

RBI UPDATES

1. Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022:

On **March 14, 2022**, RBI vide **Notification No. RBI/DOR/2021-22/89** provided a Master Direction for Regulatory Framework for Microfinance Loans which shall be effective from April 01, 2022.

The Master Directions are applicable to:

1. All Commercial Banks (including Small Finance Banks, Local Area Banks, and Regional Rural Banks) excluding Payments Banks;
2. All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks; and
3. All Non-Banking Financial Companies (NBFC) (including Microfinance Institutions and Housing Finance Companies).

Definition of Term Microfinance

- a. The Term “Microfinance Loan” is defined under this Circular as “a collateral-free loan given to a household having annual household income up to ₹3,00,000.”
For this purpose, the household shall mean an individual family unit, i.e., husband, wife and their unmarried children.
- b. All collateral-free loans, irrespective of end use provided to low-income households, i.e., households having annual income up to ₹3,00,000, shall be considered as microfinance loans.
- c. 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 and The Regulated Entities (REs) shall have a board-approved policy to provide the flexibility of repayment period on microfinance loans as per borrowers’ requirement.

Assessment of Household Income

- a. RE shall put in place a board approved policy for assessment of household income. An indicative methodology for assessment of household income is provided in the Annexure of this circular.
- b. RBI further provided that Self-regulatory organizations (SRO) and other associations/ agencies may also develop a common framework based on the indicative methodology.
- c. Each RE shall mandatorily submit information regarding household income to the Credit Information Companies (CICs).

Limit on Loan Repayment Obligations of a Household

- a. Each RE shall have policy w.r.t. the limit on the outflows on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income. RBI provided cap of 50% of the monthly household income.
- b. For the purpose of Loan Repayment Obligation all outstanding loans (collateral-free microfinance loans as well as any other type of collateralized loans) of the household.
- c. Outflow cap of 50% of 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.

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- d. 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.
- e. Each RE 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 RE shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.

Pricing of Loans

- A. Each **Regulated Entities (RE)** shall put in policy regarding pricing of microfinance loans which shall, include the following:
 - 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; and
 - A ceiling on the interest rate and all other charges applicable to the microfinance loans.
- B. Interest rates and other charges/ fees on microfinance loans should not be extortionate. These charges or fees shall be subjected to supervisory scrutiny by the RBI.
- C. Each RE shall disclose pricing related information to a prospective borrower in a standardised simplified factsheet (Terms & Conditions of Loan).
- D. Any fees to be charged to the microfinance borrower by the RE and/ or its partner/ agent shall be explicitly disclosed in the factsheet. The borrower shall not be charged any amount which is not explicitly mentioned in the factsheet.
- E. The factsheet shall also be provided for collateralized loans extended to borrowers from low-income households.
- F. There shall be no pre-payment penalty on microfinance loans. However, if any Penalty, is charged for delayed payment then it shall be applied on the overdue amount and not on the entire loan amount.
- G. Each RE shall prominently display the minimum, maximum and average interest rates charged on microfinance loans in all its offices, in the literature (information booklets/ pamphlets) issued by it and details on its website.
- H. Any change in interest rate or any other charge shall be informed to the borrower well in advance and these changes shall be effective only prospectively.
- I. RBI would also make available information regarding interest charged by REs on microfinance loans.

Guidelines on Conduct towards Microfinance Borrowers

- **General**

A fair practice code (FPC) based on these directions shall be put in place by all REs with the approval of their boards. The FPC shall be displayed by the RE in all its offices and on its website. The FPC should be issued in a language understood by the borrower.

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- **Training of Staff**

Each RE shall have a board-approved policy regarding the conduct of employees and system for their recruitment, training and monitoring. This policy shall, inter alia, lay down minimum qualifications for the staff and shall provide necessary training tools to deal with the customers. Training to employees shall include programs to inculcate appropriate behavior towards customers. Conduct of employees towards customers shall also be incorporated appropriately in their compensation matrix.

