

# Policy Framework for **Microfinance Loan**

- RBI vide its Master Direction No. DoR. FIN.REC. 95 /03.10.038 /2021-22 dated 14.03.2022 has advised Regulatory Framework for Microfinance Loans.
- Accordingly RBI has directed all commercial Bank to frame a Board Approved Policy For Microfinance Loan .
- Accordingly Agriculture and Rural Business Department (ARBD) incorporating the directions brought by RBI for Microfinance Loan and framing a policy in thus regards.

## Definition of Microfinance Loan:

- A microfinance loan is defined as a collateral-free loan given to a household having annual household income up to Rs 3,00,000 (Rupees three lakh only). 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 up to Rs 3,00,000, 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.

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## Assessment of Household Income :

- Household income shall be assessed based on actual income earned over a period of minimum one year.
- Methodology for assessment of household income is enclosed with policy.
- Bank's guidelines on generation of Credit Information Reports (CIRs) are applicable on Microfinance Loans. Acceptable CRIF High Mark score shall be 600 and above (or equivalent) or -1 or First time/ CRIF score code between (12-18) Borrowers are also eligible.
- For customer having No Score or First Time Borrower or CRIF score code between (12-18), are also eligible.

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## Assessment of Household Income :

- Bank shall mandatorily submit information regarding household income to the **Credit Information Companies(CICs)**.
- Reasons for any divergence between the already reported household income as per CIR and assessed household income shall be specifically ascertained from the borrower/s.

## Limit on Loan Repayment Obligations of a Household :

- Deductions on account of repayment of monthly loan obligations of a household as a percentage of the monthly household income shall be subject to a limit of **maximum 50% of the monthly household income**.
- 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% of the monthly household income shall include repayments (including both principal as well as interest component) towards all existing loans.**
- Existing loans can be paid off with the proceeds of Microfinance loans. However, in such cases, new loans shall be provided to these households till the prescribed limit of 50% is complied with.

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## Submission of information to Credit Information Companies (CICs):

- Bank shall mandatorily submit information regarding household income to the Credit Information Companies (CICs) for all Microfinance borrowers.
- Branch shall use the data available with Credit Information Companies (CICs ) to ensure compliance with the level of indebtedness. Besides, Branch shall also ascertain the same from other sources such as declaration from the borrowers, their bank account statements and local enquiries.
- Necessary system configurations for capturing and reporting household income to Credit Information Companies (CICs) shall be provided by MIS/ARBD to ensure accuracy and timeliness of the information submitted to the CICs.

## Other eligibility Criteria:

- Maximum Repayment– **36 Months**  
Maximum Loan Amount– **Rs 350000.00**; For **First Time Borrower– Maximum Loan Rs 1,00,000.00 .**
- Other Charges– No other charges except processing, documentation & CRIF charges (as applicable).
- Lending Power : As per the guidelines issued by the Bank.

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## Insurance:

The microfinance loan to be covered by loan protector Scheme against accidental death, permanent or partial disability, accidental hospitalization etc. with Bank's channel partners.

## Pricing of Loans :

Rate of Interest of Microfinance Loans shall be linked to **MCLR**.

<b>amount</b>	<b>Rate of interest</b>
Total fund based exposure up to Rs.50,000.00	One year MCLR+1.90%
Total fund based exposure more than Rs.50,000.00 & up to Rs.2.00 Lacs	One year MCLR+2.40%
Total fund based exposure more than Rs.2 lacs & up to Rs. 3.50 Lacs	One year MCLR+3.95%

\*\* As circulated by Risk Management Department for all other Priority Sector Advances subject to revision from time to time.

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## Service charges:

Nature of Loan	Amount	Processing Charge	Documentation
<b>Microfinance Loan</b>	For loan up to Rs.25000.00	NIL	NIL
	For loan above Rs.25,000.00	1% of limit sanctioned Minimum Rs.600/-	Rs.350/- per lakh minimum Rs.350/-

## Conduct towards Microfinance Borrowers:

- Bank's Fair Practice Code (FPC) towards Microfinance Borrowers is enclosed. Fair Practice Code (FPC) shall be displayed by the Bank in all branches and on website. Zonal Offices shall ensure the availability of the Fair Practice Code (FPC) in Hindi, English and in commonly used regional languages in branches falling under their jurisdiction.
- A common loan clause for Microfinance loans will be provided by ARBD which shall inter-alia contain the clauses enclosed with policy.
- The loan agreement shall be circulated as part of policy for financing Microfinance loans in English and Hindi. Zonal Offices shall ensure the availability of the loan agreement in regional languages, if any, in branches under their jurisdiction.

