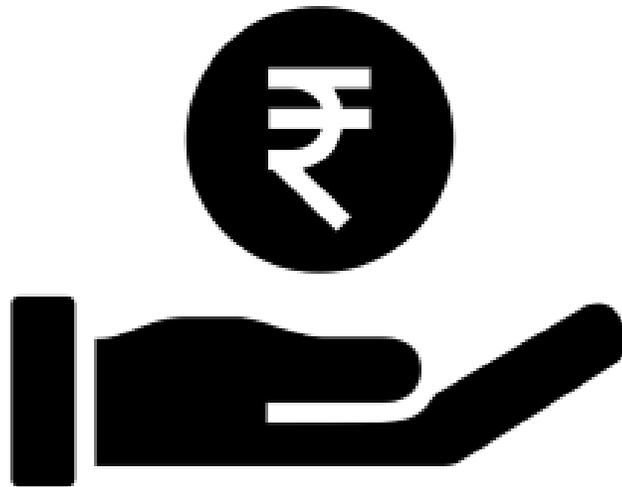


DEFINITION OF HOUSEHOLD INCOME

Extant Regulations

Collateral-free loans to a borrower with a rural household annual income not exceeding **₹1,25,000** or urban and semi-urban household income not exceeding **₹2,00,000** ;

The term 'household' has not been defined



New Regulations

All collateral-free loans ***irrespective of end use*** and mode of application given to a household having annual household income up to **₹3,00,000**.

For this purpose, household shall mean ***'an individual family unit, i.e., husband, wife and their unmarried children.'***

GUIDELINES ON DETERMINATION OF HOUSEHOLD INCOME



Profile	Parameters like Earning & Non-Earning Members, Own/ Rented House, etc.
Source of Income	<ul style="list-style-type: none">▪ Primary Source of Income: Nature of Job/ Work, Sector of Work, etc.▪ Other Sources: Rent, Pension, etc.
Expenditure	<ul style="list-style-type: none">▪ Regular monthly expenses such as Food, Rent, School/ College Fees, medicine, etc▪ Irregular expenses over last one year
<p>(Assessment of the Household Income shall be carried out yearly and SRO such as Mfin, Sa-Dhan etc may also develop a framework to assess household income on the basis of Indicative Methodology)</p>	

Impact



- ✓ ***More Unserved or underserved Population will qualify to borrow unsecured loan from the Organised Sector.***
- ✓ ***More borrowers will refrain from relying on unregulated moneylenders.***
- ✓ ***Unsecured loans from several other NBFC's will be considered as microloans, irrespective of end use classification.***

THRESHOLD FOR QUALIFYING ASSET

Extant Regulations

- ✓ The minimum requirement of microfinance loans for NBFC-MFIs stands at **85% of the Net Assets.**
- ✓ NBFC that does not qualify as an NBFC-MFI, cannot extend microfinance loans exceeding **10% of its total assets.**



New Regulations

- ✓ The minimum requirement of microfinance loans for NBFC-MFIs stands at **75% of the Total Assets.**
- ✓ NBFC that does not qualify as an NBFC-MFI, cannot extend microfinance loans exceeding **25% of its total assets.**

Impact



- ✓ *More headroom to enter into collateral business and can be a good cushion against risks taken under micro lending business.*
- ✓ *Increasing limit to extend Micro Loans by Non-MFIs is good for competition amongst all type of NBFCs.*
- ✓ *Re-working of calculation of 75% of Net Assets against 85% of Total Assets since net assets excludes Cash/ Cash Equivalent and Money Market Instruments. So, the benefit of 10% will not of much relief.*

TERMS AND CONDITIONS FOR MICRO- LOANS



Extant Regulations

- ✓ Stipulations related to sub-limits on loan amount (₹75,000 in first cycle, exclusion of loans towards education and medical expenses from overall limit);
- ✓ Minimum tenure of 24 months for loan amount in excess of ₹30,000 with prepayment without penalty;
- ✓ Aggregate amount of loans given for income generation, is not less than 50% of the total loans given by the MFI's;
- ✓ No more than 2 NBFC-MFI's can lend to the same borrower.

All the extant Regulations herein mentioned, stand withdrawn

IMPACT



- ✓ ***End-use of Loan can be for any purpose which need not necessarily be for Income Generation Purpose (For e.g. education, medical expenses, household assets, consumption, etc.)***
- ✓ ***Repayment schedule can be mutually agreed between Lender & Borrower depending upon the profile of the borrower.***
- ✓ ***Overleveraging by Borrowers will be stopped with maximum 50% limit in outflow of funds towards repayment of all loans out of monthly income.***
- ✓ ***Borrower can approach any and many Institutions to borrow sum but subject to 50% limit and this will ignite competition amongst institutions to offer better interest rate and other services.***

PRICING OF LOANS

Extant Regulations

- Permitted to charge only 3 components viz., interest charge, processing fees (limit of 1 % of gross loan amount) and insurance premium on actual basis.
- **Interest rate** should be **lower** of
 - ✓ cost of funds + margin of 10% for NBFC-MFIs with loan portfolio exceeding ₹100 cr. and 12 % for others;
 - ✓ 2.75 times of the average base rate of the five largest commercial banks



New Regulations

- **Board approved policy for:**
 - ✓ A well-documented interest rate model/ approach for arriving at the all-inclusive interest rate;
 - ✓ Delineation of the components of the interest rate such as cost of funds, risk premium and margin, etc. in terms of the quantum of each component based on objective parameters;
 - ✓ The range of spread of each component for a given category of borrowers

PRICING OF LOANS



New Regulations (continued)

▪ **Board Approved Policy for:**

- ✓ Interest Rate ceiling incl. other charges
- ✓ Standardised Factsheet extended to borrowers