- **Responsibilities for Outsourced Activities**

Outsourcing of any activity by the RE does not diminish its obligations and the onus of compliance with these directions shall rest solely with the RE. 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, shall be made in the loan agreement and also in the FPC displayed in its office/ branch premises/ website.

- **Guidelines related to Recovery of Loans**

Each RE shall put in place a mechanism for identification of the borrowers facing repayment related difficulties, engagement with such borrowers and providing them necessary guidance about the recourse available.

- **Engagement of Recovery Agents**

Recovery agents shall mean agencies engaged by the RE for recovery of dues from its borrowers and the employees of these agencies. The REs shall have a due diligence process in place for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process. REs shall ensure that the recovery agents engaged by them carry out verification of the antecedents of their employees, which shall include police verification. REs shall also decide the periodicity at which re-verification of antecedents shall be resorted to.

Qualifying Assets Criteria

- a. Under the earlier qualifying assets criteria, a Non-banking Financial Company -Microfinance Institution (NBFC-MFI) is required to have minimum 85% of its net assets as 'qualifying assets'. The definition of 'qualifying assets' of NBFC-MFIs is now being aligned with the definition of microfinance loans. The minimum requirement of microfinance loans for NBFC-MFIs also stands revised to 75 % of the total assets.
- b. Under the earlier guidelines, an NBFC that does not qualify as an NBFC-MFI, cannot extend microfinance loans exceeding 10% of its total assets. The maximum limit on microfinance loans for such NBFCs (i.e., NBFCs other than NBFC-MFIs) now stands revised to 25 per cent of the total assets.

Exemption for 'Not for Profit' Companies engaged in Microfinance Activities

- a. The definition of microfinance loans for 'not for profit' companies (registered under Section 8 of the Companies Act, 2013) is now aligned with the revised definition of microfinance loans.
- b. Exemptions from Sections 45-IA, 45-IB and 45-IC of the RBI Act, 1934 have been withdrawn for 'not for profit' companies engaged in microfinance activities having asset size of ₹100 crore and above.

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- c. 'Not for profit' companies that are not eligible for the exemptions mentioned at paragraph 9.2 above, are required to register as NBFC-MFIs and adhere to the regulations applicable to NBFC-MFIs. Such companies shall submit the application for registration as an NBFC-MFI to the Reserve Bank within three months of the issuance of this circular. Those companies that currently do not comply with the regulations prescribed for NBFC-MFIs, shall submit a board-approved plan, with a roadmap to meet the prescribed regulations, along with their application for registration.

Net Owned Fund (NOF) Requirement

Existing NBFC-MFIs shall adhere to the NOF glidepath indicated under Circular dated October 22, 2021 on 'Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs' as given below:

NBFC's	Current NOF	By March 31, 2025	By March 31, 2027
NBFC-MFI	₹5 Crore (₹2 Crore in NE Region)	₹7 Crore (₹5 Crore in NE Region)	₹10 Crore

The link for aforesaid Circular is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/89MDCD45D92E34D84C2695DF6977E4298BFF.PDF>

2. RBI Bulletin- March 2022:

On **March 17, 2022**, the RBI vide **Press Release No. 2021-2022/1875** issued its Monthly Bulletin which includes two speeches, five articles and current statistics.

Two Speeches were:

- Monetary Policy and Central Bank Communication - Shri Shaktikanta Das
- Cryptocurrencies – An assessment - Shri T Rabi Sankar

The four Articles are on:

- State of Economy
- Union Budget 2022-23: Some Pleasant Fiscal Arithmetic
- Green Transition Risks to Indian Banks
- Decoding Fair Value Hierarchy in Ind AS Financial Statements of NBFCs
- Herding Behaviour - Does it exist in Indian Stock Market.

The link for aforesaid Press Release is mentioned below:

<https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR18759D96056B1D274608AA0FAEA409E773DB.PDF>

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