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## Conduct towards Microfinance Borrowers:

- A loan card incorporating the following is to be provided to each of the Microfinance borrower:
  - a) Information which adequately identifies the borrower.
  - b) Simplified factsheet on pricing.
  - c) All other terms and conditions attached to the loan.
  - e) Acknowledgements by the Bank of all repayments including installments received from the borrower and the final discharge.
  - f) Details of the local address of the Bank, Banking Ombudsman detail, Bank's available portals detail, detail of the local nodal officer, including the name and contact number of the nodal officer of the Bank. The standard format for the same shall be provided by Agriculture Department.
- Nodal Officer of the Bank (if any) for Microfinance Loans shall be designated by ARBD Department.
- All entries in the loan card should be in a language understood by the borrower.

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## Training of Staff:

- HO Training shall set necessary training tools to deal with the Microfinance Customers. Training to employees shall include programs to inculcate appropriate behavior towards customers.
- Zonal Offices to ensure that field functionaries are trained to make necessary enquiries regarding the income and existing debt of the household.
- Training, if any, offered to the borrowers shall be free of cost.



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## **Responsibilities for Outsourced Activities:**

- If any activity is outsourced by the Bank, it shall not diminish Bank's obligations and the onus of compliance with RBI directions shall rest solely with the Bank.
- A declaration that the Bank shall be accountable for inappropriate behavior by its employees or employees of the outsourced agency and shall provide timely grievance redressal, is proposed to be incorporated in the loan agreement for Microfinance loans. The same has been incorporated in Fair Practice Code also which is enclosed with policy. FPC shall be displayed by the Bank in all branches and on website.

## **Guidelines related to Recovery of Loans :**

- Branches shall engage with the borrowers facing repayment related difficulties i.e., borrowers classified as SMA, and provide them necessary guidance about the recourse available.
- Recovery shall be made at a designated/ central designated place decided mutually by the borrower and the Bank. However, Branch Officials shall make recovery by visiting 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 mutually decided place of recovery should be mentioned in terms and conditions of sanction

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## Guidelines related to Recovery of Loans :

- Bank or its agent shall not engage in any harsh methods towards recovery. Without limiting the general application of the foregoing, following practices shall be deemed as harsh:

Use of threatening or abusive language

- b) Persistently calling the borrower and/ or calling the borrower before 9:00 a.m. and after 6:00 p.m
- c) Harassing relatives, friends, or co-workers of the borrower
- d) Publishing the name of borrowers
- e) Use or threat of use of violence or other similar means to harm the borrower or borrower's family/ assets/ reputation
- f) Misleading the borrower about the extent of the debt or the consequences of non-repayment.

- The details of grievance redressal mechanism as per guidelines issued by Bank shall be provided to the borrower. The details of this mechanism shall be provided to the borrower at the time of loan disbursement of loan.

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## Engagement of Recovery Agents :

- Recovery agents shall mean agencies engaged by the Bank for recovery of dues from its borrowers and the employees of these agencies.
- Recovery Department shall put in place a due diligence process for engagement of recovery agents, which shall, inter alia, cover individuals involved in the recovery process. It shall be ensured that the recovery agents engaged to carry out verification of the antecedents of their employees, which shall include police verification. Bank shall decide the periodicity at which re-verification of antecedents shall be resorted to.
- To ensure due notice and appropriate authorization, Branch shall provide the details of recovery agents to the borrower while initiating the process of recovery. The agent shall also carry a copy of the notice and the authorization letter from the Bank/Branch along with the identity card issued to him by Bank or the agency.

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## Engagement of Recovery Agents :

- where the recovery agency is changed by Bank during the recovery process, in addition to Bank notifying the borrower of the change, the new agent shall carry the notice and the authorization letter along with his identity card.
- The notice and the authorization letter shall, among other details, also include the contact details of the recovery agency and Bank.
- The up-to-date details of the recovery agencies engaged by Bank shall be hosted on Bank's website.
- Bank has to follow our latest NPA Management Policy guidelines for engagement of Recovery Agents for Microfinance Loans.

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## Role of IT department:

- Rule based applications for automation of appraisal and sanction.
- MIS for disbursements & collection, repayments due and recoveries made.
- Creation of fresh product codes as per approved policy.
- Calculation of income sharing on monthly basis.
- Other IT Support if any.