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CORONAVIRUS FALLOUT: MICROFINANCE FIRMS ARE SLOWING DOWN NEW LOAN DISBURSEMENTS IN RURAL HEARTLAND

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Microfinance firms are slowing down new loan disbursements in the country's rural heartland as a direct fallout of the coronavirus outbreak. They are also facing non-repayment from borrowers whose earnings may take a hit as the country goes into lockdown to combat the spread of coronavirus.

Anticipating liquidity tightness, Microfinance Institutions Network (MFIN), the lobby group for the NBFC-MFIs, has already sought the regulator’s intervention in getting fund support from banks. MFIN has also requested for regulatory forbearance in asset classification and provisioning rules.

Housing finance companies (HFCs) are also looking for 180 days to 270 days moratorium to deal with the situation.

Reserve Bank of India on Monday allowed banks to offer loans to non-banking finance companies (NBFC) (other than MFIs) and housing finance companies (HFC) for on-lending up to an overall limit of five percent of their total priority sector kitty. It has extended the priority sector status for bank loans to NBFCs for on-lending in FY21.

“Priority sector tag for bank lending to NBFC sector for on-lending purpose will ease the liquidity constraint and cost of funding for the beleaguered NBFC sector," said Rajani Sinha, chief economist at Knight Frank India. She expects the move to provide relief to the SME sector that has been hit hard by the ongoing economic turmoil, since non-bank lenders are in forefront for lending to SMEs.

The country largest lender, State Bank of India, has also made additional credit facilities available to the eligible existing borrowers at 7.25% rate to help out borrowers facing hardship.

NBFC-MFIs and HFCs are looking for similar assistance from other banks.

“We have sought back-to-back arrangement from banks that NBFC-MFI borrow from anticipating a hit on repayment collection. We have requested the regulator to redefine the non-performing assets (NPA) and provisioning norms,” MFIN chairman Manoj Nambiar, told ET. “We are also looking for RBI to allow us graded intervention with borrowers – i.e collection of interest of the existing loan if borrowers face a difficulty and then moratorium on loan repayment if crisis deepens.”

The sector employs about two lakh people, most of whom are field workers engaged to deal with customers every week or month.

Meanwhile, Alok Aggarwal, managing director of National Trust Housing Finance, said 70-80% of the company’s collections are at the field level and with 10-12 days of the quarter to end, many customers might slip into default.

“Our request is to suspend asset classification of all non-performing loans for a period of at least

one quarter coupled with relaxation on bad loan classification timelines be extended to 270 days minimum, if not more," said Muthoot HomeFin (India) chief executive Ramratthinam S.

"One-time restructuring of loans, increase in the paternal credit guarantee scheme too can be considered favourably."

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