▪ **Other Terms and Conditions:**

- ✓ No pre-payment penalty on microfinance loans. ***Penalty, if any, for delayed payment shall be applied on the overdue amount and not on the entire loan amount.***
- ✓ The entity shall prominently display the min., max. & average interest rates charged on microfinance loans in:
 - Offices,
 - Literature (information booklets/ pamphlets)
 - Website
 - Supervisory Returns

Impact



- **Removal of cap on Interest rates**

- ✓ *MFIs will bring in their own scientific version of interest rate calculation which and this will create competitions amongst MFIs.*
- ✓ *MFIs are now free (just like banks) to go for risk based pricing model upon the profile of the borrower.*
- ✓ *Pricing of Loan shall be subjected to supervision of RBI.*

CUSTOMER PROTECTION MEASURES



New Regulations

- **CIC:** Each RE shall ***mandatorily submit information*** regarding household income to the CICs. ***Reasons for any divergence*** between the already reported household income and assessed household income shall be specifically ascertained from the borrowers before updating the assessed household income with CICs.
- **Repayment Limit:** ***Monthly repayment*** shall be ***maximum 50 %*** of the ***monthly household income***.
- *Existing loans, for which repayment outflows exceed 50%, shall be allowed to **mature**. **No new loans** shall be provided to these households till the limit of 50 % is complied with.*
- *Ascertainment of borrower's credentials from other sources such as:*
 - ✓ *declaration from the borrowers*
 - ✓ *bank account statements*
 - ✓ *local enquiries.*

CUSTOMER PROTECTION MEASURES



New Regulations

- **Provide borrowers with a *Loan card* which shall include:**
 - ✓ *Information which adequately identifies the borrower;*
 - ✓ *Simplified factsheet on pricing;*
 - ✓ *All other terms and conditions attached to the loan;*
 - ✓ *Acknowledgements by the RE of all repayments including instalments received and the final discharge; and*
 - ✓ *Details of the grievance redressal system, including the name and contact number of the nodal officer of the RE.*

- **Explicit disclosure of all the charges in the *Borrower's factsheet***

CUSTOMER PROTECTION MEASURES



Fixation of Monthly Repayment Limits to 50%:

- ✓ *Reduce pressure on MFI Borrowers*
- ✓ *Lowers Delinquencies*
- ✓ *Lowers credit cost in country*

Fair Practice Code



- ✓ **Standard Form of Loan Agreement** with the Borrowers.
- ✓ **Loan Card** to Borrower, preferably in Local Language.
- ✓ **Grievance Redressal System** with contact details of nodal officer.
- ✓ Issuance of **non-credit products with the written consent** of the borrowers and charges thereof are explicitly communicated in the Loan Card.

Impact



- ✓ ***All kind of lenders will be guided by the uniform rule of the games.***
- ✓ ***RBI has allowed non-credit products to be sold to borrowers and this will have it own pros and cons. However, purchasing of non-credit products should not become a norm and tag-along with the borrowing.***
- ✓ ***Currently, MFIs are selling products like bicycles, solar lights, etc.***

BOARD APPROVED POLICY



New Regulations

- To provide for ***flexibility of repayment periodicity*** on microfinance loans as per borrowers' requirement;
- ***Household Income Assessment,***
- ***Pricing*** of microfinance loans (*as discussed previously*)
- ***Conduct of employees*** and system for their recruitment, training and monitoring.

Previously, there were no such requirements...



WEBSITE DISCLOSURES

Extant Regulations

- The effective rate of interest charged by the NBFC-MFI, in all its offices, literature issued and its website.

New Regulations

- The ***effective rate of interest*** charged by the NBFC-MFI;
- ***Fair Practices Code***;
- A ***declaration*** that the RE shall be ***accountable for inappropriate behaviour by its employees*** or employees of the outsourced agency and shall provide ***timely grievance redressal***, in the loan agreement and FPC displayed;
- up-to-date details of the ***recovery agencies*** engaged.

CRITERIA FOR EXEMPTION FOR NPO'S FROM RBI ACT COMPLIANCES

- Requirement of registration as NBFC
- Maintenance of a certain percentage of outstanding deposits in approved securities by deposit taking NBFCs
- Transfer of 20 % net profit to reserve fund.

Extant Regulations

- Engaged in micro-financing activities i.e. **providing credit** not exceeding **₹50,000** for a business enterprise and **₹1,25,000** for meeting the cost of a dwelling unit to any poor person for enabling him to raise his level of income and standard of living;
- registered under Sec.8 of the Companies Act, 2013; and
- not accepting public deposits.

CRITERIA FOR EXEMPTION FOR NPO'S FROM RBI ACT COMPLIANCES

New Regulations

- Providing collateral-free loans to households with annual household income upto **₹3,00,000** (provided compliance with 50% criteria);
- registered under Sec. 8 of the Companies Act, 2013;
- not accepting public deposits; and
- ***having asset size of less than ₹100 crore***
- **NPO's ineligible for exemption are required to (i.e. having asset size of ₹100 crore or more):**
 - ✓ ***Register as NBFC-MFIs***
 - ✓ ***Submit the application within 3 months of the issuance of this circular.***
 - ✓ ***Submit a board-approved plan, with a roadmap to meet the prescribed regulations, along with their application for registration***

NET OWNED FUNDS REQUIREMENT



Extant Regulations

- ✓ Rs.5 crore. (For NE Region, requirement shall stand at Rs. 2 crore).

New Regulations

Current NOF	₹5 crore (₹2 crore in NE Region)
By March 31,2025	₹7 crore (₹5 crore in NE Region)
By March 31,2027	₹10 crore



Thanks!

Any questions?

You can find me at: nitesh@indiacp.com

Regards,

Nitesh Latwal