

III. Loan size, pricing & Purpose related recommendations

a. Amount of loan and total indebtedness of borrower not to exceed 25,000. Only 25% can be given for consumption purposes. Repayment frequency is at the choice of the borrower.

i. The restriction of loan size while is keeping in mind what a household with income of 50,000 can pay back is also restrictive from an income generation point of view. In fact the cap on loan size does not take into account the graduation of the borrower into main stream banking where she would be eligible to take larger loan sizes.

ii. The cap of Rs. 25,000 itself contradicts an old RBI notification that exempted not-for-profit companies registered under section 25 of the Companies Act and issuing loans of less than Rs. 50,000 from the requirements of registration as an NBFC.

iii. Flexibility of repayment frequency is good as its dependent on nature of cash flows and will be a sore point with the AP government.

iv. Loan utilization again is difficult to verify so the 25% cap on consumption loans is not conducive to full proof implementation.

v. Most microfinance borrowers today don't meet either the income eligibility or product eligibility. It's not clear how 15-18 million borrowers would transition to this system.

b. Pricing cap at 24% and margin cap at 10% for MFIs with 100 crores GLP and 12% for MFIs with GLP less than 100 crores

i. While the rate of 24% has not come as a surprise, it is still disheartening to see RBI moving towards a rate cap regime when in almost all sectors we have moved towards a market making regime.

ii. The margin cap also means that for largers MFIs who can borrow at less than 14% there is not much incentive to get more efficiency

c. Pricing should have 3 components (interest rate, processing fee and insurance premium charge). Security deposits that have been collected have to be returned

I. Most of the recommendations here are already a part of the MFIN code of conduct so will not impact MFIs adversely.

ii. However the financial impact of returning security deposits would be huge.

d. Loan sanctioning should be centralized. Credit Bureaus to be used.

I. This is imposing an operational constraint on MFI and would necessitate higher investment in back end technology. Financial impact would be high.

ii. The Credit Bureau is not a new recommendation, existing regulatory structures provide for this. However there is time needed for creation of a fully functional Bureau as well enforcing usage.