

MICROFINANCE LOAN

1. Definition

A microfinance loan is defined as a collateral-free loan given to a household having annual household income upto ₹3.00 Lakh. For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.

All collateral-free loans, irrespective of end use and mode of application/processing/disbursal (either through physical or digital channels), provided to low-income households, i.e., households having annual income upto ₹3.00 Lakh, shall be considered as microfinance loans.

To ensure collateral-free nature of the microfinance loan, the loan shall not be linked with a lien on the deposit account of the borrower.

2. Assessment of household income

An indicative methodology for assessment of household income is provided as below:

2.1 For undertaking the income assessment of a low income household, information related to following parameters may be captured by the lender

2.1.1 Parameters to capture household profile

- a) Composition of the household
 - (i) Number of earning members
 - (ii) Number of non-earning members
- b) Type of accommodation (owned/rented etc.)
- c) Availability of basic amenities (electricity, water, toilet, sewage, LPG connection, etc.)
- d) Availability of other assets (land, livestock, vehicle, furniture, smartphone, electronic items etc.)

2.1.2 Parameters to capture household income

- a) Primary source of income
 - i. Sector of work (Agriculture and allied activities, trading, manufacturing, services etc.)
 - ii. Self-employed or salaried, regular or seasonal, etc.)
 - iii. Frequency of income (daily/weekly/monthly)
 - iv. Months / days of employment over last one year
 - v. Self-reported monthly income
 - vi. Average monthly income (to be derived from (iv) & (v) above)
- b) Other sources of income
 - i. Remittance
 - ii. Rent / Lease
 - iii. Pension

- iv. Government transfer
- v. Scholarship
- vi. Others (specify details)

c) The income assessment as above should be carried out for all earning members with respect to all sources (primary or secondary) of income. While assessing income of all members from all sources, it may be ensured that there is no double counting of income such as counting of salary income of one migrant member also as remittance income for the household.

d) While the income computation may be done on a monthly basis, the income assessment for all members and sources may be carried out over a period of minimum one year to ascertain the stability of the household income.

2.1.3 Parameters to capture household expenses

a) Regular monthly expenses (food, utilities, transport, house/shop rent, clothing, regular medical costs, school/college fees, etc.)

b) Irregular expenses over last one year (medical expenses, house renovation, purchase of household goods, functions, etc.)

2.2 Self-reported income at 2.1.2 above may be corroborated with the profile of household at 2.1.1 and household expenses at 2.1.3. Further household income may also be verified from other sources (bank account statements of the borrowers, group members, other references in the vicinity, etc.).

2.3 The bank shall mandatorily submit the information regarding household income to the Credit information Companies (CICs). Reasons for any divergence between the already reported household income and assessed household income shall be specifically ascertained from the borrower/s before updating the assessed household income with CICs.

3. Limit on Loan Repayment obligations of a household

3.1 Total repayment commitments including the EMI of the microfinance loan should not be more than 50% of the gross income of the household.

The computation of loan repayment obligations shall take into account all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household. The outflows capped at 50 per cent of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration.

3.2 Existing loans, for which outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income exceed the limit of 50 per cent, shall be allowed to mature. However, in such cases, no new loans shall be provided to these households till the prescribed limit of 50 per cent is complied with.

3.3 The bank shall provide timely and accurate data to the CICs and use the data available with them to ensure compliance with the level of indebtedness. Besides, the bank shall ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries

4. Pricing of loans

4.1 The pricing of microfinance loans shall cover the following:

- i. A well-documented interest rate model / approach for arriving at the all-inclusive interest rate
- ii. 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
- iii. The range of spread of each component for a given category of borrowers
- iv. A ceiling on the interest rate and all other charges applicable to the microfinance loans.
- v. The credit risk premium will be 0.50% (as applicable to CRESS rating) and the Business strategic spread will be 1.00%.

As such the rate of interest on Microfinance loans will be
RLLR + CRP (0.50%) + BSS (1.25%)

4.2 Interest rates and other charges / fees on microfinance loans should not be usurious.

4.3 Pricing related information to a prospective borrower in a standardised simplified factsheet should be disclosed as per **Appendix I**.

