Harmonised Framework for Microfinance Lenders

Why in news?

The RBI has unveiled a harmonised framework for microfinance lenders subsequent to the consultative document released in June 2021.

What is microfinance?

- Microfinance is a form of financial service which provides small loans and other financial services to poor and low-income households.
- In India, all loans that are below Rs. 1 lakh are considered as microloans.
- Based on the recommendations of **Malegam Committee**, RBI introduced a comprehensive regulatory framework for NBFC-MFIs in 2011.

To know about the consultative document on regulation of microfinance, click here

What is the framework unveiled by the RBI?

- **Loan pricing-** The margin caps (not exceeding 10%for large MFIs with loan portfolios exceeding Rs 100 crore and 12% for others) are no longer applicable to NBFC-MFIs.
- Each Regulated Entity(RE) has to
    - put in place a board-approved policy regarding pricing of microfinance loans
    - disclose pricing related information to a prospective borrower in a standardised simplified factsheet
- Interest rates and other charges on microfinance loans should be subject to supervisory scrutiny by RBI and shall be informed to the borrower well in advance.
- **Cap on loan repayment**- The guidelines prescribe a limit on loan repayment obligations of a household.
- The outflows are capped at 50% of the monthly household income and include repayments towards all existing loans as well as loans under consideration.
- **Loan card-** Each RE has to provide a loan card to the borrower incorporating information which
    - adequately identifies the borrower
    - simplified factsheet on pricing
    - all other terms and conditions attached to the loan
    - acknowledgement by the RE of all repayments
    - details of the grievance redressal system
- **Outsourced activities-** The RBI said 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 shall be made in the loan agreement and in the fair practices code.
- **Loan recovery**- RBI said recovery shall be made at a designated/ centrally designated place decided mutually by the borrower and the RE.

- Field staff shall be 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.
- The central bank emphasised that RE or its agent shall not engage in any harsh methods towards recovery.

Reference

1. https://www.iasparliament.com/current-affairs/consultative-document-on-regulation-of-microfinance