4.4 Any fees to be charged to the microfinance borrower by the bank shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.

4.5 There shall be 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.

4.6 The minimum, maximum and average interest rates on microfinance loans should be displayed by the bank in all its offices, website etc. This information shall also be included in the supervisory returns and subjected to supervisory scrutiny. Any change in interest rate or any other charges shall be informed to the borrower well in advance and these charges shall be effective only prospectively.

5. Guidelines on Conduct towards Microfinance Borrowers

5.1 A fair practice code (FPC) will be displayed by the bank in all its offices and on its website.

5.2 The FPC should be issued in a language understood by the borrower.

5.3 There shall be a standard form of loan agreement for microfinance loans in a language understood by the borrower.

5.4 The Fair Practice Code on Microfinance Loans is enclosed as Appendix II

6. Training of Staff

6.1 Chief Manager (Credit) in Regional offices shall be the advisory to provide guidelines.

6.2 The field staff shall be trained to make necessary enquiries regarding the income and existing debt of the household.

6.3 Training to employees shall include programs to inculcate appropriate behaviour towards customers.

7. Exposure to Microfinance Loans to Individual Sector

7.1 The total exposure of the Bank to Microfinance loans to individuals shall not exceed ₹50.00 Crore.

7.2 The above ceiling is exclusive for microfinance loans to individuals only.



Illustrative Factsheet on Pricing of Microfinance Loans

Date:

Applicant Name:

| S.No. | Parameter | Details |
|--------|--|----------|
| (i) | Loan Amount (amount disbursed to the borrower) (in Rupees) | 20000 |
| (ii) | Total interest charge during the entire tenure of the loan (in Rupees) | 3274 |
| (iii) | Other up-front charges (in Rupees) | 400 |
| a) | Processing charges (in Rupees) | 200 |
| b) | Insurance charges (in Rupees) | 200 |
| (iv) | Net disbursed amount (i-iii) (in Rupees) | 19600 |
| (v) | Total amount to be paid by the borrower (i+ii+iii) (in Rupees) | 23674 |
| (vi) | Rate of Interest | 15.00%pa |
| (vii) | Loan Term (in months) | 24 |
| (viii) | Repayment frequency by the borrower | Monthly |
| (ix) | Amount of each instalment of repayment (in Rupees) | 970 |

Detailed Repayment Schedule

(Amount in ₹)

| Instalment No. | Outstanding Principal | Principal | Interest | Instalment |
|----------------|-----------------------|-----------|----------|------------|
| 1 | 20000 | 720 | 250 | 970 |
| 2 | 19280 | 729 | 241 | 970 |
| 3 | 18552 | 738 | 232 | 970 |
| 4 | 17814 | 747 | 223 | 970 |
| 5 | 17067 | 756 | 213 | 970 |
| 6 | 16310 | 766 | 204 | 970 |
| 7 | 15544 | 775 | 194 | 970 |
| 8 | 14769 | 785 | 185 | 970 |
| 9 | 13984 | 795 | 175 | 970 |
| 10 | 13189 | 805 | 165 | 970 |
| 11 | 12384 | 815 | 155 | 970 |
| 12 | 11569 | 825 | 145 | 970 |
| 13 | 10744 | 835 | 134 | 970 |
| 14 | 9909 | 846 | 124 | 970 |
| 15 | 9063 | 856 | 113 | 970 |
| 16 | 8206 | 867 | 103 | 970 |
| 17 | 7339 | 878 | 92 | 970 |
| 18 | 6461 | 889 | 81 | 970 |
| 19 | 5572 | 900 | 70 | 970 |
| 20 | 4672 | 911 | 58 | 970 |
| 21 | 3761 | 923 | 47 | 970 |
| 22 | 2838 | 934 | 35 | 970 |
| 23 | 1904 | 946 | 24 | 970 |
| 24 | 958 | 958 | 12 | 970 |

Fair Practice Code

| | |
|-----------------------------|--|
| Target customers | Low income households having annual household income upto ₹3.00 Lakh |
| Eligibility | <ul style="list-style-type: none"> ➤ Repayment of monthly loan obligations of a household as a percentage of the monthly household income, should not exceed 50% of the monthly household income. ➤ The computation of loan repayment obligations takes into account all outstanding loans (microfinance as well as non-microfinance loans) of the household. The outflows capped at 50% of the monthly household income include repayments (including both principal as well as interest component) towards all existing loans as well as the loan under consideration. |
| Purpose | Available for any purpose irrespective of end use except for speculative/illegal activities. |
| Loan Amount | ₹2.00 Lakh |
| Tenor | 24 - 60 equated monthly instalments (as per borrower's requirement) |
| Security | No margin, hypothecation, deposits, primary or collateral security requirement |
| Sanctioning Authority | Regional Manager |
| Guarantee | NIL |
| Rate of Interest | RLLR + CRP (0.50%) + BSS (1.25%) |
| Penal Charges | <ul style="list-style-type: none"> ➤ Up to ₹25,000: Nil ➤ Above ₹25,000: Penal Charges to be charged @ 2% p.a. over and above the applicable ROI, on the amount of default for the period of default ➤ There shall be 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. |
| Documents required | <ul style="list-style-type: none"> ➤ KYC Documents (Valid OVDs like AADHAR, Voter ID, PAN Card, Driving License etc.) ➤ Passport Size photo ➤ Saving Bank Account Statement ➤ Other relevant documents required for assessment of household income and existing loan obligations |
| Proposal Processing charges | 1% of the loan amount + applicable taxes |
| Fair Practice Code | <ul style="list-style-type: none"> ➤ Bank does not link the loan with a lien on any deposit account of the borrower. ➤ These loans are not backed with hypothecation of any security. Flexibility of repayment periodicity is provided to the borrowers as per their requirement. |

- All pricing related information along with any other fees charged are disclosed to all borrowers in a standard factsheet.
- The borrowers are not charged any amount which is not explicitly mentioned in the factsheet.
- Minimum, maximum and average rates of interest charged on microfinance loans are displayed in all the offices/branches of the Bank, in the literature (information booklets/ pamphlets) issued by the Bank.
- The same information is also published on the Bank's website. Any change in the ROI or any other charge is informed to the borrower well in advance and these changes are made effective only prospectively.
- Sanction Letter/Loan Card is provided to all the borrowers which includes following:
 - Information which adequately identifies the borrower
 - Simplified factsheet on pricing
 - All other terms and conditions attached to the loan
 - Acknowledgements of all repayments including instalments received and the final discharge
 - Details of the grievance redressal system, including the name and contact number of the nodal officer of the Bank.
 - All entries in the Sanction Letter/loan card are made be in a language understood by the borrower
- Issuance of non-credit products is done only with full consent of the borrowers and fee structure for such products are explicitly communicated to the borrower in the Sanction Letter/Loan Card itself.
- Bank is accountable for inappropriate behaviour by the Bank's employees or employees of the outsourced agency.
- Borrowers are provided with timely grievance redressal.
- Borrowers facing repayment related difficulties are identified and engaged to provide them necessary guidance about the recourses available.
- Recovery is made at a designated/ central designated place decided mutually by the borrower and the Bank. However, field staff is allowed to make recovery at the place of residence or work of the borrower if the borrower fails to appear at the designated/ central designated place on two or more successive occasions.
- Bank or its representatives do not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, following practices are deemed as harsh:
 - Use of threatening or abusive language
 - Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m.
 - Harassing relatives, friends, or co-workers of the borrower

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| | <ul style="list-style-type: none">▪ Publishing the name of borrowers without consent.▪ Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation▪ Misleading the borrower about the extent of the debt or the consequences of non- repayment <p>➤ The details of the Bank's mechanism for redressal of recovery related grievances are provided to the borrower at the time of loan disbursal.</p> |
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